

NIDS CHINA SECURITY REPORT

NIDS China Security Report 2019

China's Strategy for Reshaping the Asian Order and Its Ramifications



National Institute for Defense Studies, Japan

NIDS China Security Report 2019

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Preface

The *NIDS China Security Report* is published by the National Institute for Defense Studies (NIDS) to provide analysis conducted by its researchers on China's military affairs and security from a mid- to long-term perspective. The report is widely disseminated both in Japan and overseas. Since March 2011 it has been published annually in Japanese, Chinese, and English editions. The *NIDS China Security Report* has attracted significant interest from research institutions and the media in Japan and abroad, and the analysis offered in these reports has allowed NIDS to promote exchange and dialogue with research institutions and interested parties in a number of countries, including China.

The *China Security Report 2019*, the ninth in this series and subtitled "China's Strategy for Reshaping the Asian Order and Its Ramifications," analyzes the content and outlook of China's strategy for the international order. This report further analyzes the country's strategy for a new international order in Southeast Asia, South Asia, and the Pacific island countries, detailing the sort of influence that it exerts on each of those areas.

In writing this report, the authors have endeavored to present an objective analysis while taking note of suggestions gained by exchanging opinions with researchers and stakeholders in Japan and abroad. The primary and secondary sources of information referred to for this report are listed in the endnotes.

The *China Security Report 2019* has been written solely from the viewpoints of the individual researchers and does not represent an official view of the Japanese Government, the Ministry of Defense, or NIDS. The authors of this report are Masafumi Iida (the lead author and author of Chapter 1), Tomotaka Shoji (Chapters 2 and 4), and Masahiro Kurita (Chapter 3 and Column). The editorial team was led by Tetsuo Murooka, editor-in-chief, and included Koichi Arie, Hiroshi Iwamoto, Hiroaki Enta, Kazunao Ooi, Keiko Kono, Fumi-yuki Kobashi, Hiroto Sawada, Ichiro Takahashi, Yu Harada, Nobutaka Mikasa, Hiroshi Minami, and Takayasu Yamashita.

The authors of the *China Security Report 2019* hope that it will promote policy discussions concerning China in Japan and other countries, and at the same time they hope that the report will contribute to a deepening of dialogue and exchange as well as cooperation between Japan and China regarding security.

February 2019

Tetsuo Murooka

Director, Security Studies Department

The National Institute for Defense Studies

Summary

Chapter 1 China's Foreign Strategy Causes Friction with the Existing World Order

The Xi Jinping administration is simultaneously pursuing two foreign policy principles, the first being the “path of peaceful development,” stressing cooperation, as typified by the vision of the Belt and Road Initiative (BRI), and the second being the “protection of core interests,” in which it does not hesitate to engage in conflict, symbolized by its heavy-handed advance into surrounding maritime areas. China has also adopted the slogan of “major-country diplomacy with Chinese characteristics,” aspiring for the reorganization of the international order through the strengthening of the voice of developing countries, led by itself. China’s moves in that fashion have aroused alarm in the advanced countries, particularly the United States. There is also increasing suspicion among developing countries about the lack of economic rationality and transparency in the BRI. Moreover, China’s actions in pursuit of its “core interests” have caused increasing friction with the countries on its periphery. China’s strategy for the regional order in Asia is not necessarily proceeding smoothly.

Chapter 2 China's Formation of the Regional Order and ASEAN's Responses: From “Rise” to “Center”

The Association of Southeast Asian Nations (ASEAN) has responded to the rising China by a “two-track” strategy, trying to maintain balance between the various dualities of “engagement and constraint,” “economics and security,” and “China and the United States.” In response, by actively linking its economic influence with security, China has tried to make ASEAN bend to its will regarding territorial disputes in the South China Sea, among other issues. In its pursuit of connectivity, ASEAN has responded positively to China’s aid offensive based on the BRI. Through its great involvement in ASEAN’s development of infrastructure, China has expanded its political influence over ASEAN. In the sense that China is now moving beyond being a rising power to becoming the center of the regional order, the relationship between ASEAN and China has entered a new phase. However, with the emergence of issues such as the renegotiation of BRI-related projects by a new government in Malaysia, it has become clear in 2018 that the very essence of ASEAN’s external strategy is in balance.

Chapter 3 The Belt and Road Initiative and South Asia: Increasing Uncertainty in Sino-Indian Relations

China’s expanding economic engagement in South Asia through the BRI may potentially propel its position in the region to that of a great power eclipsing the traditional regional

hegemon, India. For that reason, India has developed a sense of caution regarding the BRI, viewing it as not merely an economic project but also one that is suffused with political and strategic intentions. Consequently, India has developed countermeasures, having reinforced its engagement with smaller regional neighbors and promoted alternative multinational connectivity schemes, while also increasing cooperation with extraregional powers. Confronted with such repercussions from India, China has shown signs of making concessions to that country, with the intention of getting it to cooperate in the implementation of the BRI in South Asia, and out of the need to deal with the “debt trap” allegations to the initiative caused by the effective confiscation of Hambantota Port in Sri Lanka. India has also responded in kind, which in turn has led to the latest rapprochement between the two countries since the Modi-Xi summit held in April 2018. Nevertheless, the competition between China and India over their engagement with South Asian countries will probably continue into the future. In the long term, there is a strong likelihood that such competition will erode the traditional nature of the overall Sino-Indian relationship as a “managed dispute.”

Chapter 4 The Pacific Island Countries:

The Southern Extremity of the Belt and Road Initiative

Having set the southern extremity of the 21st Century Maritime Silk Road in its BRI at the island countries of the South Pacific, China has significantly boosted its assistance—economic and otherwise—to those countries in recent years as part of that vision. Generally, the Pacific island countries have greatly welcomed Chinese support, which has targeted economic development, and are eager participants in the BRI. Currently, Chinese engagement with those countries on the security front has mainly been promoted on a bilateral level. While one cannot deny the possibility that China will begin to advance in the area strategically over the medium and long term, it seems to be devoting more energy into securing its economic interests in the region and using its economic power to boost its political influence there. Other relevant nations, however, are becoming increasingly wary of China’s inroads into the Pacific island countries. The leading countries of Oceania—particularly Australia and New Zealand—are worried about the relative decline of their own influence, and France, with its sovereign territories in the area, is also enhancing its sense of vigilance.

