

USIP SENIOR STUDY GROUP FINAL REPORT

China's Influence on Conflict Dynamics in South Asia



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This report is the fourth in USIP's Senior Study Group (SSG) series on China's influence on conflicts around the world. It examines how Beijing's growing presence is affecting political, economic, and security trends in South Asia and the Indian Ocean region. The bipartisan group was comprised of senior experts, former policymakers, and retired diplomats. They met six times by videoconference over the course of 2020 to examine how an array of issues—from military affairs to border disputes, trade and development, and cultural issues—come together to shape and be shaped by Chinese involvement. The group members drew from their deep individual experiences working in and advising the US government to generate a set of top-level findings and actionable policy recommendations. Unless otherwise sourced, all observations and conclusions are those of the SSG members.

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The views expressed in this report are those of the members of the Senior Study Group alone. They do not necessarily reflect the views of the United States Institute of Peace. An online edition of this and related reports can be found on our website (www.usip.org), together with additional information on the subject.

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Preface

»» The new overarching principle of US diplomacy is likely to be defining our relationships with other countries in terms of how they interact with China.

We are in the midst of a strong, if still emerging, bipartisan consensus that the greatest challenge that the United States faces in the field of foreign affairs is dealing with an increasingly powerful and assertive People's Republic of China whose behavior is having an impact that in many ways is inimical to US interests. As was the case of the confrontation with the Soviet Union and the fight with violent extremism after 9/11, the new overarching principle of US diplomacy is likely to be defining our relationships with other countries in terms of how they interact with China. One of the principal venues for potential US-China competition—and potentially cooperation, which we have not neglected—is the South Asia region.

The South Asia region is home to nearly two billion people, adjoins China geographically, and has some of the world's most dynamic economies as well as two nuclear weapons states. The region also has internal cleavages, most notably the multigenerational conflict between India and Pakistan as well as the ongoing conflict in Afghanistan. Disputed borders are also a feature, especially between India and China, as the events of the summer of 2020 demonstrated. The Line of Control between Indian and Pakistani Kashmir is a perennial source

of tension and occasional bouts of escalatory violence that run, at least in theory, the risk of a nuclear exchange. South Asia's maritime countries and commons are of increasing strategic importance and may become an area of future contestation.

Given its geographic centrality as a neighbor to five of the eight countries that make up South Asia, China has always been a regional heavyweight. Historically, its involvement has been defined by its alliance with Pakistan and periodic border clashes with India. With the Belt and Road Initiative (BRI), China has attempted to broaden the aperture of its relationships with the region, offering infrastructure projects and other development assistance, primarily to India's neighbors. But even India has been the object of Chinese economic diplomacy, as witnessed in the Wuhan Summit of 2018. However, the recent events in Ladakh have largely undone any perceptions of Chinese goodwill, at least in New Delhi. The China-Pakistan Economic Corridor, the flagship of the BRI, has slowed but continues to move forward, as do other projects on India's periphery. The impact of the COVID-19 pandemic is bound to be a factor in how the region reacts to China over time, but it is too soon to tell what its effects will be.

The United States has traditionally been an important but distant partner to the region. For much of the Cold War, it was aligned with Pakistan, though that relationship had its ups and downs. After 9/11, Washington tended to view the region through the prism of its involvement in Afghanistan and counterterrorism more generally. Over roughly the past fifteen years, a consensus has emerged that the United States needs to enhance its strategic partnership with India, but not necessarily at the expense of its relationship with Pakistan. The announcement of an Indo-Pacific strategy in 2018, with the attendant emergence of the Indo-Pacific Command, signals both greater US involvement in the region and the vector of US foreign policy orientation.

The significance of the issues and the US stake in the region are manifest. For that reason, we have assembled a distinguished team of scholars and practitioners to examine the role of China in South Asia and its impact on the United States. This is the fourth in a series of bipartisan Senior Study Groups convened by the United States Institute of Peace to address the impact of China's rise on conflict dynamics around the world.

Randall G. Schriver
The Project 2049 Institute

Richard G. Olson
United States Institute of Peace

Executive Summary

China has embarked on a grand journey west. Officials in Beijing are driven by aspirations of leadership across their home continent of Asia, feelings of being hemmed in on their eastern flank by US alliances, and their perception that opportunities await across Eurasia and the Indian Ocean. Along the way, their first stop is South Asia, which this report defines as comprising eight countries—Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—along with the Indian Ocean (particularly the eastern portions but with implications for its entirety).¹ China’s ties to the region are long-standing and date back well before the founding of the People’s Republic in 1949. However, around the beginning of this century, Beijing’s relations with South Asia began to expand and deepen rapidly in line with its broader efforts to “go global.” General Secretary Xi Jinping’s ascendance to China’s top leader in 2012 and the subsequent expansion of Chinese activities beyond its borders—including through Xi’s signature Belt and Road Initiative (BRI)—have accelerated the building of links to South Asia in new and ambitious ways.

In South Asia, China has encountered a dynamic region marked by as many endemic problems as enticing opportunities. It is a region struggling with violent conflict, nuclear-armed brinkmanship, extensive human development challenges, and potentially crippling exposure to the ravages of climate change. But it is also one whose economic growth prior to the COVID-19 pandemic was robust, that has a demographic dividend, and whose vibrant independent states are grappling with the challenges of democratic governance—including the world’s largest democracy in India. China’s expanding presence in the region is already reshaping South Asia, which is simultaneously emerging as an area where US-China and regional competition plays out from the Himalayan heights to the depths of the Indian Ocean.

To better understand these trends, the United States Institute of Peace convened a bipartisan Senior Study Group (SSG) of experts, former policymakers, and retired diplomats to examine China’s role in South Asia from a variety of angles. The group met six times by videoconference



A cargo ship navigates one of the world's busiest shipping lanes, near Hambantota, Sri Lanka, on May 2, 2018. (Photo by Adam Dean/New York Times)

over the course of 2020 to examine how an array of issues—from military affairs to border disputes, trade and development, and cultural issues—come together to shape and be shaped by Chinese involvement. The group members drew from their deep individual experiences working in and advising the US government to generate a set of focused, actionable policy recommendations. The report includes this executive summary that details the group's findings and recommendations and is followed by deeper explorations of US interests in South Asia amid China's growing role; Beijing's interests in and approach toward the region; China-Pakistan relations; China-India relations; and China's relations with the smaller South Asian states—Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, and Sri Lanka.²

A rich literature on China's relations with South Asia exists and continues to expand. This report cites from the best work in the field, which includes that of SSG members, and offers a short and accessible assessment of China's activities across the region as well as crisp recommendations for US policymakers in the executive and legislative branches of government. As the United States works to fulfill its vision of a free and open Indo-Pacific region and to respond to a more assertive China, this report can serve as a road map for the next US administration while it advances the Indo portion of that vision and identifies linkages with issues in the Pacific.

Findings

The United States and China both see South Asia as important, although neither considers the region its top geopolitical priority. They consider other areas, such as East Asia, more central to advancing their interests. Still, they recognize that South Asia's strategic geography and growing population, along with nuclear and terrorism risks, merit sizable allocations of attention and resources. South Asia is a key area in regard to Washington's goal of building a free and open Indo-Pacific, and Beijing's of revising the Eurasian political and security order and becoming the leading power in Asia. The emerging period of Sino-American strategic competition, which could last for decades, is likely to influence both the US and Chinese assessments of and engagements in South Asia.

US-China bilateral competition and confrontation make cooperation in South Asia, including during major crises, substantially more difficult. Both countries nominally have a mutual interest in countering violent extremism, ensuring strategic stability and crisis management between India and Pakistan, and promoting regional economic development. Yet bilateral tension and mutual suspicion about each other's activities in the region restrict the prospects for sustained cooperation beyond rhetoric. On crisis management, nonproliferation, and terrorism in particular, differing viewpoints about culpability—China mostly taking Pakistan's side and the United States often agreeing with India—will also make joint efforts difficult to agree on and implement. On Afghanistan, China and the United States have common goals of stopping the spread of international terrorism and reaching a political settlement to bring an end to decades of violent conflict, though how they try to achieve these goals differs in practice. Further, Chinese atrocities targeting Uyghurs and other ethnic minority groups in Xinjiang, carried out in the name of countering terrorism, severely restrict possibilities for productive counterterrorism cooperation until Beijing changes its approach to align with global human rights norms.

The China-Pakistan axis is strengthening, which has a detrimental effect on governance and economic reform efforts in Pakistan given the concomitant lack of transparency and accountability. Chinese-funded development projects are hardly the sole cause of problems in Pakistan, but BRI projects, in working outside established standards, can exacerbate underlying weaknesses in governance and contribute to an already unsustainable debt load. Although it wants to avoid taking on the burden of Pakistan's problems, Beijing is also heavily invested in the China-Pakistan Economic Corridor (CPEC) as the potential crown jewel of the BRI and an overland transit route to the Indian Ocean. The CPEC faces many obstacles and its visions remain largely unfulfilled, but China's commitment remains durable, particularly given the reputational risks of letting the BRI's flagship corridor fail and Beijing's increasing determination to balance India. The relationship is also buoyed by military ties and diplomatic support, which further entrench the army's role in Pakistan's government and strengthen illiberalism within Pakistan.

China's approach toward India-Pakistan disputes increasingly favors Pakistan rather than adopts a more neutral stance, in part because backing Pakistan helps China constrain Indian power in Asia. Especially in the last year, China has doubled down on its support for Pakistan's position on Kashmir. Historically, Beijing's position has ranged from constructive neutrality to active support for Pakistan. Some worry that China might even abet Pakistan in future crises to pressure India and to advance Beijing's territorial claims. Meanwhile, the United States has mostly backed India's position in flare-ups along the Line of Control and New Delhi's responses to terrorist attacks in India traced to Pakistan.

➤ South Asia is a key area in regard to Washington's goal of building a free and open Indo-Pacific, and Beijing's of revising the Eurasian political and security order.

Overall, Beijing has only weak incentives to support comprehensive India-Pakistan conflict resolution. Keeping the situation at a low boil serves Beijing's aims better by forcing India to divide its resources and attention and to fear the specter of a two-front war. China's support for Pakistan's territorial claims also bolsters its own. For its part, Pakistan gains the support of a powerful partner in China as well as development financing that Islamabad's shaky economic situation and political instability would otherwise make nearly impossible, barring major governance reforms.

The Sino-Indian border area will continue to be a major flash point.

The summer 2020 border crisis and deaths of twenty Indian and an unknown number of Chinese troops in Ladakh put New Delhi's challenge of balancing cooperation and competition in stark relief and will limit China's ability to pursue opportunities in India for years. China and India are unlikely to make progress on any final resolution of their border disputes in the near or medium term. Effective protocols for border patrol operations and crisis management can help mitigate tensions but will not stop flare-ups altogether. China's propensity for "gray zone" provocations and the prominence of territorial issues in both countries' politics mean a process to delimit and demarcate the border would face huge obstacles.

China-India relations will become more competitive, and the pair, Asia's two biggest powers, will struggle to cooperate throughout the Indo-Pacific region. Beijing wants to expand its influence in South Asia for its own sake and to force India to devote time and resources to its neighborhood rather than to project influence into East Asia. For its part, New Delhi worries about encirclement by Beijing. China seeks access to India's large domestic market and potential for economic growth. To drive economic cooperation, China has relied on leader-level engagement, direct investments, and low-cost consumer and industrial goods. However, recent Indian moves to restrict access for Chinese firms, particularly in the technology industry, show deepening concerns about the economic, political, and security effects of engagement with China and a determination to avoid dependency on Beijing. Policymakers in New Delhi will continue to seek new leverage in bilateral relations and resist further erosion of India's traditionally dominant position in South Asia, although the economic downturn caused by the COVID-19 pandemic poses a major challenge.

China's growing focus on a blue-water navy and power projection to the "far seas" has followed its economic interests. The Indian Ocean is currently a "far sea" for China, but China aims to make it more of an intermediate one. This enhancement of global reach would be akin to the second island chain in East Asia, the end goal being to project influence all the way to Europe. Over time, China's geopolitical objective may expand to matching or supplanting the United States and India as the most capable maritime force in the Indian Ocean region. That eventuality raises concerns about freedom of navigation in the Indian Ocean given China's rejection of conventional interpretations of international maritime law and generally assertive behavior in the South and East China Seas. Moreover, People's Liberation Army forces could develop the ability to block the flow of US and allied forces into East Asia during a conflict.

Smaller South Asian states—which have their own interests and the agency to pursue them—both face competitive pressures to align with powerful states and have more opportunities to play major powers off one another. The fluid contest for influence among and between South Asian states makes it difficult for Washington to maintain good relations with countries across the entire region simultaneously. To some extent, countries such as Nepal, Sri Lanka, and Bangladesh see engagement with China as a hedge against Indian dominance. They will not welcome US overtures viewed as a proxy for Indian interests. India is historically wary of US bilateral cooperation with neighboring states, but transparency and coordination have improved in conjunction with an overall improvement in US-India relations. South Asian states are also using the US-China rivalry to avoid criticism of their own authoritarian or antidemocratic excesses by threatening to deepen ties with Beijing.

Smaller South Asian states place a premium on economic development, and China offers an enticing option but is not necessarily the top choice. Considerations about the risks and rewards of projects carried out under the auspices of the BRI are complex. On the one hand, accelerated project timelines and minimal oversight can provide local leaders with rapid and visible progress they can take credit for—sometimes lining their pockets in the process. On the other hand, those projects provide Beijing with major levers of influence, sometimes carry risks to sovereignty, and often add to already heavy public debt burdens. Political calculations play a major role as well. China's appeal lies in offering development financing where the strings attached are related to Beijing's concerns, such as political issues like Hong Kong, contracting with Chinese firms, adopting Chinese standards, and gaining strategic access. Otherwise, Chinese development offerings are agnostic or welcoming toward illiberal governments and come with few if any requirements related to transparency, anticorruption, human rights, or environmental and social sustainability. Those arrangements are designed to contrast with the liberalizing conditions that accompany Western development assistance.

To the extent that China's infrastructure investment spurs regional integration in a transparent way and at a sustainable cost, it can be a genuine common good. At the same time, however, debt distress will be a major concern across the region, particularly given the impact of the COVID-19 pandemic. South Asian nations will be looking for options and relief from China, the United States, and multilateral financial institutions. Debt suspension measures that G20 states, including China, recently committed to provide a good start. But monitoring implementation details will be crucial, and additional actions will likely prove necessary to ensure South Asian economies can avoid the worst potential outcomes.

China seeks stability in Afghanistan to deny safe havens for anti-China violent extremist groups but refrains from intervening directly to achieve that goal. Similarly, Beijing supports the ongoing peace process but focuses on aligning its efforts with other major powers and regional players, including Russia, Pakistan, and the United States. Chinese efforts have been confined to supporting, mediating, and facilitating rather than taking on a strong leadership role in achieving, sustaining, and enforcing peace. Beijing favors a peace process and political resolution to the conflict. China is also willing to make substantial investments in Afghanistan and help generate a peace dividend, but Beijing's willingness depends on improvements in the security situation.



An Indian army convoy moves on the Srinagar-Ladakh highway northeast of Srinagar, India, on June 17, 2020. (Photo by Mukhtar Khan/AP)

Recommendations

Set priorities for American engagement in South Asia that consider the region's relative importance for US global strategy, China's growing role there, and shifting regional trends.

Washington's investments in the region will be sizable but not limitless and therefore need to be judiciously targeted. By the same token, US policymakers need to have a clear conception of where and why to balance Chinese malign influence, rather than try to compete with Beijing everywhere, at all times. American leaders should also resist framing US engagement in South Asia as mainly an instrument in the larger geopolitical contest with China. Further, US strategy should align with several major developments: the move from a heavy emphasis on the war in Afghanistan to devoting greater attention to the South Asia region as a whole within a broader Indo-Pacific framework; the shift from focusing on counterterrorism to major power competition with China; a deeper relationship with India and a more modest, right-sized relationship with Pakistan as Islamabad moves into China's embrace; and growing linkages between South and East Asia.

- The United States needs to change its diplomatic approach toward the region to make its policy less about responding to China and more about engaging with states in South Asia to resolve problems. It should also seek steady ties that do not hinge on South Asian states' relations with

»» More than at any point in history Washington and New Delhi have similar outlooks that diverge from the overlapping views of Beijing and Islamabad.

Beijing. Washington will be better positioned to compete with Beijing when US regional engagement stands on its own rather than as an instrumental response to China. To that end, leveraging the tools of power where the United States has a comparative advantage will be more effective than trying to outpace China where it has an edge.

- Some issues in South Asia should be insulated from the strategic competition between the United States and China, that is, not used to gain geopolitical leverage against Beijing. These include combating COVID-19, countering violent extremist groups in Afghanistan (though again, these efforts would be hamstrung by China's repressive Xinjiang policies), managing natural resources (especially water), preventing and adapting to climate change, countering narcotics, and caring for displaced and refugee populations.
- The White House should establish an Indo-Pacific maritime policy coordination directorate at the National Security Council. It would be a functional directorate responsible for coordinating US policy relating to maritime and littoral issues across bureaucratic, geographic, and functional lines.
- Early in 2021, the new administration should commission a National Intelligence Estimate of China's maritime activities in the Indian Ocean and its rimland areas, including both commercial and military moves. This would provide a baseline understanding of the state of Chinese facilities, investments, and operations there. Findings should be shared with allies and partners where appropriate.

Account for closer alignments when managing quadrilateral dynamics with China, India, and Pakistan—including greater difficulties for crisis management. Although the United States and China will each maintain working relations with India and Pakistan, more than at any point in history Washington and New Delhi have similar outlooks that diverge from the overlapping views of Beijing and Islamabad.

- US-Pakistan relations need to be rebalanced to focus more on enhancing economic ties and people-to-people interactions and less on security assistance and operational access issues. Even as the United States prioritizes the India partnership, it should not foreclose on a valuable relationship with Pakistan and cede all influence to China. A constructive working relationship between Washington and Islamabad is in both countries' interests and should persist given nuclear and terrorism threats emanating from the region. The relationship, though, will necessarily evolve from its Cold War and post-9/11 roots, in which the two states attempted strategic convergence, not always successfully.
- The United States should not oppose China's taking on more of the burden in Pakistan for fostering economic growth and addressing security threats. Major Chinese investments in Pakistan are less harmful to US interests than they could be in other places and are likely to result in blowback against Chinese interests eventually. At the same time, Washington should look to disenchantment created by CPEC as an opportunity to rebalance US-Pakistan ties with more modest expectations on both sides.

- In the event of crises between India and Pakistan, hoping for active cooperation with Beijing is less promising than seeking ways to offset any harmful actions China might take. These could include demanding suspension of Chinese arms transfers to Pakistan in the midst of crises, matching Chinese diplomatic support for Pakistan with a US tilt toward India, and mobilizing US allies to impose sanctions on Pakistan over financing and sponsoring terrorist acts against India. Joint de-escalation is optimal, but policymakers should assume US-China deconfliction or tacit coordination, rather than cooperation, is likely the best-case scenario.
- Research, policy analysis, and track 2 dialogues on nuclear and strategic stability between both adversarial nuclear dyads in South Asia—India-Pakistan and India-China—need to be encouraged. The goal should be to shape China’s thinking so that Beijing does not underestimate the potential for an India-Pakistan nuclear exchange and realizes that either party’s actions could spark an escalatory cycle.
- At the same time, the risks and impact on India of a future India-Pakistan nuclear crisis and conflict escalation need to be underscored to New Delhi. In recent years, India has taken a more risk-acceptant approach to confrontations with Pakistan that exhibits some emboldenment, false optimism, and overestimation of US intervention. Washington needs to have a frank dialogue in noncrisis moments about the prospects for future crises, what role the United States and China may or may not play, and the consequences that could occur in a nuclear crisis, including setbacks to the Indo-Pacific strategy. The United States should manage expectations about its role as India’s partner and a third-party crisis manager to preempt risks of entrapment or perceptions of abandonment.
- A peace process should be continued in Afghanistan for which all major regional states support the basic parameters, namely, that Afghan territory should not be used to threaten its neighbors and that Afghanistan should not be a venue for proxy warfare. Further, China, India, and Pakistan should continue to be engaged to identify steps each country can take to help sustain peace and economic growth in Afghanistan after a peace settlement.

Deepen ties with India—along with facilitating New Delhi’s cooperation with US allies and partners in Asia and Europe—across diplomatic, economic, technology, and military areas.

The United States will need to advance the partnership at India’s pace and be patient with incremental steps. But strategic pressure from Beijing will likely make the case in New Delhi for bolder moves, such as hastening the modernization of India’s military, conducting joint military exercises, making the US-Australia-Japan-India Quad militarily effective, and expanding intelligence cooperation and military interoperability to get closer to Washington and other democratic partners.

- Even if a resolution is only a distant prospect, the United States should still support diplomatic efforts to peacefully resolve the China-India border dispute with consistent, good-faith implementation of border management mechanisms while talks are ongoing. Washington should make clear that it views a fair, peaceful, and sustainable resolution of the border as being in the interest of all parties and the world. However, it is essential to remain clear-eyed about China’s



Demonstrators hold banners featuring Chinese General Secretary Xi Jinping during a protest against China in Ahmedabad, India, on June 24, 2020. (Photo by Ajit Solanki/AP)

record of employing coercive actions in international disputes and abandoning diplomatic agreements when doing so advantages Beijing. During flare-ups, the United States should avoid reflexively pressing for concessions from both sides when one party is driving escalation.

- US policymakers should make clear to leaders in New Delhi the US view that India’s democratic system—including respect for pluralism and human rights—is a strategic asset that facilitates India’s natural alignment with the United States and other democratic states around the world. This system also refutes arguments made by Chinese leaders, among others, that democracy is inconsistent with Asian political culture; it allows India’s vibrant and diverse society to be a strength rather than a weakness; and it enhances India’s soft power throughout the region. Similarly, American officials should underscore that recent illiberal steps in Kashmir and against India’s Muslim population erode all those benefits and that India’s strategic importance cannot alone sustain the positive relations with other democracies that New Delhi will need to ensure its security.
- New US military-to-military agreements and intelligence pacts should be negotiated with India to develop both a common operating picture as well as pursue routine military cooperation, such as

joint naval patrols and access to infrastructure and bases. Creative procurement options, such as equipment leases, to fill critical gaps should be explored. At the same time, New Delhi should be encouraged to build up its capabilities to deter Beijing, while also recognizing that India's actions are likely to prompt further Chinese counterbalancing and the economic downturn caused by the COVID-19 pandemic will severely constrain India's ability to fund military improvements.

- Facilitating India's integration in a network of diplomatic, economic, and trade partnerships with democratic states should continue, most prominently through the Quad grouping with Japan and Australia, but also through links to other Indo-Pacific and European partners. Such partnerships can and should all be deepened and broadened without reference to China.
- Because regional crises involving China are likely to become more frequent, a mechanism should be established to enable sharing experiences and developing best practices on crisis management among the United States, India, and other like-minded partners. Where possible, US-China crisis management mechanisms that might prove useful for South Asia contingencies should be improved upon.
- The United States should take an active role in boosting support for a more robust Indian presence in international organizations. One way to do so would be to continue to advocate for India's inclusion in the Nuclear Suppliers Group and for UN Security Council reform that would give India a permanent seat. Washington should also consider either a new G8 that includes India or a regular G7+3 that includes India, Australia, and South Korea. India's bid to join the Asia-Pacific Economic Cooperation forum could be supported as well, even though doing so would require some Indian trade reforms in advance.
- The United States should refrain from objecting to Indian cooperation with Russia and Iran when those actions help India balance China or serve broader US regional aims. For example, use of the Chabahar port in Iran to transport aid to Afghanistan should not be subject to sanctions.

Broaden the scope of US engagement with South Asia to fully integrate the region into a free and open Indo-Pacific vision. Although American policy should be coordinated with Indian regional aims, Washington should not “subcontract” its regional policy to New Delhi. Instead, policies should be tailored to fit each South Asian country's unique circumstances, strategic position, and relations with Beijing.