Acronyms and Abbreviations

A2/AD	Anti-Access/Area-Denial
AAGC	Asia Africa Growth Corridor
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
BBIN	Bangladesh-Bhutan-India-Nepal
BCIM-EC	Bangladesh-China-India-Myanmar Economic Corridor
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BRF	Belt and Road Forum for International Cooperation
BRI	Belt and Road Initiative
BRICS	Emerging five countries (Brazil, Russia, India, China and South Africa)
CEE	Central and Eastern Europe
CICA	Conference on Interaction and Confidence Building Measures in Asia
CNOOC	China National Offshore Oil Corporation limited
COC	Code of Conduct
CPC	Communist Party of China
CPEC	China Pakistan Economic Corridor
DOC	Declaration on the Conduct of Parties in the South China Sea
DSG	Defense Strategic Guidance
EDCA	Enhanced Defense Cooperation Agreement
EEZ	Exclusive Economic Zone
EU	European Union
FAC	Fast Attack Craft
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IAK	India-Administered Kashmir
IMF	International Monetary Fund
INSTC	International North-South Transport Corridor
KKH	Karakoram Highway

Acronyms and Abbreviations

LCS	Littoral Combat Ship
MDA	Maritime Domain Awareness
MPAC	Master Plan on ASEAN Connectivity
NSS	National Security Strategy
OPV	Offshore Patrol Vessel
PAK	Pakistan-Administered Kashmir
PIF	Pacific Islands Forum
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PN	Pakistan Navy
PNG	Papua New Guinea
RCEP	Regional Comprehensive Economic Partnership
SCO	Shanghai Cooperation Organization
SEZs	Special Economic Zones
SLOC	Sea Lines of Communication
SOM	Senior Officials' Meeting
TAC	Treaty of Amity and Cooperation in Southeast Asia
TPP	Trans-Pacific Partnership
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
US	United States
USINDOPACOM	US Indo-Pacific Command

NIDS China Security Report 2019

China's Strategy for Reshaping the Asian Order and Its Ramifications

Introduction

(Masafumi Iida)



Introduction

As the world's second-largest economic power, China has been rapidly boosting its military strength, increasingly developing the self-image of a "great power" in the international community. As such, it is increasingly putting forth its own arguments about how the ideal international order should be. China condemns the existing economic order as being too advantageous to advanced countries and lacking in balance, so it is arguing for a "restructuring of global economic governance," aiming at a stronger voice for developing countries, including itself. The country criticizes the existing security order as well, considering it too strongly influenced by the Cold War mentality and zero-sum thinking of certain military powers, and instead calls for a "new security outlook" that does not depend so much on alliance-based relationships. Based on that type of thought, the Xi Jinping administration has come up with such slogans as the construction of a "new type of international relations" and the "community of a shared future for mankind," stressing its position of actively promoting reforms in the system of global governance.

Not only is China arguing for the reorganization of the international order, but is also steadily taking more forceful steps toward its actual realization. The paramount example of that is its promotion of the Belt and Road Initiative (BRI). To help strengthen infrastructure of the land and sea routes linking East Asia with Europe, China has presented two concepts—the Silk Road Economic Belt and the 21st Century Maritime Silk Road—which have been combined in the vision of the BRI. Backed by its economic power, China is promoting that grand initiative through such actions as the establishment of the Asia Infrastructure Investment Bank (AIIB), in which it is the biggest investor. China looks upon the BRI as the manifestation of its vision of the "community of a shared future for mankind," aiming at the reorganization of the world's economic order by leveraging its increased economic influence over developing countries. While initially focusing on China's adjacent regions of Central Asia, Southeast Asia, South Asia, and so forth, the BRI vision has now become gradually broadened into a global concept aimed at the restructuring of the entire international order, having come to include such other areas as Africa and Latin America.

At the same time, China has come to emphasize its policy of emphatically protecting what it describes as its "core interests," namely, those of territorial sovereignty along with its maritime rights and interests. China is embroiled in confrontation with some of its neighbors, chiefly over its maritime core interests, with the Xi Jinping administration bolstering actions to change the status quo by coercion in a way advantageous to itself, intimidating its opponents through the exercise of military power and its maritime law-enforcement capacity. China has created artificial islands in the South China Sea and constructed military bases

there, steadily building up its maritime military presence. In doing so, it has restrained the actions of the US military, which has heretofore served as the linchpin of the region's security order, and is overtly acting in a way aimed at weakening the US military presence.

Relying thus on its enormous economic and military power, China's actions to reshape the existing order—both internationally and regionally—are having a big impact on the international community. For example, some of the developing countries that have accepted projects to construct infrastructure in the BRI led by China are not only facing an increased economic dependence on that country but also heightened political influence from China. China's attempts to change the status quo by coercion are also having a negative influence on regional security. China's intensified criticism of the existing international order has set off warning bells in those nations that support that order, which is based on such universal values as freedom, democracy, and the rule of law.

The first aim of this report is to understand China's current strategy for the international order. Phrased differently, the goal is to clarify China's future targets in the regional and international orders, and the means by which it hopes to meet those targets. The second aim of the report, then, is to clarify how China's policy is being perceived in those regions that are at the receiving end of its strategy for the new order, and what they are doing in response. A better comprehension of China's strategy for the international order will likely make it also possible to evaluate its future potential influence on the security environment, both regionally and internationally.

Based on the above awareness of the issues involved, Chapter One will analyze the content and outlook of the Xi Jinping administration's strategy for the international order, which aims at the restructuring of not just China's peripheral regions but the entire international order as well. Chapter Two, then, will study the issues caused by China's strategy for the regional order in Southeast Asia, where its economic influence is rapidly expanding, together with how those countries are dealing with those issues. Chapter Three will examine how China's expanded influence has affected South Asia, a region in which it has made remarkable inroads both on land and at sea, and what kind of impact that has had on Indo-Pakistani relations, among other things. Chapter Four, finally, will take a close look at China's approach as it affects the island countries of the South Pacific, which represent the southern extremity of the 21st Century Maritime Silk Road.