- Nonmilitary tools should be used more effectively to influence the region, starting with packaging and communicating the popular activities the United States already does there. These include high-standard US private investment as an alternative to Chinese investment, good governance advanced through programs like the Millennium Challenge Corporation and Blue Dot Network certification, and contributing to maritime security, disaster preparedness, and climate resilience. South Asia should be made a priority region for US International Development Finance Corporation projects and USAID to provide financing options as well as legal, regulatory, and policy assistance to countries seeking to boost regional connectivity.

- Coordination on infrastructure development financing and standards-setting should be deepened with US allies and partners—especially Japan, European countries, and multilateral development banks—that have a demonstrated capacity for infrastructure finance and construction in the region. Inviting allies and partners to join the Blue Dot Network initiative could be an option to further that agenda. US assistance in renegotiating project terms with China could be provided where it can be helpful, as in Myanmar, but policymakers should avoid getting pulled into unsustainable projects in the course of trying to compete with China.
- Most countries in the region enjoy a trade surplus with the United States but a large deficit with China, yet Washington rarely uses market access as a foreign policy tool. The United States should develop and launch an initiative to quantify and publicize existing, deep trade and investment ties that South Asian states have with the United States and its allies and partners, and how they stack up against China. Doing so will require compelling, fact-based strategic communications that target both elites and publics.
- Washington should leverage its observer and dialogue partner statuses in regional institutions such as the South Asian Association for Regional Cooperation, the Indian Ocean Rim Association, and the Indian Ocean Tuna Commission to closely track developments related to regional political and economic integration. Washington might also find a way to engage the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, perhaps by accrediting the US ambassador to Bangladesh as a representative to the organization. However, the goal of engaging in South Asian multilateral groups ought to be to signal a long-term US commitment to the region, as well as to learn more about local concerns—not to be drawn deeper into squabbles between neighbors.

Recognize that technology and innovation will be central factors in whether regional states can sustain free and open economies and societies, and advance a multifaceted agenda to support like-minded states in those areas. Such an agenda could include several initiatives, including creating a Tech 10 group of countries with which the United States coordinates on technology issues that includes India as well as other Indo-Pacific partners such as Taiwan, South Korea, and Australia along with G7 countries.

- Washington should support India’s aspiration to become a world leader in artificial intelligence by encouraging deeper collaboration with US technology companies and universities and providing access to some restricted technologies. In addition, it should leverage smart visa policies by restoring and expanding professional (H-1B) and student visas from South Asia to attract the best talent to bolster US development of cutting-edge technology, to deepen economic integration and influence, and to boost America’s favorable image in the region.
- Ideally working in conjunction with the Tech 10, the United States should also focus on setting technology standards. Those standards should cover technical hardware and software issues to push back against any Chinese anticompetitive practices. Even more important, standards

consultations should shape the legal and policy regimes governing new technologies to manage trade-offs on privacy, security, data ownership and access, and accountability.

Increase US efforts to aid South Asian nations in the consolidation of democratic institutions.

Washington should work to prove the notion that accountable, democratic governance offers the best path to sustainable growth, political and social stability, and preventing foreign interference in sovereign states. Moreover, although freedom of the press, strong civic institutions, rule of law, and elections are all critical in their own right, they will also help respond to Chinese malign influence in the region. Washington should coordinate with other democracies to maximize the impact of international support in these areas.

- China's growing involvement in South Asia could make the US aims of supporting democratic governance, accountability, and transparency more difficult. This factor needs to be taken into full account.
- South Asian states are largely fragile democracies. The United States can offer independent election monitoring to forestall election disputes, create independent media alternatives where a lack of media freedom diminishes the functioning of democracy, offer journalism training and scholarships, provide training for political party leaders in de facto one-party states, and help organize for the protection of minorities. In some places, however, democratically elected leaders abuse power. Washington should work to apply principled, consistent pressure on those parties to cease abuses and uphold democratic laws and norms.
- Washington needs to conduct quiet coordination and dialogue with regional countries to address Chinese disinformation efforts and Chinese technology gray zone tactics. More narrowly, it should facilitate and build on exchanges to share best practices for countering foreign influence in domestic politics and elections from East Asian states such as Japan and Taiwan, who have extensive experience and demonstrated success in those areas.
- Policies should reflect the foundational understanding that a robust and vibrant US democratic example will itself be the most effective way to advance free, independent states in the region.

US Regional Interests and China

The United States has an array of interests in South Asia and the Indian Ocean region, some high priority and others simply important. China's growing involvement there is affecting both categories. Washington has high-priority interests in preventing a conflict that could escalate to the use of nuclear weapons, whether between India and Pakistan or between India and China. Ensuring the security of those weapons and preventing further proliferation is another major aim. US policymakers also see upholding freedom of navigation in the Indian Ocean as part of ensuring the openness of the global commons. Next, American leaders view countering violent extremist groups that could pose a threat to the US homeland as a critical task, whether the groups' safe havens are located in Afghanistan, Pakistan, or elsewhere in the region. US policymakers have also articulated a general interest in cultivating a "free and open Indo-Pacific," that is, a regional political, security, and economic order not dominated by any single state, including China.³ South Asia makes up most of the Indo portion of that vision and is a major power center in terms of both geography and population.

In addition, the United States identifies a number of merely important interests in South Asia. These include supporting local peace and stability initiatives, most notably to conclude the decades-long conflict in Afghanistan but also to support the peaceful resolution of territorial disputes. Washington also seeks to encourage sustainable, market-based economic growth, expand trade, foster human development, advance human rights, and help regional states pursue energy security while preventing and mitigating the effects of climate change. Supporting democratic governance and resilience against foreign interference also ranks as a central US aim given the importance of democratic governance to other regional goals. Transparent, accountable governance can also help mitigate negative Chinese influence and make countries less susceptible to meddling by Beijing.

The China Factor

The strategic landscape Washington faces is changing in important ways. Sino-American relations have deteriorated markedly in recent years as US policy adapted to respond to growing Chinese assertiveness about its long-term ambitions, both in Asia and globally. Bilateral tensions will make Sino-American coordination on regional issues more difficult and prompt US policymakers to pay more attention to China's impact and influence in South Asia. Washington is increasingly concerned that China aspires to create a region of states deferential to Beijing's ambitions. This goal mirrors China's approach to East and Southeast Asia under the leadership of Xi Jinping. US strategic priorities for the region, which have been fairly constant through multiple US administrations, are now under a long shadow of anxiety about China's intentions and capabilities.

Even in broad areas where US and Chinese interests ostensibly align in South Asia—such as strategic stability, counterterrorism, and regional economic development—the two nations have a competitive rather than collaborative posture. Part of this divergence stems from different assessments of the issues. China views Pakistan, for example, as an important component of its Belt and Road Initiative (BRI) and a counterbalance to a rising India. It rejects the US and Indian view that seeks to punish Pakistan for supporting extremists that destabilize the region. Beijing emphasizes Pakistan's weakness relative to India to justify Islamabad's actions, even as Chinese leaders worry about groups that might target China. Washington also has reservations about China's engagement with other, smaller South Asian nations, citing concerns of unsustainable lending and a backdoor effort by Beijing to gain strategic access, including military access, to territory throughout the Indian Ocean region and around India's northeast.⁴ In addition, in some South Asian countries, Beijing's no-questions-asked economic umbrella (and, at times, top cover in multilateral organizations) makes it difficult to advance longtime US foreign policy priorities on democracy, human rights, good governance, anticorruption, and related concerns.

US Policy Considerations

The importance of South Asia and the Indian Ocean region extend beyond local and regional concerns as well. The area will be a major center of gravity in global politics with critical relevance for the wider US-China competition, especially in the developing world and within Asia. About 24 percent of the world's population and 40 percent of Asia's live in South Asia.⁵ The region is made up of dynamic emerging markets with high growth rates and the potential to offer an alternative to East Asia as a hub of low-cost manufacturing, although the COVID-19 pandemic has pummeled regional economies. South Asian states are also major technology markets whose decisions will help shape technological ecosystems across the board—from supply chains and hardware, to legal and technical standards, to norms around privacy and data. At sea, 80 percent of global seaborne trade and 40 percent of oil shipments travel through the Indian Ocean.⁶ The Indian Ocean region extends from Africa to the Middle East to South Asia and Southeast Asia and Australia and has critical maritime choke points at its eastern and western ends. US grand strategy places commanding the global commons, including the high seas, at the center of its approach.⁷ The Indian Ocean's strategic importance, therefore, ranks high for determining the course of world politics, even if for

the purposes of American national security narrowly considered it falls below the Pacific, Atlantic, and Arctic Oceans that adjoin US territory.

In response to concerns about China and concurrent regional trends in South Asia, US policy toward the region will have to shift in several ways in the next few years. First, Washington will seek a new equilibrium in its engagement of the region's two largest states, India and Pakistan. The United States will continue to pursue a closer relationship with India across a range of diplomatic, security, economic, and people-to-people issues. A more robust US-India partnership promises both better coordination between the world's two largest democracies—their recent illiberal convulsions notwithstanding—and a way for both powers to better balance, in coordination with other democracies, China's growing power across nearly every dimension. Evolving Indian attitudes that increasingly favor greater alignment with Washington over maintaining strict autonomy will facilitate that shift. Enmeshing India in a network of strong liberal states that work together to bolster a rules-based order in the Indo-Pacific does not amount to Washington dragging New Delhi into a new cold war with China. Instead, it means partnering with India to ensure that the region and the world at large can dissuade and deter Chinese coercion, stem the spread of authoritarianism, and uphold a liberal trade and economic system.

Inversely, the United States is likely to recognize Pakistan's general trajectory of moving toward China and to seek ways to restructure US-Pakistan relations to offer an alternative option for cooperation at an acceptable cost. The geopolitical rationales for robust US-Pakistan ties provided by the Cold War and the post-9/11 eras have faded from view, and no replacement is on the immediate horizon. Bilateral relations between Washington and Islamabad will remain functional but more modest than the historical norm.

The next shift concerns the smaller South Asian states. US policy will focus on finally ending direct US military involvement in Afghanistan and pursuing a sustainable peace. The imperative to shift strategic focus toward major power competition provides an additional impetus to wind down US involvement—and potentially shift some of the security burden to China. Given a reduced commitment in Afghanistan and an eye toward China's burgeoning influence in smaller South Asian states, the visibility and priority of the smaller South Asian countries will increase. This offers Washington an opportunity to further strengthen its engagement across the region on diverse issues, particularly trade and commercial issues, democracy and governance, and sustainability.

Third, America's approach to South Asia will rely more on different tools of power and devote more focus to maritime issues. US policy will need to rely more on nonmilitary tools of foreign policy, both to reduce the burden on the American military and enable it to focus on core functions, and to compete with China's efforts in the diplomacy, trade, finance, technology, development, and values spheres. Washington will need to find ways to respond to Chinese initiatives—including, but not limited to, the BRI—focused on development, trade and finance, political influence, and security cooperation in ways that draw on US strengths. In addition, although the war in Afghanistan has preoccupied the national security landscape over the past twenty years, the US withdrawal will

enlarge the space for deepened engagement on maritime issues across the Indian Ocean region and littoral South Asia. This is primarily due to China's expanding commercial and military presence around the Indian Ocean rim along with Washington's adoption of an Indo-Pacific strategy that acknowledges linkages between the Indian and Pacific Oceans.

Finally, the stresses of dealing with COVID-19 and resulting economic fallout, as well as mounting climate change–induced environmental and social problems, make international cooperation more critical just as working together becomes harder. Washington will have to thread the needle of competing with China effectively while not totally closing off the space for regional cooperative efforts that include Beijing.

» COVID-19 AND CHINA'S ROLE IN SOUTH ASIA

The economic and social impact of the COVID-19 pandemic on South Asia could last for years and threatens to undo the progress of the last few decades. Currently, India has recorded the second largest number of cases globally.^a The initial impact led most countries in South Asia to impose lockdowns. As a result, the existing weakness of the economies worsened, leading governments to announce different forms of economic assistance to their citizens. Countries such as Sri Lanka, Maldives, and Pakistan have found their debts increasingly difficult to repay. Workers and laborers across the region have faced some of the harshest effects, with stagnant trade and production leading to the loss of millions of jobs.^b Some states have also taken the opportunity to persecute government dissent and criticism, leading to a degradation of liberties in the region.^c

The pandemic has also proved a challenge for China's periphery diplomacy. Although Beijing's image suffered at the outset, it has continued to engage in the region through "mask diplomacy"—donating and selling personal protective equipment (PPE) and medical supplies to Nepal, Bangladesh, Maldives, Pakistan, and Sri Lanka. These efforts offer China the opportunity to gain influence in the region, but responses have been mixed. Pakistan's reception has been largely positive, but politicians in Nepal have raised concerns about the safety of Chinese vaccines, questioning the lack of transparency.^d Further, fifty thousand PPE kits India received from China in April failed safety tests.^e Another question is the future of the Belt and Road Initiative (BRI) projects in the region. Although Pakistan and China signed new projects worth \$11 billion over the summer, South Asia's economic recovery following the pandemic will affect the ability of states to pay off loans and complete BRI projects.^f

a. Johns Hopkins University and Medicine, Coronavirus Resource Center, Global Map, October 7, 2020, <https://coronavirus.jhu.edu/map.html>.

b. Maria Abi-Habib, "Millions Had Risen Out of Poverty. Coronavirus Is Pulling Them Back," *New York Times*, April 30, 2020.

c. Selam Gebrekidan, "For Autocrats, and Others, Coronavirus Is a Chance to Grab Even More Power," *New York Times*, March 30, 2020.

d. Kirk Lancaster and Michael Rubi, "Assessing the Early Response to Beijing's Pandemic Diplomacy," *Asia Unbound* (blog), Council on Foreign Relations, April 30, 2020; and Sui-Lee Wee, "From Asia to Africa, China Promotes Its Vaccines to Win Friends," *New York Times*, September 11, 2020.

e. Teena Thacker and Anandita Singh Mankotia, "Tens of Thousands of Chinese PPE Kits Fail India Safety Test," *Economic Times* (India), April 16, 2020.

f. Faseeh Mangi, "China's Belt and Road Awakens with a Push through Pakistan," *Bloomberg*, July 21, 2020.

South Asia in China's Foreign Policy

China's role in South Asia has deep roots that precede the founding of the People's Republic of China in 1949.⁸ Relations with the region go to the heart of the modern Chinese state, namely, the status of Tibet and border disputes with India and Bhutan. Beijing counts protecting sovereignty, territorial integrity, and national unity among its “core interests”—those worth going to war over.⁹ China borders five South Asian countries: Afghanistan, Bhutan, India, Nepal, and Pakistan. Most of its major foreign policy concepts intersect with South Asia. These include periphery (or neighborhood) diplomacy; its focus on major powers, which includes India and other powers such as the United States and Russia that exert influence in South Asia; and “South-South” diplomacy with developing countries. South Asia also naturally aligns with China's campaign to “Go West,” which started in 2000 and focused on developing its laggard western regions, and the subsequent “March West” strategy to orient foreign policy resources in that direction to counterbalance a deepening US presence in East Asia.¹⁰ Fundamentally, Beijing's major strategic priorities for South Asia are protecting its western, non-Han territories; managing the Sino-Indian rivalry; and securing China's standing as a peer competitor to the United States.

Today, South Asia's importance in China's overall foreign policy strategy is growing, even if in economic and investment terms South Asia is a lower priority than larger markets such as East Asia, Europe, and North America. Beijing's traditional foreign policy priorities rank its eastern flank, including Japan, the Koreas, Taiwan, and Southeast Asia as the primary strategic direction for China's security interests. China's western horizon—or, to use a term favored by the People's Liberation Army (PLA), its “secondary strategic direction”—has been gaining in absolute, if not relative terms, for many years.¹¹ Several factors are driving that shift. First is that India's rise as a global power is forcing China to both engage and counter New Delhi (and vice versa). Also, expanding trade, investment, and infrastructure links have connected China to South Asia in new ways. And intra-Asian diplomatic and security ties stoke fears in Beijing about a geopolitical balancing coalition with members on multiple borders. Initiatives such as the quadrilateral consultations, or Quad, that foster coordination between India, Japan, Australia, and the United States, however limited in scope or effectiveness, embody this concern.



From left, Chinese Foreign Minister Wang Yi, Afghanistan's Minister of Foreign Affairs Salahuddin Rabbani, and Pakistan's Foreign Minister Shah Mehmood Qureshi clap after signing an agreement during a meeting at the Presidential Palace in Kabul on December 15, 2018. (Photo by Massoud Hossaini/AP)

Trade and Investment Role

Trade and investment ties drive China's foreign policy generally, and South Asia is no exception. The region plays a central role in Xi Jinping's signature program, the Belt and Road Initiative. The project's massive promised investments are turning out to be significantly smaller in practice because Beijing is facing a reserve dollar crunch.¹² Both the land-based Belt and the maritime Road run through South Asia, including via the flagship China-Pakistan Economic Corridor (CPEC), the stalled Bangladesh-China-India-Myanmar Economic Corridor, and ports along the Indian Ocean rim in states such as Sri Lanka.¹³

The BRI not only builds roads, railways, and other hard infrastructure. It also tries to incentivize countries to adopt Chinese technical standards and digital technologies for key projects such as telecommunications networks. As a region, South Asia lags in overall connectivity, a deficit that hampers growth because regional economies miss out on the benefits of integration. Another objective for BRI projects is to provide a shorter transit route to the ocean for Chinese goods. That would, theoretically, reduce shipping costs and make those regions more competitive while mitigating the potential for Chinese adversaries to interdict shipping to ports on China's east coast during a crisis or conflict.

China-South Asia economic ties extend beyond BRI projects to include trade with the region, which has exploded since the early 2000s.¹⁴ One Brookings Institution study calculated that China increased its exports to South Asia from \$8 billion in 2005 to \$52 billion in 2018, which amounts to 546 percent growth.¹⁵ China has a free trade agreement with Pakistan and is negotiating one with Sri Lanka, but it has no others with regional states. South Asia presents an attractive opportunity for China to expand its trade and investment relationships because it is the world's fastest growing subregion and has a relatively young population.¹⁶ More than 150 million South Asians are expected to enter the labor market by 2030.¹⁷ China believes it has experience, knowledge, products, and services to offer to other Asian countries seeking rapid development without requirements for political liberalization. As Xi said in his speech to the Nineteenth Party Congress in 2017, Beijing offers "a new option for other countries and nations who want to speed up their development while preserving their independence."¹⁸ Still, as the COVID-19 pandemic has underscored, risks to regional stability and growth in South Asia abound. These include health, climate change and environmental, demographic, rapid urbanization, and governance risks.¹⁹

Foreign Policy and Security

China also seeks to advance an array of foreign policy and security interests while countering threats in South Asia, though again the region is not Beijing's primary priority. It does so using tools that include bilateral and multilateral diplomacy, party-to-party exchanges, political and media influence operations, and arms sales. Its aims range from countering threatening nonstate actors to managing intraregional rivalries and building influence throughout South Asia and gaining a geopolitical advantage over other major powers. At the nonstate level, Beijing works to combat political and ideological currents from South Asia that fall within its category of the "three evils" of terrorism, separatism, and extremism.²⁰ (That campaign links directly to Beijing's egregious human rights abuses in Xinjiang.) China also tries to influence intraregional dynamics among the states in South Asia. Broadly, China wants to prevent a nuclear exchange and play a role in managing crises between India and Pakistan. Simultaneously, the simmering geopolitical rivalry between New Delhi and Islamabad serves Beijing's interests by forcing India to devote resources and attention to dealing with Pakistan that might otherwise go toward balancing China. The value of that dynamic for China means that, in practice, Beijing has been willing at times to shield Islamabad from international pressure.

At the major power level, India's rise has increased the importance for China of countering Indian power locally in South Asia, throughout the Indo-Pacific region, and on some global issues. One priority for Beijing is to resolve Sino-Indian border disputes in its favor or at least prevent a resolution that would disadvantage China. China's interests and presence are also growing in the Indian Ocean and affecting coastal countries. Critical sea lines of communication run through the Indian Ocean. The importance of controlling them—as well as choke points such as the straits of Malacca, Sunda, and Lombok—has grown in proportion to the expansion of China's overseas interests and its reliance on imported energy supplies. Further, China wants the capability to prevent US forces stationed in the Middle East and Europe from transiting the Indian Ocean to reinforce US forces in

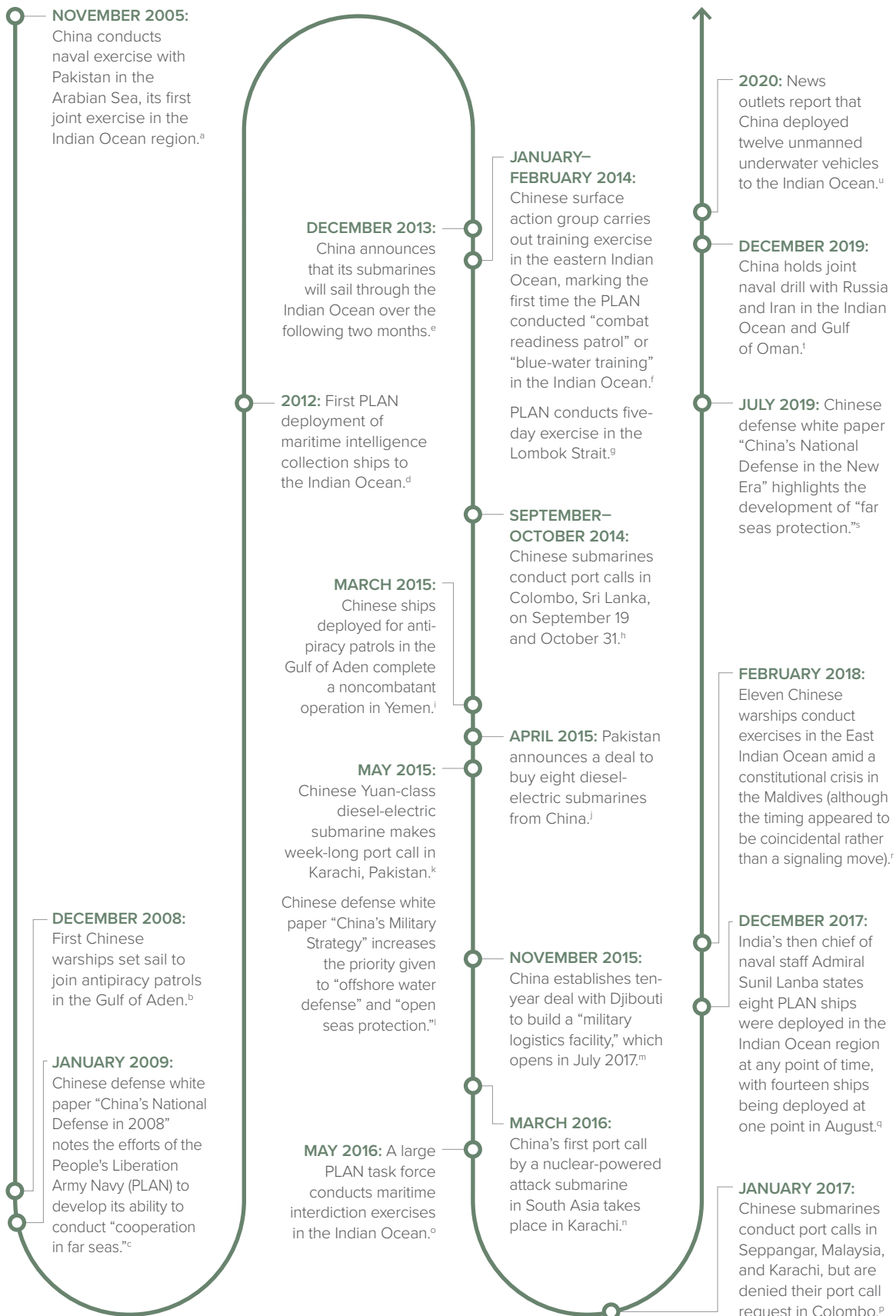


Construction workers work on the Havelian-Thakot section of the Hazara Motorway, a major project of the China-Pakistan Economic Corridor, in the Salhad area of Abbottabad, Pakistan, on January 29, 2017. (Photo by Sultan Dogar/iStock)

East Asia during a major conflict. As Chinese scholar Hu Shisheng asserts, “The strategic importance of South Asia and the northern Indian Ocean to China is no less than it is for India.”²¹

China’s Western Theater Command has military responsibility for handling contingencies on China’s western border. Naval operations in the Indian Ocean are conducted by multiple fleets and overseen by People’s Liberation Army Navy (PLAN) headquarters because the region is not yet clearly assigned to a specific theater command.²² The PLAN has seen an unprecedented build-up over the last two decades to fulfill additional missions. It is now the world’s second most powerful navy after that of the United States, although PLAN forces are still honing their ability to operate far from China’s eastern shores for extended periods. The PLAN started regularly sailing into the Indian Ocean in late 2008 to reach antipiracy patrols in the Gulf of Aden, on the far western side of the Indian Ocean. Authoritative official statements place a growing emphasis on “far seas” missions and “open seas protection,” meaning a concerted expansion from focusing on the waters just off China’s coastline to sailing farther afield.²³ This includes the Indian Ocean, which, after the Pacific, is China’s “second ocean.”