(Author: Masafumi Iida)

Preface

Summary

Introduction

Chapter 1

Chapter 2

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Conclusions

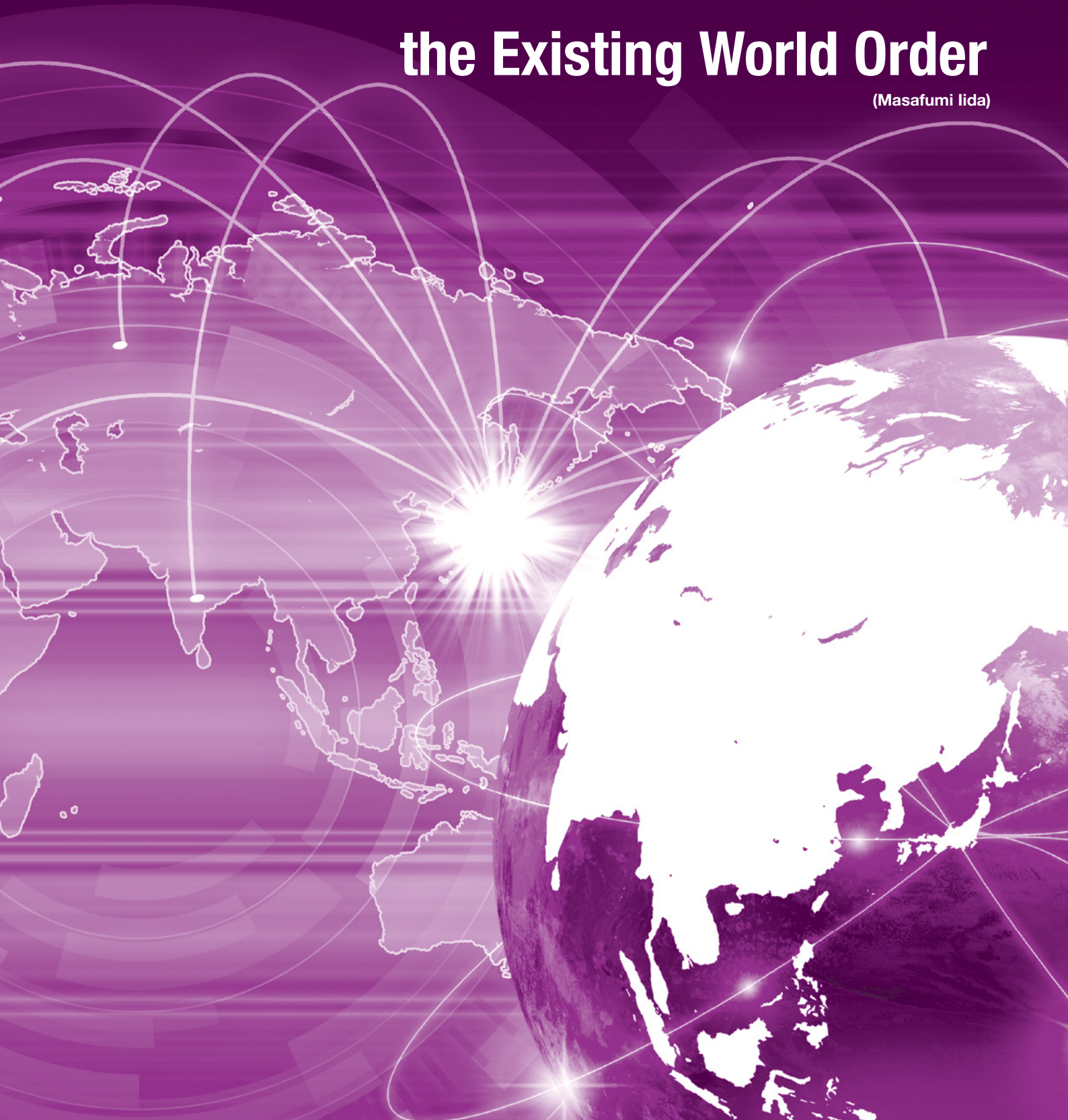
Chapter 1

China's Foreign Strategy

Causes Friction with

the Existing World Order

(Masafumi Iida)



1. Xi Jinping's Foreign Posture: Both Cooperative and Hardline

At the 18th National Congress of the Communist Party of China (CPC), held on the November 2012, Xi Jinping was selected as the general secretary and thus China's new leader. There, he declared to both domestic and international audiences that China's target for the future was the realization of the "Chinese dream," namely, the "great rejuvenation of the Chinese nation."¹ Shortly after that, Xi Jinping announced two major principles in foreign policy to realize that dream: (1) creating an international environment favorable to China's development through the promotion of cooperative relations with other countries, and (2) protecting China's "core interests," even if it meant worsened relations with other countries. Thereafter, Chinese foreign policy has developed along the lines of those two principles, and no major changes are expected in that situation as long as Xi Jinping leads the country.

On January 28, 2013, only two months after Xi Jinping became general secretary, the Politburo of the CPC held a group study session on foreign policy in which he emphasized China's policy of continuing along a "path of peaceful development," referring to the basic foreign policy principle established during the years of his predecessor, former General Secretary Hu Jintao. The main thrust of that was that "China will pursue its development by seeking a peaceful international environment while safeguarding and promoting world peace," deepening its mutually dependent relations with the international community amidst the multipolarization of international politics and the globalization of the world's economy.² Xi Jinping, pointing out the need for a peaceful international environment to realize the "Chinese dream" as part of the "great rejuvenation of the Chinese nation," stated that China had to further go along the path of peaceful development. In addition, he declared that "we need to further consolidate our efforts to more positively engage in international approaches, to deal with global issues, and to contribute to global development, through integrating domestic development and opening-up to outside, linking China's development with that of the world, integrating the interests of the Chinese people with those of people from around the world, and continuously expanding mutually beneficial cooperation with all countries." Furthermore, he emphasized that China, following the "path of peaceful development," was "a practitioner of peaceful development, a promoter of joint development, a protector of the multinational trade system, and a participant in global economic governance."³ That is to say, Xi Jinping clearly outlined a stance in which China would promote its development and the creation of a stable international environment through the expansion of mutually cooperative economic relations with foreign countries, while at the same time would actively become more involved in resolving global economic issues and the creation of global rules.

Meanwhile, during the aforementioned group study sessions, General Secretary Xi

Jinping also emphasized that China would adamantly protect its “core interests,” as follows: (1) state sovereignty, (2) national security, (3) territorial integrity, (4) national reunification, (5) the general stability of China’s political system established by the constitution, and overall social stability, and (6) the basic safeguards for ensuring sustainable economic and social development.⁴ Based on that explanation, China’s core interests are also believed to comprise such problems as its relations with Taiwan, with which it aims to reunite, plus its problems in the Xinjiang Uighur Autonomous Region and Tibet Autonomous Region—the minorities of which both harbor smoldering feelings of dissatisfaction against the Chinese government—along with various territorial and sovereignty-related disputes, such as the land border dispute with India and issues in the East China Sea and South China Sea, as well as any domestic or international criticism of or resistance to the one-party rule of the CPC. While Xi Jinping said, “we will stick to the path of peaceful development,” he has also stated that “we will never sacrifice our core national interests,” adding that “we will never give up our legitimate interests.” He has stressed that “no country should presume that we will engage in trade involving our core interests, or that we will swallow the ‘bitter fruit’ of harming our sovereignty, security or development interests.” Additionally, Xi Jinping asserted, “China is following the path of peaceful development, and other countries should do the same.” That is to say, he made it clear that the principle of the path of peaceful development, based on cooperation, would not be applicable to any countries that were violating China’s “core interests,” and that he would not hesitate to engage in a hardline response toward them.

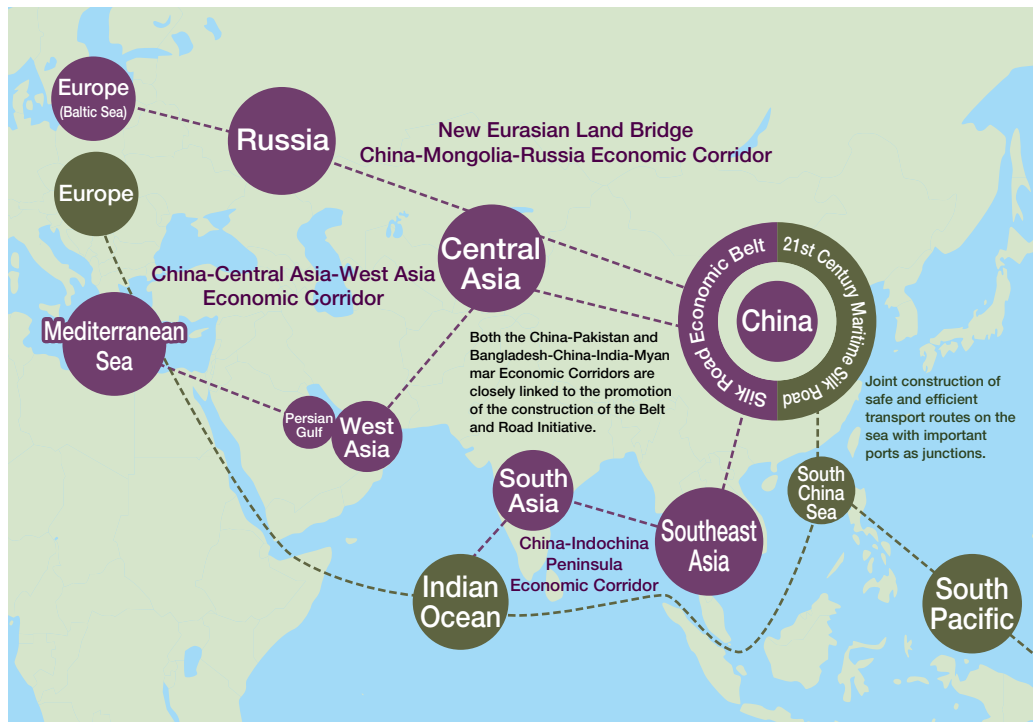
Thereafter, it has been in its relations with its neighbors that the Xi Jinping administration has actively implemented the dual principles of its foreign policy—the promotion of the “path of peaceful development” and the protection of its “core interests.” A typical measure of the first principle has been its proposal of the Belt and Road Initiative (BRI), a vision comprising the Silk Road Economic Belt and the 21st Century Maritime Silk Road. In September 2013, during a visit to Kazakhstan in Central Asia, President Xi Jinping delivered an address at Nazarbayev University, in which he declared that China was on the “path of peaceful development,” and stressed that it would never seek a dominant role in regional affairs nor would it try to nurture a sphere of interest. That being said, though, he pointed out that the firm mutual support of the important issues of its core interests—sovereignty, territorial integrity, security, and stability—were substantial and important elements of the strategic partnership between China and the countries of Central Asia. He then went on to propose the construction of the Silk Road Economic Belt as a new cooperative framework furthering the economic coordination and the development of Eurasia, including China and Central Asia. Specifically, Xi Jinping proposed the setup of a “network of transportation that connects Eastern, Western, and Southern Asia” by improving transport-related infrastructure, along with promoting regional economic development through trade liberalization and the

facilitation of investment, as well as enhancing their immunity to financial crises by promoting the settlement of trade accounts in local currencies.⁵

Furthermore, during his visit to Indonesia the following month, President Xi Jinping delivered an address to that country’s lawmakers in which he stressed the policy of reinforcing cooperative relations with the members of the Association of Southeast Asian Nations (ASEAN). Politically, pointing out the need to strengthen mutual trust between ASEAN and China, he expressed his hope that the Treaty for Good Neighborliness, Friendship and Cooperation would be signed with ASEAN. Economically, he spoke out on the policy of extending the benefits to ASEAN countries of Chinese development by expanding mutual trade through elevating the level of free-trade agreement. In addition, Xi Jinping proposed the establishment of the Asian Infrastructure Investment Bank (AIIB), expressing his desire to cooperate in boosting the infrastructure connectivity between ASEAN countries as well as with other developing countries in the region. He also proposed the joint construction of a 21st Century Maritime Silk Road and the establishment of a maritime cooperative partnership with the ASEAN countries, and also expressed his hope to construct the “China-ASEAN community of shared destiny” with Indonesia.⁶