Timeline of Chinese Military Activities in the Indian Ocean Region



Sources: See notes on pages 50 and 51.

Shaping the Regional Order

Aside from a few narrow exceptions related to military facilities and strategic access, Beijing does not appear to harbor ambitions to occupy or control territory in South Asia beyond its claims on the borders with India and Bhutan, and even expresses wariness about getting bogged down in regional conflicts. It does, however, seek to increase its political influence across the region using all the tools at its disposal. One major line of effort is to carve out a larger role in the constellation of multilateral institutions that include South Asian countries. China leads or plays an influential role in several of those groupings, among them the Asian Infrastructure Investment Bank, the Shanghai Cooperation Organization, the nascent China-South Asia Cooperation Forum, the Conference on Interaction and Confidence Building Measures in Asia, and the United Nations.

Revising or building new institutions is just one part of China's broader ambitions for the region and beyond.²⁴ Xi has organized Chinese foreign policy around the goal of building a "community with a shared future for mankind," a seemingly benign, even vacuous, formulation that acts as a placeholder for the more consequential campaign to build a Chinese-centric sphere of influence.²⁵ Using the BRI and other tools, China aspires to reconnect the whole of Asia, from East Asia all the way to the Middle East (technically, West Asia), and then to Africa and Europe. South Asia will function as either a barrier or a bridge in this endeavor to better integrate the continent, making it a critical region. In particular, the large and relatively young populations of South Asian states are a key audience for China to influence.

One of Beijing's goals in trying to construct a more China-centric order is to minimize the role of or even exclude outside major powers—especially the United States—from influencing the region. Xi's exposition of a New Asian Security Concept, often shorthand as "Asia for Asians," exemplifies this line of thinking.²⁶ Finally, China wants to exert political influence and shape governance norms in Asia with the express purpose of defending and strengthening Communist Party rule at home. China does not necessarily advocate, much less force, other states to adopt one-party authoritarian rule for themselves. Instead, China wants to quash opposition and criticism of Chinese Communist Party rule abroad and ensure Chinese access to markets and natural resources. To that end, Beijing tries to portray its model of authoritarian capitalism as inherently Asian and therefore appropriate for other Asian countries. South Asian states are largely weak or unconsolidated democracies, a status that leaves ample room for Chinese political influence—and strong potential for democratic backsliding.²⁷

China-Pakistan Relations

China and Pakistan have maintained a decades-long strategic partnership, one that began with Pakistan's recognition of the People's Republic in 1951 and that deepened after the 1962 Sino-Indian War and the 1971 separation of East Pakistan to become the independent state of Bangladesh. Although the two countries are neither naturally nor culturally aligned, partnering with Pakistan provides China a key counterbalance in its relations with their shared neighbor India. Particularly since 1971, Chinese backing has also been a core element of Pakistan's strategic posture vis-à-vis its rival, most notably through the joint development of the Pakistani military and civilian nuclear programs. China has provided Pakistan with reactor designs, uranium supplies, missile and weapons designs, sea-based submarine platforms, and civilian power plant financing and construction. Bilateral cooperation on nuclear capabilities goes well beyond any of China's other bilateral relationships.

China is the dominant partner in the relationship and has upheld mutually supportive ties with Pakistan at a level enjoyed by almost no other country with whom China maintains diplomatic relations, with the possible exception of North Korea. Although the China-Pakistan relationship has not been formalized as a treaty alliance, the "all-weather strategic cooperative partnership" is undergirded by ongoing nuclear cooperation, growing military-to-military exchanges, conventional arms sales, and joint production agreements. On the nonmilitary side, the relationship manifests in close diplomatic cooperation in multilateral forums, and—particularly in the past two decades—growing bilateral trade and investment linkages.²⁸

China has been the primary external patron of Pakistan's military establishment. The United States has been a notable provider of high-technology weapons platforms and grant assistance to Pakistan, including \$14.6 billion in appropriations through the Coalition Support Fund program from 2002 to 2016. But China has been a supporter of Pakistan's strategic nuclear program since its inception, and overt Chinese conventional military sales and transfers to Pakistan overtook American sales after 1972. Such sales now account for more than 40 percent of Pakistan's total cumulative arms sales receipts since 1950, nearly double the amount provided by the United States over the same period.²⁹



Pakistan's Prime Minister Imran Khan, third left, speaks with Chinese General Secretary Xi Jinping, not pictured, during their meeting at the Diaoyutai State Guest-house in Beijing on October 9, 2019. (Photo by Parker Song/AP)

Beyond matériel support, the Chinese and Pakistani militaries have also worked to establish more extensive interoperability through regular joint exercises, military education partnerships, joint production agreements, and strategic partnerships. The two governments also cooperate on technology systems and practices for controlling the information space in Pakistan.³⁰

Although public opinion plays only a limited role in shaping Pakistani foreign policy, surveys within Pakistan confirm an overwhelmingly positive view of China and largely negative ones of the United States.³¹ Debates among the major Pakistani domestic political actors—including those in the military establishment—over the China relationship have focused on attempts to redirect the benefits of Chinese investment and assistance to preferred constituencies and away from rivals, not on challenging the overall *raison d'être* for the partnership, which is regularly touted in superlative terms. This competition has at times complicated China's preference for a more stable set of partnerships with Pakistani interlocutors. The current Pakistan Tehreek-e-Insaf (PTI) government led by Prime Minister Imran Khan, in opposition at the time of the launch of the China-Pakistan Economic Corridor project in 2015, accused the government of then Prime Minister Nawaz Sharif of prioritizing projects in its members' home constituencies to the neglect of other parts of the country and accused its rivals of corruption in the management of those projects. In November 2019, the PTI government appointed

former military spokesman Lieutenant General Asim Saleem Bajwa as head of a new CPEC Authority, giving the military greater control over the management of the project and the limits of public debate. Bajwa has since been caught up in a corruption scandal related to his position.³²

For Pakistani leaders, ties with China have also offered a steadying anchor through the more irregular ups and downs of the US-Pakistan relationship. The development since the mid-2000s of a closer US-India strategic partnership—including civilian nuclear cooperation and efforts to build greater military-to-military ties, the divergence of US and Pakistani priorities in Afghanistan, and associated American concern over Pakistan’s counterterrorism policies and history of nuclear and missile technology proliferation—has contributed to a growing estrangement in the US-Pakistan strategic relationship from its zenith in 2004, when Pakistan was designated a “major non-NATO ally.”

The steady decline in US civilian and military assistance to Pakistan over the past decade has been matched by a corresponding growth of Chinese military, diplomatic, and economic influence. During the same period, US officials have increasingly come to see China as a direct strategic competitor. Chinese assistance commitments to Pakistan have often come during periods of frozen or downgraded US-Pakistan relations, leading many Pakistani policymakers and military strategists to prioritize what they see as the more stable and less transactional of the two relationships. Yet the Pakistani establishment has tried to maintain its relations with both China and the United States. Convergence in the past eighteen months between Washington and Islamabad around efforts to broker a peace agreement within Afghanistan may have at least temporarily reduced some of these strains. But Pakistani policymakers see China as a neighboring great power with an enduring presence in the region, one that has provided significant benefits to Pakistan’s strategic position at little evident cost.

Trade, Financial, and Infrastructure Ties

China and Pakistan have also built increasingly deep economic linkages. Although the United States is the largest export market for Pakistani products, China is Pakistan’s overall largest bilateral trading partner, its largest source of new foreign direct investment inflows, and a major source of bilateral lending.³³ As of 2018–2019, trade between the two countries totaled approximately \$12.1 billion, an increase of more than 50 percent over the past five years. Chinese exports to Pakistan make up more than 87 percent of the total trade volume, however, and Pakistani exports to China have shown low growth for much of the past decade.³⁴ Although muted in Pakistan’s domestic discourse, the trade relationship is not without strains; Pakistani industries and businesses have expressed concerns about Chinese goods flooding the domestic market and crowding out local industries.³⁵

The China-Pakistan Economic Corridor was the flagship project under the Xi Jinping government’s signature Belt and Road Initiative, and its development has further intensified Sino-Pakistani economic cooperation. Beyond the economic component of the partnership, the launch of this project also saw deepening high-level strategic engagement and a prioritization by Chinese policymakers of the bilateral relationship with Pakistan.³⁶ Although actual investments under CPEC have yet to reach the levels initially announced—touted in some statements as being as high as \$60 to \$80 billion over the decade—CPEC brought a much-needed surge of infrastructure financing to

»» The steady decline in US civilian and military assistance to Pakistan over the past decade has been matched by a corresponding growth of Chinese military, diplomatic, and economic influence.

Pakistan from China at a time when many other states' investment levels had fallen to extremely low levels and has especially boosted capacity in Pakistan's strained energy sector.³⁷

In addition to financing CPEC projects—almost all of which are conducted on commercial terms—the Chinese government and Chinese commercial banks have also served as a lender of last resort for Pakistan. China has joined a limited number of other strategic partners, such as Saudi Arabia, in providing short-term lending assistance to Pakistan, most recently in 2018 and 2019 to help stave off a balance-of-payments crisis while negotiating with the International Monetary Fund on the terms for a longer-term loan agreement.³⁸ As of November 2019, Pakistani officials reported that Chinese-held loans amounted to 24 percent of Pakistan's total public debt burden, and that CPEC-related projects made up 6.6 percent of the total.³⁹ Pakistani and Chinese officials have repeatedly

pushed back at US critiques over CPEC-related debts, but have also limited access to information about project financing that would allow for more transparent analysis of the terms of these agreements. Islamabad faces serious budget constraints. Despite structural adjustments under an IMF loan agreement, domestic revenue collection had slid even before the economic contraction tied to the COVID-19 pandemic, raising concerns over Pakistan's overall debt burden.