Most likely, the aim of the proposal by the Xi Jinping administration of the BRI—in particular, its emphasis on building cooperative relations with countries on its periphery—was

Figure 1-1: Conceptual Overview of the BRI (as of March 2015)



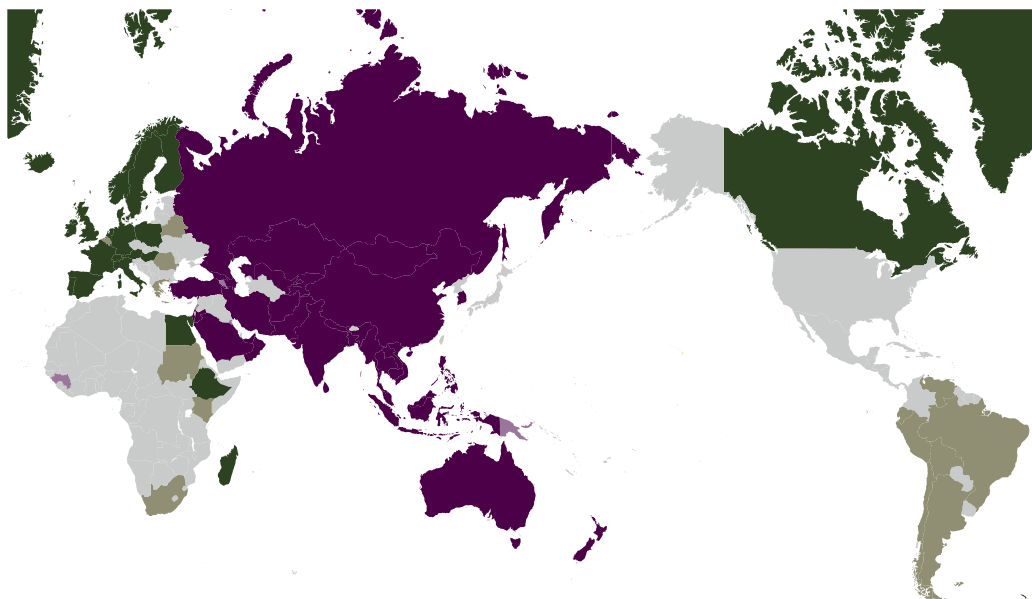
Source: *Xinhua Net*, March 29, 2015.

to parlay its own burgeoning economic power into the establishment of better relations with its neighbors by providing economic benefits to them, thereby both stabilizing its periphery and boosting China's economic, political, and security-related influence with its neighbors. At the Periphery Diplomacy Work Conference held in October 2013, General Secretary Xi Jinping delineated the "strategic goal" of its diplomacy with neighboring countries, explaining that "it must consolidate its relations with neighboring nations," to be accomplished by "protecting sovereignty, security, and development interests, further consolidating friendly relations with neighbor countries, making them economically more closely tied, and deepening security cooperation." Furthermore, he asserted that in the development of good-neighbor relations with neighboring countries, "we must strive to make peripheral countries kinder and more intimate to China and meanwhile recognize and support China more, thereby increasing China's affinity and influence." The conference confirmed China's policy of becoming more actively involved in regional economic cooperation through the promotion of the BRI in its neighboring countries, along with the establishment of the AIIB and expansion of free-trade zones. In addition, on the security front, China aimed at advancing security cooperation with its neighboring countries by taking a leading role in that involvement, based on a "new outlook on security, featuring mutual trust, reciprocity, equality, and coordination." Furthermore, it set the target of ensuring that a "community of shared destiny" would take root among China's neighbors by widely proclaiming the new policy abroad.⁷

From that point on, China actively pursued various policies toward the realization of the targets first demonstrated at the Periphery Diplomacy Work Conference in Beijing. Prominently emerging on the economic front was China's initiative in organizing a financing framework to be utilized when advancing its BRI. At the Asia-Pacific Economic Cooperation (APEC) summit held in Beijing in November 2014, President Xi Jinping announced the establishment of the Silk Road Fund, with a capitalization of US\$40 billion dollars, to promote the BRI. The projects to receive funding from that fund—established with China as the sole investor—would be determined by the Chinese government. Meanwhile, China continued negotiations with relevant countries toward the establishment of the AIIB, having signed a consensus document in Beijing for the bank's establishment along with 21 other countries. Later, such countries as the United Kingdom, France, and South Korea also signed up, expanding the list of founding members to 57 when the agreement for AIIB's establishment was finally inked in Beijing in June 2015. AIIB represents the first international financial institution in which China exerts powerful ascendancy, having proposed the bank's establishment, serving as the bank's top investor nation, and placing the bank's headquarters in Beijing, among other things. AIIB's establishment can fairly be described as a landmark event demonstrating the rise of China's economic influence in Asia.

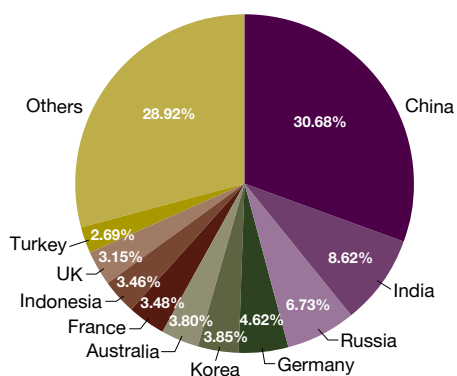
On the security front, meanwhile, notable actions taken by China have been its

Figure 1-2: AIIB Member Countries and Shareholding Ratios (as of Sept. 2018)
Overview of Shareholding Structure