As of April 2020, approximately a quarter of officially designated CPEC projects had been completed, but implementation has slowed, particularly since the change in government following Pakistan's most recent (2018) parliamentary elections.⁴⁰ During the first year of the new PTI-led government, Chinese foreign direct investment fell to a five-year low, and some officials in the new government called for renegotiating and reprioritizing CPEC projects or pushed investigations into CPEC projects that had begun under their political rivals.⁴¹

Initial proposals from the PTI government to refocus CPEC on social development investments, carried out by creating special economic zones within Pakistan to build up manufacturing and industrial output, have so far stalled. Pakistan's ability to provide complementary financing for these projects has been limited and its legal regimes are slow to adjust. Development of the Gwadar port facility in Balochistan, a major concern for US and Indian strategists, who view it as a potential dual-use facility capable of supporting Chinese maritime power projection, has also continued at a very slow pace. Local separatists have attacked the area on multiple occasions, endangering Chinese personnel. At the same time, the port has failed to attract business interest as a viable commercial proposition.⁴²

Additions to the pipeline of jointly approved CPEC projects had already slowed before the PTI government took power, and as of this writing the expansion of Pakistan's Mainline One railway corridor is the only large-scale project to be added to the CPEC portfolio since the launch of the project in 2015. PTI government officials have reportedly continued to float proposals to seek the renegotiations of original loan repayment schedules or changes to guaranteed rates of return formulas for CPEC-supported energy projects, although it is unclear whether China will agree to such moves.⁴³

In interactions with Senior Study Group members, some Chinese officials and analysts have expressed some degree of buyer's remorse over the CPEC project. Despite the slowdowns, CPEC's high profile—both in the bilateral relationship and as a pillar of the broader BRI initiative—raises the stakes for both sides to be able to present it as an enduring success. But the onset of the COVID-19 pandemic means that significant new Chinese investments within Pakistan or the revival of CPEC may now be on indefinite hold, and concerns about debt could continue to grow. Chinese General Secretary Xi's next visit to Pakistan, postponed in September 2020 because of the pandemic and yet to be rescheduled as of this writing, offers the potential of boosting CPEC with the prospect of new lending or additional projects.

China and the India-Pakistan Rivalry

Geopolitically, China's relationship with Pakistan struggles to balance two levels of often-competing interests. On the one hand, the Sino-Pakistani partnership offers China an important lever with which to pressure India, raising the specter of a two-front war and generally forcing New Delhi to focus on countering Islamabad. On the other, although a potential outcome that keeps India occupied benefits China, the actual occurrence of armed conflict between India and Pakistan would threaten China's economic, security, and strategic interests in the region. This dichotomy explains the uneasy equilibrium that China tries to achieve when dealing with Pakistan on security issues including terrorism, crisis management, and India-Pakistan territorial disputes, which are all intertwined.

Despite its constant fulminations against terrorism, China has for decades shielded Pakistan from condemnation and sanction for supporting anti-India militant groups, such as Lashkar-e-Taiba and Jaish-e-Muhammad (JeM), that operate within Pakistan and with the support of Pakistan's security establishment. At Islamabad's urging, Beijing blocked proposals to bring international sanctions against Hafiz Saeed, the founder of a group that in 2008 would carry out the Mumbai attacks.⁴⁴ China also blocked the designation of JeM leader Masood Azhar as a global terrorist four times, even in the weeks immediately following the February 2019 attack his group carried out in Pulwama, Kashmir, in which forty Indian paramilitary soldiers were killed. That incident provoked a retaliatory Indian strike into Pakistan and the downing of an Indian fighter pilot, whom Pakistan later returned. It also marked the first time in history one nuclear power conducted direct airstrikes on the undisputed territory of another.⁴⁵

Although it has sought to protect Pakistan from Indian diplomatic retaliation in such cases, China has also played an important role in forestalling the escalation of major regional crises. It has backstopped US-led de-escalation efforts, particularly since India and Pakistan's nuclearization in the late 1990s.⁴⁶ In the Kargil crisis of 1999 and the 2001–2002 Twin Peaks conflicts, China used its diplomatic ties with Pakistan to reinforce American requests and demands.⁴⁷ Following the 2008 Mumbai attacks, China again reinforced messages of restraint and pressed Pakistan to arrest the militants behind the attack, going as far as to publicly offer to join hands with India to hunt them down.⁴⁸ Although indication is scant that China would seriously intervene to disrupt the Pakistani military's long-standing relationships with these proxy groups, China's tolerance for risk in the region appears to have limits.

Recent years have seen cracks in China's support for Pakistan. In 2018, China sided with the United States to put Pakistan on an international Financial Action Task Force gray list for insufficient action to

address money laundering and terror financing. Since then, Pakistan has been under pressure to show progress on cutting off support for these groups in order for Islamabad to access international assistance amid an economic crisis. Further, after initially blocking the listing of Masood Azhar after the Pulwama attacks, China eventually acquiesced to pressure from other UN Security Council members and allowed it. These actions may indicate that China's tolerance has limits if Pakistan's support of terrorist groups threatens the regional stability China seeks for CPEC and commercial relations to fully flourish.

However, changing relations between and among the United States, China, India, and Pakistan may all be contributing to a further shift in China's strategic calculus to deepen support for Pakistan. Some indications are that China's position is shifting more firmly to match Pakistan's on Kashmir, at least in part because Islamabad's and Beijing's claims are mutually supportive. The most-recent major crisis between India and Pakistan, following the Pulwama attack and subsequent cross-border standoff in February and March 2019, may have been the first significant case of such a break. As China publicly called for restraint, US policymakers privately described China's role in the episode as "unconstructive" or "counterproductive," if perhaps unintentionally so. The February 2019 crisis also marked a shift in US engagement. Although American diplomats intervened intensely and immediately in previous crises, the February 2019 crisis saw delayed and lower-level engagement from Washington and its strongest tilt toward India to date, building on similar actions taken by the Obama administration in September 2016.

This experience adds to concerns that future efforts at third-party crisis mediation in South Asia will become more challenging for the United States and other actors. As India has taken steps in the past year to assert greater control over the former state of Jammu and Kashmir—with accompanying strains along the disputed border between India and China—Beijing and Washington may be seeing a greater divergence in their assessments of responsibility for crises between India and Pakistan, with China more often seeing India as a revisionist actor and the US seeing Pakistan as a frequent aggressor. Increasingly confrontational US-China dynamics have also made coordination between China and the United States more difficult.

Chinese intervention in future crises could yield unintentional escalatory action in the fog and friction of conflict in South Asia, particularly if regional relations polarize further. China has been willing to rein in Pakistan, its junior partner, in the past. But these shifts in the regional security environment may in the future push China to more fully back Pakistan, emboldening Islamabad and constraining avenues for mediation by the United States. (Similar concerns could apply to US support that emboldens India.) Uncertainty around this strategic geometry presents the greatest challenge for future crisis management in South Asia. The United States and China could still cooperate by wielding their influence with India and Pakistan respectively to de-escalate tensions, but it currently appears far more likely that evolving regional geopolitics will complicate and constrain efforts at mediation among the four major players. The challenge for Washington will be to navigate the fundamental tension in US strategy between mitigating nuclear risks within South Asia while balancing China. Even when US and Chinese interests align, the mechanisms, processes, and institutions intended to facilitate that alignment have shrunk, limiting options for practical cooperation.

China-India Relations

China-India relations have a long and contentious history.⁴⁹ Both states see themselves as heirs of continuous civilizations whose modern incarnations were founded in the 1940s—the Republic of India in 1947 and the People’s Republic of China in 1949—after long periods of domination by Western countries. After China annexed Tibet in 1950, the Dalai Lama and the Tibetan government fled to India in 1959. In 1954, the two sides agreed to the Five Principles of Peaceful Coexistence, which became a cornerstone of official Chinese foreign policy doctrine.⁵⁰ Theoretical convergence about the values that should guide developing countries in world politics, however, did not prevent a brief border war in 1962. Particularly since the early 1960s, India maintained close ties to the Soviet Union, subsequently China’s adversary, even while hewing to the principle of nonalignment. Bilateral ties have always sought to navigate the promise of more cooperative relations with the realities of geopolitics and starkly different political systems. Indian relations with China draw on many decades of experience and are therefore much more seasoned relative to countries dealing with a sizable Chinese presence for the first time.

The two powers are balancing competing nationalisms as rising—and, increasingly, arrived—Asian powers with a desire to have a stable relationship and boost economic growth.⁵¹ Bilateral interactions span the trade and finance, technology, military, and diplomatic arenas. Both powers have sought to engage one another in trade and finance, though such ties are a source of both cooperation and friction. India runs a large trade deficit with China, which has become a major irritant in the relationship. Between 2000 and 2019, India’s imports from China grew forty-five times to more than \$70 billion annually.⁵² Fears about being flooded with Chinese imports were among the reasons Indian Prime Minister Narendra Modi cited when withdrawing India from negotiations to join the massive Regional Comprehensive Economic Partnership trade deal.⁵³



Indian Prime Minister Narendra Modi, front, and Chinese General Secretary Xi Jinping shake hands with leaders at the BRICS summit in Goa, India, on October 16, 2016. (Photo by Manish Swarup/AP)

In addition, China has carved out a substantial role in the technology sector in India, both as a producer of products popular with Indian consumers, such as mobile phones, and as an investor in Indian technology companies.⁵⁴ Indian debates about the cost-benefit calculus of economic and technological integration with China are increasingly focused on the downsides, including the potential for Chinese coercion, supply chain disruptions, data security concerns, and anticompetitive practices. In the midst of the Ladakh border dispute in mid-2020, the Indian government banned fifty-nine Chinese applications from the Indian market, barred Chinese construction firms from getting state road-building contracts, and appeared to signal they would not pick Huawei as the 5G provider for Indian telecommunications networks.⁵⁵ Still, those debates have so far not resulted in any definitive conclusions regarding whether, where, and to what extent India should separate or decouple its economic ties with China.

Geopolitical racing plays out most directly in the military balance. The PLA has grown rapidly since the mid-1990s, and China's 2019 defense budget was \$261 billion relative to India's \$71 billion.⁵⁶ The Indian military has made advances in recent years but generally lags behind the PLA.⁵⁷ Several factors, though, afford India advantages in certain areas. These include experienced mountain

troops, critical partnerships with other major powers such as the United States and Russia, and India's geographic position for operating in South Asia and the Indian Ocean. Both Beijing and New Delhi possess relatively small nuclear arsenals but ones that are expanding to meet evolving modernization and deterrence requirements.⁵⁸ Both countries' nuclear arsenals are postured to deter at least two major adversaries—China and Pakistan in India's case, and the United States and India in China's case. Each nominally subscribes to a nuclear "no first use" policy that is meaningful but comes with notable caveats.

Taking all these factors into account, Xi and Modi have sought to manage disagreements through leader-level diplomacy, most prominently during two informal summits, one in Wuhan, China, in April 2018 and one in Mamallapuram, India, in October 2019. The pair also meet regularly through arrangements such as the Russia-India-China trilateral, the BRICS grouping (Brazil, Russia, India, China, and South Africa), the Shanghai Cooperation Organization, and the G20. They also deliberate on bilateral diplomatic issues such as the Tibetan community in India and water management, given that several major rivers in India have their headwaters in China.⁵⁹

Territorial Disputes

The Sino-Indian border, which for decades was considered relatively stable, has emerged as a potentially even more volatile flash point than the India-Pakistan border. China and India both claim territory that the other controls along their approximately 2,200-mile border. The boundary between the two countries, known as the Line of Actual Control, has never been delimited (that is, the parties never made a legal agreement on a common map) or demarcated (that is, the boundary was never physically marked on the land itself).⁶⁰ Both sides see three general areas, or sectors, of the border: western, middle, and eastern. In the western sector, where the 2020 standoffs have been concentrated, India claims thirty-three thousand square kilometers of Aksai Chin that are controlled by China.⁶¹ In the eastern sector, China claims ninety thousand square kilometers that correspond roughly to the Indian state of Arunachal Pradesh and are controlled by India. In the middle sector, the disputed area is smaller, roughly two thousand square kilometers, and control is divided. The two powers came to blows over the border starting in May 2020 in a series of exchanges that resulted in the biggest loss of life since 1967.⁶² Previous standoffs in 2013, 2014, 2015, and 2017 were also dangerous but did not result in casualties.⁶³

Recent border tensions appear to reflect a confluence of several factors, the relative weight of which is hard to measure precisely. Chinese analysts point to India's August 2019 decision to revoke Article 370 of the Indian constitution, which previously provided autonomy to Jammu and Kashmir.⁶⁴ India then split the erstwhile state into two so-called union territories, that is, areas over which the central government in New Delhi asserts greater direct control, thereby weakening the power of local authorities. China expressed opposition to those moves. One Chinese scholar assessed that India's decision was designed to split the territorial issues into separate disputes between India and Pakistan, and between India and China.⁶⁵

China-India Border Areas



Note: Names and boundaries (which are approximate) shown on this map do not imply official endorsement or acceptance on the part of the United States Institute of Peace or members of the Senior Study Group.

Source: This information in this map is based on a number of sources, including the Congressional Research Service, the US-China Economic and Security Review Commission, Oxford Analytica, and various media sources.

Major Sino-Indian Border Clashes since 1962

Incident and Year	Main Areas	Border Sector	Casualty Estimates Based on Official and Press Reports
Ladakh 2020	Galwan and Pangong Tso	Western	India: 96 casualties (20 killed, 76 injured) ^a China: Unknown ^b
Doklam 2017	Doklam	Middle	Not available ^c
Burtse 2015	Burtse	Western	Not available ^d
Demchok 2014	Demchok and Chumar	Western	Not available ^e
Daulat Beg Oldi 2013	Daulat Beg Oldi and Chumar	Western	Not available ^f
Sino-Indian Skirmish 1987	Sumdorong Chu	Eastern	Not available ^g
Tulung La 1975	Tulung La	Eastern	India: 4 killed ^h
Sikkim Clashes 1967	Nathu La and Cho La	Middle	India: 80–251 casualties ⁱ China: 36–790 casualties ^j
Sino-Indian War 1962	Namka Chu, Tawang, and Lohit Daulat Beg Oldi, Galwan, Chushul, and Indus Valley	Eastern Western	India: 3,079–4,897 casualties, 3,968 captured China: 2,419 casualties ^l (722 killed, 1,697 wounded)

Sources: See notes on page 51.

Military-operational issues also drive tensions. Patrols (“transgressions”) that cross over the other side’s perception of the Line of Actual Control have increased. Statistics from the Indian government show a significant increase in Chinese patrols into what India considers its side of the border.⁶⁶ (China does not release comparable statistics about Indian patrols.) Next, both sides point to infrastructure-building activities that support the other country’s military’s ability to operate in the inhospitable high-altitude terrain as escalatory moves and indicative of aggressive intentions.⁶⁷ Military exercises and changes to command structures also rankle. Others in India and beyond assess that China is simply using its superior military power to seize gains on the border, or to substitute nationalism for rapid economic growth as a source of legitimacy for the Chinese Communist Party.⁶⁸

India and China have created several hotlines and other confidence-building measures to help prevent and manage border crises. These include agreements from 1993, 1996, 2005, 2012, and 2013.⁶⁹ The

latest came online in January 2020, when a new hotline between India's director general of military operations and China's Western Theater Command became operational.⁷⁰ Still, the future trajectory of the border dispute appears fraught. Recent events have raised the prospect of border management agreements falling apart or simply becoming dead letters. Progress to date on creating a sustainable border management system has been halting and seemingly reversible. Representatives from the two countries have met for boundary talks twenty-two times since 2003, including the last meeting in December 2019 between Indian National Security Advisor Ajit Doval and Chinese State Councilor and Foreign Minister Wang Yi.⁷¹ Although those meetings have helped advance some of the crisis management mechanisms mentioned, the two sides have made less progress toward a final resolution of the border issue. They exchanged maps, an early step in the process of agreeing on the final border, for the middle sector in 2002. Maps for the western sector were more informally shared, and no additional progress has been made since.⁷² The border dispute will continue to be a—if not the—central area of friction in bilateral relations barring any major breakthroughs.

Competition in the Neighborhood, “Acting East”

China and India also compete within India's neighborhood. Some observers see China's apparent foot-dragging on resolving border issues as a way to force India to devote resources and focus to the border, thereby constraining New Delhi's ability to influence the rest of South Asia and the Indian Ocean region.⁷³ Modi instituted a “neighborhood first” policy, in part to counteract a degradation of India's local relationships and an uptick in Chinese outreach to South Asian countries through the BRI and other means.

In the diplomatic realm, India has been spurred on by China's connectivity initiatives—namely, the BRI and the Asian Infrastructure Investment Bank (AIIB)—to try to revive subregional groupings and shed its image as a domineering regional behemoth. Because the South Asian Association for Regional Cooperation is deadlocked by India-Pakistan animosity, New Delhi has sought to reinvigorate the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation.⁷⁴ Meanwhile, China has seen some success at replicating a model used in other regions by instituting the China-South Asia Cooperation Forum, which held meetings in 2018 and 2019.⁷⁵ Overall, India has sought to strike a balance when engaging China-influenced or China-led multilateral institutions, backing initiatives where New Delhi could exert influence and eschewing ones where India would lack a voice. Modi joined the AIIB; the New Development Bank for the BRICS countries was first mooted as an India proposal during the 2012 summit in New Delhi; but India has declined to back the BRI generally.⁷⁶

New Delhi's activities in the Indian Ocean region also fall under the banner of reaffirming India's role in its neighborhood. The Indian Navy, given its geographic position as a resident power, still has an advantage over the PLAN. But China's rapid military buildup, in particular its naval advancements, threaten to tilt the balance in Beijing's favor. The Indian military has made updates to its sea patrol, anti-submarine warfare, airlift, and maritime domain awareness capabilities, and has built out its presence on the Andaman and Nicobar Islands.⁷⁷ Additionally, India has sought to balance

►► **China's growing role in South Asia will make it more difficult . . . for India to live up to its ambitions as the second-largest power in a free, open, and prosperous Indo-Pacific region.**

China using expanded diplomatic and security partnerships, especially with the Quad countries of the United States, Japan, and Australia. India has done so in both the full Quad format and by enhancing bilateral and trilateral arrangements within group subsets as well as with additional partners such as France. It invited Australia, for example, to participate in the annual Malabar naval exercises, which Japan joined in 2015 as a permanent participant.⁷⁸ At the same time, India maintains extensive and long-standing defense ties with Russia despite Moscow's deepening partnership with Beijing on a range of issues, including defense technology, and the limits that working with Russia places on US-India defense cooperation. New Delhi sometimes even sends messages to Beijing using Moscow as a conduit.

Sino-Indian competition extends beyond South Asia. Modi has tried to reinvigorate India's long-standing "Look East" policy by turning it into an "Act East" policy.⁷⁹ Most of that campaign focuses on building economic links with the rest of Asia to fuel economic growth. But as China-India tensions deepen, New Delhi could decide to get more involved in political and security topics in East Asia, such as Hong Kong, Taiwan, Xinjiang, and the South China Sea.⁸⁰ Some Indian analysts have advocated for India to alter its Taiwan policy.⁸¹ Finally, jockeying for position extends to global institutions as well. Despite Beijing's rhetoric about updating international institutions to better represent the current global power structure, China continues to block India's bids to get a permanent seat on the UN Security Council and to join the Nuclear Suppliers Group.

The current trajectory of Sino-Indian relations has left them ripe for rivalry.⁸² India now sits at a crossroads in its relationship with China and might be tilting in a more confrontational direction following the Ladakh standoff. Some commentators even talk about China "losing" India.⁸³ New Delhi is reexamining its stance toward Beijing as other states are also grappling with assertive and even aggressive Chinese behavior. At the same time, however, Indian policymakers are keenly aware of the challenges inherent in crafting a more muscular tack toward China. Indian strategic thinking is driven not only by a desire for autonomy but also by a concern that China will seek retribution if India appears to be joining, even informally, a coalition of states seeking to balance Beijing's overreach.

Bolstering deterrence toward China through a combination of internal and external balancing will have to be weighed against keeping diplomatic relations on an even keel. Pursuing partial economic decoupling will require a combination of supporting domestic growth and innovation while calibrating openness to the world. Exemplifying a democratic governance model for Asia will require grappling with internal cleavages and addressing grievances without resorting to repression or nondemocratic shortcuts. In sum, China's growing role in South Asia will make it more difficult, but also more important, for India to live up to its ambitions as the second-largest power in a free, open, and prosperous Indo-Pacific region.

China–Smaller South Asian States Relations

Although frequently overshadowed by relations with South Asia’s two largest poles, India and Pakistan, Chinese linkages to the smaller states of South Asia—Afghanistan, Bangladesh, Bhutan, Maldives, Nepal, and Sri Lanka (collectively, the SSAs)—are also important. Each country’s circumstances are unique and their relationships with Beijing vary. Detailed case studies on the SSA countries are outside the scope of this report. In general, though, Chinese economic ties with many of the smaller states in the region have been increasing over the past decade, particularly through new infrastructure investments made under the banner of the Belt and Road Initiative, as well as expanding trade relationships.⁸⁴ China’s role as a global manufacturing hub means that for many, albeit not all, of the SSA countries, China is the largest source of bilateral imports. Exports from SSA countries back to China are in most cases significantly smaller, however; the United States, India, or the countries of the European Union more frequently are their largest export markets. Beyond the export of goods, Chinese tourism—at least before the onset of the COVID-19 pandemic in early 2020—has also been a valuable and growing source of additional inflows to the SSA countries, particularly in the Maldives, Nepal, and Sri Lanka.⁸⁵

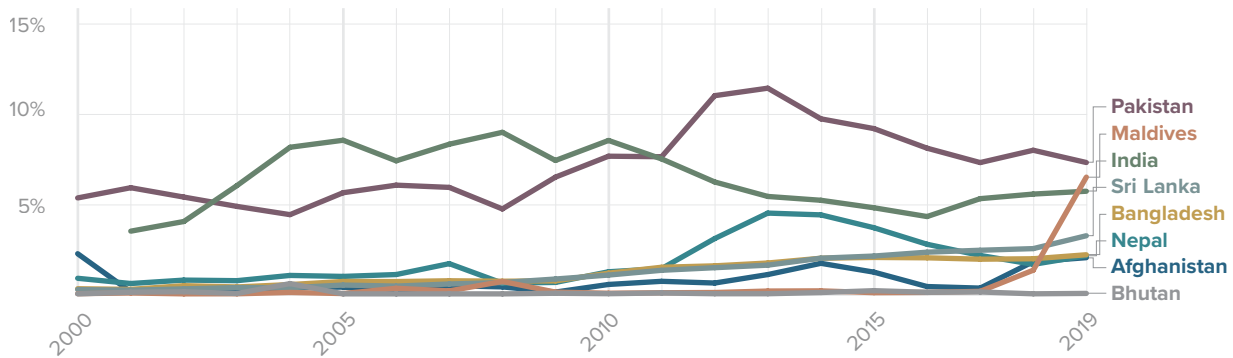
In addition, Chinese annual foreign direct investment across the SSA countries totaled approximately \$3.9 billion, making China one of the largest bilateral investors in some of them.⁸⁶ Although their economic ties predated the launch of China’s BRI strategy in 2013, Chinese investment, financing, and infrastructure development projects in the SSA countries have grown substantially in the years since. Construction of the most high-profile Chinese project in the smaller South Asian states, the Hambantota port project in Sri Lanka, preceded the official launch of the BRI. The port, built in the home constituency of then Sri Lankan President Mahinda Rajapaksa, was leased to Chinese management in 2017 as part of a plan to address a balance-of-payments shortfall. Although the technical details of the deal tell a less-threatening story, in the eyes of many in the region and beyond that case has come to epitomize the possible danger of undertaking development deals with China related to assets with potential strategic value. Other large projects—including airports, additional port facilities, road and rail, and other activities—are also either under negotiation or