Members Regional			Prospective Regional	Members Non-regional		Prospective Non-regional
Afghanistan	Israel	Qatar	Armenia	Austria	Netherlands	Argentina
Australia	Jordan	Russia	Cook Islands	Canada	Norway	Belarus
Azerbaijan	Kazakhstan	Samoa	Kuwait	Denmark	Poland	Belgium
Bahrain	Korea	Saudi Arabia	Lebanon	Egypt	Portugal	Bolivia
Bangladesh	Kyrgyz Republic	Singapore	Papua New Guinea	Ethiopia	Spain	Brazil
Brunei Darussalam	Lao PDR	Sri Lanka	Guinea	Finland	Sweden	Chile
Cambodia	Malaysia	Tajikistan	Tonga	France	Switzerland	Ecuador
China	Maldives	Thailand		Germany	United Kingdom	Greece
Cyprus	Mongolia	Timor-Leste		Hungary		Kenya
Fiji	Myanmar	Turkey		Iceland		Peru
Georgia	Nepal	UAE		Ireland		Romania
Hong Kong, China	New Zealand	Uzbekistan		Italy		South Africa
India	Oman	Vanuatu		Luxembourg		Sudan
Indonesia	Pakistan	Vietnam		Madagascar		Venezuela
Iran	Philippines			Malta		

Shareholding ratios of top ten contributors



Source: AIIB presentation, September 2018

development of a distinctive notion of Asian security and its clear statement of its intention to build a multinational security cooperation framework centered on Asian countries. In a speech delivered at the fourth Conference on Interaction and Confidence Building Measures in Asia (CICA) summit, held in Shanghai in May 2014, President Xi Jinping declared that Asian security was still stuck in the old era of “Cold War mentality” and zero-sum thinking, which needed to be replaced by a “new vision of common, comprehensive, cooperative, and sustainable security” for Asia. He also stated that “to beef up and entrench a military alliance targeted at a third party is not conducive to maintaining common security,” criticizing the network of alliances maintained by the United States in Asia. He went on to say, “in the final analysis, it is for the people of Asia to uphold the security of Asia,” arguing for the necessity of the creation of a new framework for security cooperation focusing on Asian countries. Specifically, he proposed that CICA be expanded and strengthened, and that “an examination ought to be made of building a new framework for regional security cooperation resting upon that foundation.”⁸ In his address, Xi Jinping criticized Asia’s existing security order, supported by the powerful presence of the US military and the network of alliances centered on that country, and declared his intention to shepherd the creation of a new multinational security framework built on a security philosophy that he himself was espousing.

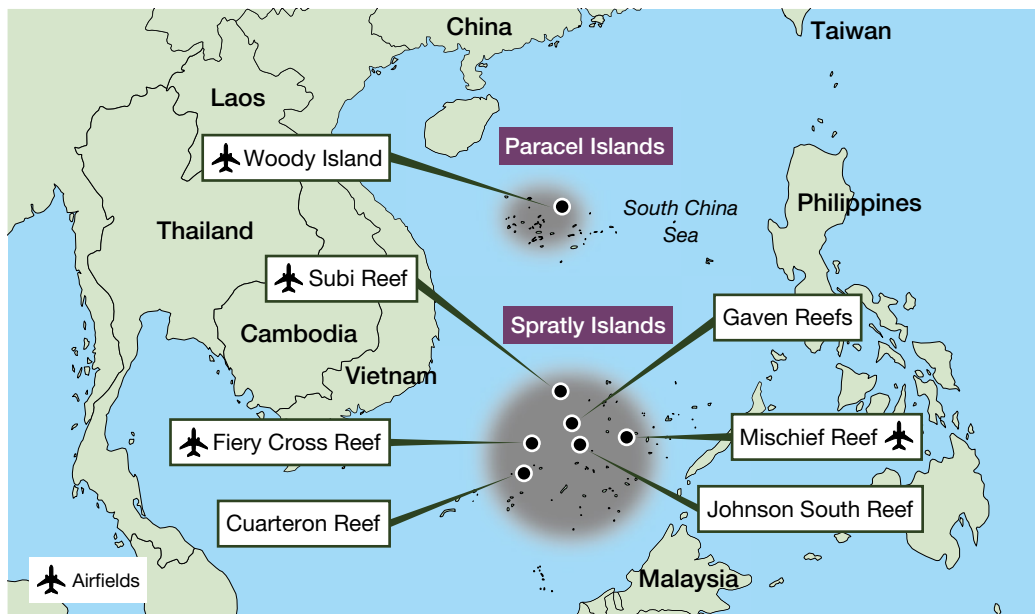
At the same time, the Xi Jinping administration also implemented hardline policies along its periphery to defend what it sees as its “core interests.” He has put particular emphasis on securing and expanding “maritime rights and interests” such as territorial sovereignty and economic interests, reinforcing the presence of the People’s Liberation Army (PLA) and maritime law enforcement agencies in the seas surrounding China, and increasingly taking coercive actions there. At the Politburo group study session on maritime policy held in July 2013, he pointed out, “in order to protect our national maritime rights and interests, we must make overall plans and take all factors into consideration. While we love peace and will firmly adhere to the path of peaceful development, we can never abandon our legitimate rights, and even more importantly, we will never give up our core national interests.” In addition, he declared, “we must firmly prepare to cope with complexities, enhance our capacity in safeguarding our maritime rights and interests, and resolutely safeguard our country’s maritime rights and interests.”⁹ In other words, having positioned “maritime rights and interests” as an element of China’s core interests, he has ordered that they be resolutely safeguarded, to which end its necessary capacities need to be enhanced.

Indeed, China has ramped up the activities of the PLA Navy and maritime law enforcement agencies in its surrounding seas—namely, the South China Sea and the East China Sea—and has applied pressure on countries on its periphery with which it has disputes regarding territorial sovereignty, maritime resources, and the like, promoting the securement and expansion of its maritime rights and interests through a reliance on force. In the South

China Sea, China has disputes with Vietnam, the Philippines, Malaysia, and others over island claims and exclusive economic zones (EEZs), among other things. In May 2014, China's state-owned China National Offshore Oil Corporation Limited (CNOOC) started exploratory drilling in the sea area south of the Paracel Islands, using the semi-submersible oil drilling platform called the Hai Yang Shi You 981 rig. Vietnam, which claims the same area as its own EEZ, reacted against China's unilateral exploratory drilling, sending in maritime police patrol ships and fishing boats to the sea area in protest. In response, China fought back using a multitude of vessels, primarily government ships operated by the China Coast Guard. The Chinese patrol vessels repeatedly sprayed water cannons against the Vietnamese patrol ships and fishing boats, also ramming them, causing some of them to capsize and several crew members to get injured.

China is also boosting its military presence in the South China Sea. From the end of 2013 it began large-scale reclamation on seven maritime features in the Spratly Islands, constructing artificial islands there. China has built large port facilities and runways on several of those islands, increasing the suspicion that it plans to use them militarily. Moreover, the PLA Navy has started to obstruct activities by US forces in the South China Sea. In December 2013, the USS *Cowpens*, a *Ticonderoga*-class guided missile cruiser, which was navigating the sea area to the south of Hainan Island, was approached by a tank landing ship belonging to the PLA Navy and had its path blocked, obstructing its safe navigation. In August 2014, a J-11 fighter jet belonging to the PLA flew dangerously close to a US Navy P-8 patrol aircraft on a mission over the South China Sea, approaching it in an unusual manner. Both of those incidents occurred outside of China's territorial waters and airspace, and both the *Cowpens* and the P-8 had been carrying out the freedom of navigation and the freedom of overflight, respectively, as recognized by international law. The obstructive actions by the PLA against the US forces in the South China Sea can only be described as challenges to the existing maritime order by coercion.

China has also promoted the expansion of its self-declared "maritime rights and interests" in the East China Sea by coercion. It has unilaterally declared a territorial claim on the Senkaku Islands, which are an integral territory of Japan. Ever since September 2012, vessels of China's maritime law enforcement agencies have almost permanently established a presence in the vicinity of the Senkaku Islands, repeatedly making incursions into Japanese territorial waters and threatening Japan's territorial sovereignty. The PLA has also

Figure 1-3: Chinese Military Bases in the South China Sea

Source: Compiled by the author from media reports.

stepped up its activities in the East China Sea, putting more pressure on Japan. In January 2013, a frigate of the PLA Navy locked a fire-control radar onto a Japan Maritime Self-Defense Force destroyer in a dangerous and provocative move. Furthermore, in November 2013, China unilaterally declared the establishment of the “East China Sea Air Defense Identification Zone (ADIZ),” including areas around the Senkaku Islands that are Japanese territorial airspace. It has made statements in violation of existing international law recognizing the freedom of overflight in skies above the high seas, such as ordering all aircraft flying in this ADIZ to submit their flight plans to the Chinese authorities, and declaring the possibility of taking “defensive emergency measures” using force against aircraft that refuse to follow its instructions. China thus can be said to be promoting changes to the existing order in the East China Sea as well, against the backdrop of its military power.

As seen above, the initial focus of the foreign policy of the Xi Jinping administration was on its neighboring regions. In November 2013, Chinese Minister of Foreign Affairs Wang Yi pointed out that “our periphery is where our country rests its body and soul, and is the foundation of our development and prosperity.”¹⁰ Through its proposal of the BRI in accordance with the “path of peaceful development,” China aims to deepen and stabilize its relations with the countries of Central Asia and Southeast Asia, promoting the construction of a new security framework for its peripheral regions by advocating an “Asian security concept.” At the same time, in line with its policy of emphasizing the protection of its “core interests,” China has accelerated its advance into surrounding sea areas capitalizing on its military power and its maritime law enforcement power, aiming to change the status quo by

coercion in disputes over territorial sovereignty issues and marine resources. During that period, China has increased its economic and military presence supported by its growing national power, boosting its influence on its surrounding regions, with the likely aim of creating a regional order advantageous to its own economic development and the protection of its security and “core interests.”

2. China’s Quest to Build a New International Order

China has gradually broadened the scope of its diplomacy—which had originally targeted the expansion of influence on its periphery and the revamping of its regional economic and security-related order—to include the whole world. By expanding its influence, not just on its periphery but also worldwide, the country aims to seize the initiative in reorganizing the existing international order.

In November 2014, the Central Conference on Work Related to Foreign Affairs was held within the CPC, at which General Secretary Xi Jinping declared that China needed to promote reforms in the international order, with the recognition that it was in the midst of a major transitional stage. He said that the twin trends of the multipolarization of the world and the globalization of the economy would continue into the future, and that “the international system and international order are going through deep adjustment,” leading to the “need to take a full view of the long-term nature of the conflict over the international order.” He also underlined the “importance of pursuing win-win cooperation and promoting a new type of international relations featuring win-win cooperation,” doing so by “promoting reforms in the international system and global governance, and increasing the representation and voice of our country and a broad swath of developing countries.” Simultaneously, Xi Jinping reasserted the position that while the “path of peaceful development” would be pursued unwaveringly, “we will never relinquish our legitimate rights and interests, or allow China’s core interests to be undermined,” also emphasizing that “territorial sovereignty and maritime rights and interests must be firmly upheld, as well as the integrity of the nation.” In addition, he said that it was “necessary for China to develop a distinctive diplomatic approach,” pointing out that “we should conduct diplomacy with saliently Chinese characteristics and a Chinese vision,” proposing the creation of a “major-country diplomacy with Chinese characteristics,” the pillars of which would be the construction of a “new type of international relations” and the protection of “core interests.”¹¹

Underlying the Xi Jinping administration’s reinforced moves to restructure the international order—advancing the creation of a “new type of international relations”—is the perception of an emerging international power balance increasingly favorable to China, with the decline in the relative national power of Western advanced countries along with the rapid rise

of the power of emerging markets and developing countries, including China. At the group study session on global governance by the Politburo of the CPC Central Committee held in October 2015, General Secretary Xi Jinping remarked, “the rise of emerging markets and developing countries has brought revolutionary changes to the world order, along with the uninterrupted strengthening of their international influence, causing a revolutionary shift in the international power balance that has existed in the modern era.” Also, he said that it has resulted in “a gradual shift from several centuries of struggles among the big powers for profits and hegemony—through the formula of wars, colonization, and the division into spheres of influence—toward a formula in which countries coordinate their relations and profits through rules and mechanisms.” He also asserted that “emerging markets and developing countries must strengthen their representation and voice” to “promote reform in their unjust and improper arrangements position in the global governance system” and “strive for a more balanced reflection of the majority’s hopes and profits in the global governance system.”¹²