China's Trade Relationships with South Asian Countries

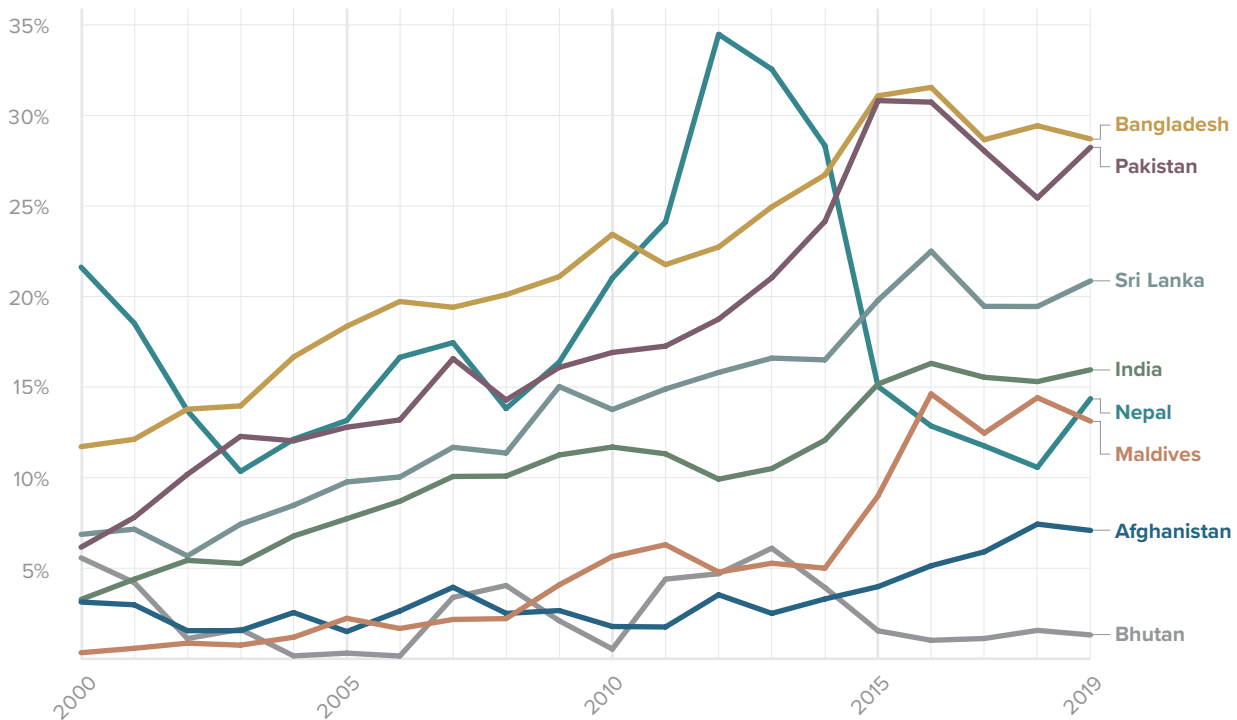
The following data were drawn from the United Nations Conference on Trade and Development (UNCTAD) database. The values for 2019 are labeled as estimates in the original data, but previous statistics are considered broadly accurate according to best knowledge in 2019. Their value of exports is mostly recorded as free-on-board (FOB) values, whereas their values for imports are usually recorded as cost, insurance, and freight (CIF) data.^a

These data show trade with China makes up less than 10 percent of imports for most South Asian countries in our analysis, but is a much more significant export destination for Pakistan, Bangladesh, and Sri Lanka. Imports have remained relatively stable over the past two decades, yet there is a more noticeable increase in exports over the same period among South Asian nations. This may be explained by China's increased demand for natural resources, a primary export for most of these countries.

IMPORTS FROM CHINA AS A PERCENT OF TOTAL IMPORTS 2000–2019



EXPORTS TO CHINA AS A PERCENT OF TOTAL EXPORTS 2000–2019



Sources: UNCTAD Statistics (accessed November 3, 2020: <https://unctadstat.unctad.org/EN/>)

a. UNCTAD, *Handbook of Statistics* (New York: United Nations Publishing, 2019), 16, https://unctad.org/system/files/official-document/tdstat44_en.pdf.

currently under development in Sri Lanka, Bangladesh, Nepal, and the Maldives. Chinese technology and telecommunications investments have also expanded, and include prospective 5G cellular network projects in Nepal, Sri Lanka, and Bangladesh.⁸⁷

Here again, the implementation of some of China's large-scale infrastructure projects in the smaller South Asian states has often lagged initial promises of action. Despite occasional talks on the subject with the Afghan government, the China-Pakistan Economic Corridor transportation network has not been extended to Afghanistan. China made investments at some major Afghan mining sites, but work has been stalled for many years given security concerns and the challenges of extracting these resources at a profit.⁸⁸ But even with these delays, new projects such as a Nepal-China rail link and others have the potential to significantly upgrade the infrastructure and transit capabilities of the SSA countries—a promising prospect for one of the least-integrated regions of the world in terms of intraregional trade and connectivity.⁸⁹

The expansion of these projects has raised concerns over the resulting debt burden on the SSA states, most of which are middle-income countries.⁹⁰ In most cases, Chinese lending so far constitutes only a fraction of the overall national debt balance for the SSA countries, making the growth in Chinese loans more notable in terms of changing flows than overall stock for now. However, the sustainability and profitability of many of these projects deserves further scrutiny, particularly as the COVID-19 pandemic affects future global trade and travel patterns and hobbles economic growth. The viability of some projects can be justified using high-standards economic metrics, but others are simply boondoggles promoted by China or local leaders for political, personal, or strategic gain. Study group members noted that in many cases China is not necessarily the first choice for financing for these countries as they seek access to development funding. But Beijing offers an alternative for projects that fail to draw the support of Japan (a major source of official development assistance to the region) or multilateral institutions such as the World Bank and the IMF (the largest sources of lending to the SSA countries). These traditional lenders are seen as placing tighter controls on funding, requiring more rigorous project standards, and moving more slowly with disbursements than Chinese lenders.⁹¹

Vying for Influence

China's military and strategic relations with the SSA countries are varied, from Bangladesh, which has been a long-standing customer for Chinese arms sales, to Bhutan, with which China has no formal diplomatic relations.⁹² The increase in Chinese political, diplomatic, and security influence in the region alongside its growing economic investments has raised concerns among some Indian and American policymakers over the risk of Chinese strategic encirclement. They worry that Beijing's expanding presence poses a challenge to India's traditional position as the regional hegemon in South Asia. For China, these smaller states offer additional opportunities, beyond its established relationship with Pakistan, to cultivate partnerships by which to challenge Indian influence in South Asia, as well as potential outlets for investment capital and trade opportunities. China also has specific security concerns regarding the status of Tibet, an issue of top concern in its relations with adjoining Nepal and Bhutan, and the stability of Xinjiang, where it has taken steps to harden the short border with Afghanistan.⁹³

»» China has been a cautious player in the Afghan peace process, offering limited support and facilitation to some American diplomatic initiatives to open talks with the Taliban over the past five years.

China offers SSA countries a partner that can help counterbalance relations with their larger neighbor, India, which has traditionally dominated the region. None of these countries have tied themselves as closely to Beijing as leaders in Pakistan have done. Most SSA countries are still seeking to diversify their sources of assistance and continue to maintain ties with India, the United States, and other external donors. However, demand for additional resources is high among all the SSA states, giving China a ready entrée to the region.

Among the SSA states, Nepal has seen the greatest recent shift in its bilateral relations with China when it took steps to expand ties in the wake of a 2015–2016 border closure by India that had a severe impact on the Nepalese economy and underscored the risks of Nepali dependence on New Delhi. In October 2019, Xi Jinping visited Kathmandu to inaugurate new road and rail connection projects. The year prior, the two countries established a fiber-optic link that ended an Indian monopoly on Nepal’s connection to the internet.⁹⁴ As of mid-2020, Nepal’s relations with India have further deteriorated over an unresolved border dispute, which some Indian officials have accused China of instigating—a position that has further inflamed Nepalese public opinion against India.⁹⁵ Chinese diplomats have reportedly taken an increasingly active role in Nepal’s domestic politics, supplanting India’s traditional role as a power broker.⁹⁶

Bhutan was involved in the 2017 Doklam border standoff between India and China, which also highlighted the potential risks for the smaller border state of being caught between the two larger powers. China made further new claims on its unresolved border with Bhutan in the summer of 2020.⁹⁷ China has also taken steps toward diplomatic and political outreach in Thimphu, including invitations to Bhutan to participate in the BRI.⁹⁸ These, however, have so far been declined and Indian influence still dominates in the kingdom.

Chinese investment has been greatest among the littoral and island states of South Asia—Bangladesh, Maldives, and Sri Lanka—where Beijing has focused particularly on the development of sea- and airport facilities. These projects, in conjunction with similar ones in Myanmar and Pakistan, have been interpreted as potential nodes in a Chinese strategy to gain military and commercial access points throughout the Indian Ocean region, although Chinese officials insist that their ambitions are primarily commercial.

In some cases, Chinese development projects have brought direct benefits to national leaders such as the Rajapaksa family in Sri Lanka or the administration of former Maldivian President Abdulla Yameen, both in additional development for their political constituencies and in reported benefits to the leaders themselves from Chinese kickbacks.⁹⁹ In the case of the Maldives, however, China lost influence after Yameen was ousted in the September 2018 elections and replaced by rivals who publicly documented Chinese payments to him and associated officials.¹⁰⁰

Because of the nearly two-decade US and NATO war in Afghanistan, that country's context differs markedly from the rest of the region. China has been a cautious player in the Afghan peace process, offering limited support and facilitation to some American diplomatic initiatives to open talks with the Taliban over the past five years. China was one of four participants alongside the United States, Afghanistan, and Pakistan in the Quadrilateral Coordination Group process in 2016 and has more recently participated in multilateral talks in support of efforts by US Special Representative Zalmay Khalilzad to open negotiations with the Taliban.¹⁰¹ This diplomatic engagement, driven by Chinese concerns over Afghanistan's stability and the war's impact on the region, has occasionally offered a narrow window for cooperation between the United States and China even as bilateral relations have come under strain in other areas.¹⁰²

Despite efforts by US and Afghan policymakers to encourage greater direct Chinese intervention, Beijing's diplomatic engagement waned after the breakdown of the Quadrilateral Coordination Group process, and China has not taken as proactive a role in recent years. Although supportive of efforts to reach a settlement to the current conflict, China has largely hedged and deferred to multilateral forums and its partner Pakistan's handling of the conflict rather than seeking to intervene substantially on its own.¹⁰³ The Afghan government has made periodic outreach to China part of its efforts to jump-start Afghanistan's foreign trade and infrastructure links and boost investment with the added hope of inducing China to impose restraints on Pakistan's support for the Taliban insurgency. Beijing has signaled interest in making such investments in the future and by some reports has sought to leverage the promise of such commitments to push the Afghan conflict parties toward a settlement.¹⁰⁴ But current Chinese investments have been limited and are likely to remain so as long as the war continues at current levels. Although its investment capabilities do not match the potential scale of China's, India is still seen as the current Kabul government's preferred partner thanks to a shared rivalry with Pakistan and a willingness to provide limited military hardware and other assistance.

Conclusion

China's expanding role in a tumultuous South Asia is having a significant impact on the region's politics, economics, and security. These trends are already shaping the South Asian and Indo-Pacific realities with which policymakers in the next US administration will need to grapple. Responding to a changing region will require action in several areas. One will be watching events closely and working to better understand both the local context and history as well as China's designs and the tools Beijing uses there. Another will be establishing clear priorities for US policy and ensuring budgetary and bureaucratic resources correspond to important areas of concern. Washington will also need to craft an effective regional strategy to engage local partners and extra-regional allies with interests in South Asia to develop a common agenda and—even more difficult—sustain progress on the hard work of carrying it out. The United States will, of necessity, work with China where possible to advance development, stability, and security in South Asia, but should temper expectations about how much common ground Washington and Beijing might be able to find. Because linkages between South Asia and the rest of the Indo-Pacific are growing, the region is likely to become a more contested area for international affairs in the coming decades. Grasping how China's involvement will shape the region will be essential to constructing a successful policy—and advancing US interests and values. Beijing is already stepping up its influence in South Asia. This presents both risks and opportunities for the United States if Washington wants to continue to shape events in the region.

Notes

1. The United Nations geographic categorization of South Asia also includes Iran, but for this study and more broadly in the field, Iran fits better in West Asia (the Middle East). United Nations Statistics Division, "Methodology: Standard country or area codes for statistical use (M49)," <https://unstats.un.org/unsd/methodology/m49>.
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4. See, for example, Alice Wells, "A Conversation with Ambassador Alice Wells on the China-Pakistan Economic Corridor," interview by the Wilson Center, transcript and recording, US Department of State, www.state.gov/a-conversation-with-ambassador-alice-wells-on-the-china-pakistan-economic-corridor.
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