In that manner, the “new type of international relations” desired by China involves a revision in the existing international order—which it sees as “unjust” and “improper,” and advantageous to developed countries—as well as an expansion in the influence of developing countries, starting with China, in the formation and management of the international order. Meanwhile, China has demonstrated an indifferent posture toward the universal values within the existing international order: namely, freedom, democracy, and human rights. In a speech delivered at the United Nations (UN) General Assembly upon the 70th anniversary of that institution, President Xi Jinping emphasized the importance of the principle of sovereign equality within the UN Charter, stating that it should not only be applied to respect for the integrity of sovereignty and territory and noninterference in internal affairs, but also to a country’s choice of the path it takes for its social systems and development, as well as respect for the way a country realizes the improvement of socio-economics and public welfare. He stressed, “we should inherit and advocate the purpose and principles of the UN Charter, establish a new type of international relations with win-win cooperation at its core, and forge a community of a shared future for mankind.”¹³ In other words, there would be a very strong emphasis on equality among countries and noninterference in internal affairs, both in the “new type of international relations” and the “community of a shared future for mankind” promoted by China. On the other hand, it gave short shrift to qualitative aspects in that governance, such as the promotion of free and democratic politics, and respect for human rights.

With the major goal of China’s diplomacy having expanded from the establishment of a desirable regional order in its neighborhood to a revamping of the global order, the BRI has also undergone major changes. The original focus of that initiative was the reinforcement of connectivity in Eurasia, linking East Asia to Europe. According to the first public document by the Chinese government regarding the BRI, released in March 2015, the Silk Road

Economic Belt put emphasis on three routes: one linking China to Europe through Central Asia and Russia, one linking China to the Persian Gulf through Central Asia and West Asia, and one extending from China to Southeast Asia, South Asia, and the Indian Ocean. Also, the 21st Century Maritime Silk Road focused on two routes: one linking China's coastal areas to Europe through the South China Sea and the Indian Ocean, and the other linking China's coastal areas to the South Pacific through the South China Sea.¹⁴ Later, China went on to expand the regions targeted by the BRI to also encompass Africa, Latin America, and more.

In May 2017, China sponsored the Belt and Road Forum for International Cooperation in Beijing, with twenty-nine national leaders attending, who came largely from Eurasia, but also included the leaders of Ethiopia and Kenya in Africa and Argentina and Chile in South America. In his keynote address to the forum, President Xi Jinping declared that “all nations must respect each other's different core interests and major concerns” in the creation of a new type of international relations featuring win-win cooperation to promote the BRI.¹⁵ Also, in an interview given after the forum drew to a close, Xi Jinping gave high marks to the meeting, saying, “the countries sent a positive signal that they would cooperate in promoting the BRI, joining their hands together in the creation of a community of a shared future for mankind.”¹⁶ In the Africa Policy Paper it released in December 2015 and its Policy Paper on Latin America and the Caribbean released in November 2016, China had already called for the creation of a “community of a shared future” in both regions, so its invitation to the forum of leaders from those regions was a manifestation of that objective. In Chinese diplomacy today, the BRI is positioned as an “important exercise in the construction of a ‘community of a shared future for mankind’.”¹⁷ It is absolutely necessary for China, which is aiming to restructure the international order, to get the cooperation of as many developing countries as possible. Most likely, it has enlarged the scope of its BRI to include Africa and Latin America because those continents both contain many developing countries, and that initiative has become, through the provision of economic opportunity, the means by which China can get support from such countries for the new international order that it advocates.

Meanwhile, China has stepped up the deployment of its military power overseas, especially advancing into maritime areas, in line with its espousal of “major-country diplomacy with Chinese characteristics” stressing the protection of its “core interests.” China has completed building artificial islands in the South China Sea through land reclamation, and has gone on to pursue their conversion into military bases. Specifically, it constructed 3,000-meter class runways on Fiery Cross Reef, Subi Reef, and Mischief Reef and has started flying military transport planes there. In addition, it has installed various types of equipment such as radars and anti-aircraft missiles on the reefs, as well as constructing a hospital and the like there, with the aim of reinforcing their functionality as military bases. China is steadily enhancing its military presence in the South China Sea, leveraging its existing bases

on the Spratly Islands. In addition, when the arbitral tribunal, adjudicating in a suit filed by the Philippines, made an arbitral award invalidating China's so-called "nine-dash line" (which delineates its claims in the South China Sea), not only did China ignore it as a "mere scrap of paper,"¹⁸ but also took such actions as sending in bombers to patrol the South China Sea and carrying out live-fire exercises by surface vessels, all in open defiance of international law by coercion.

China has additionally made further inroads into the East China Sea and the Western Pacific, both adjacent to Japan. In June 2016, a PLA Navy frigate entered the contiguous zone of the Senkaku Islands for the first time. Two months later, several hundred Chinese fishing boats swarmed into the waters around the same islands, along with a dozen or so government ships belonging to China, repeatedly intruding into the contiguous zone and Japanese territorial waters. China is also sending in more and more military planes to overfly the East China Sea, forcing the Japan Air Self-Defense Force to step up the frequency of its scrambling against the Chinese aircraft. Furthermore, the PLA has increasingly ventured into the Western Pacific via the East China Sea and South China Sea. In December 2016, a PLA Navy carrier fleet led by the aircraft carrier *Liaoning*, while on an exercise, made its way from the East China Sea through the Miyako Strait (between Miyako Island and Okinawa Island) into the Western Pacific, later passing through the Bashi Channel (between the Philippines and Taiwan) for the South China Sea. The PLA has also boosted the frequency of flights by its bombers and early warning aircraft above both of those waterways for the purpose of exercise for deployment in the Western Pacific. The PLA's increased activity in the Western Pacific is likely being carried out to enhance its A2/AD (Anti-Access/Area Denial) capabilities so as to constrain the activities of the US forces in that ocean area and airspace.

The PLA has also expanded its presence even further afield, having built its first-ever military base overseas in August 2017 in the African country of Djibouti. Although the PLA Navy had participated in an anti-piracy mission in the Gulf of Aden way back in December 2008, the establishment of the Djibouti

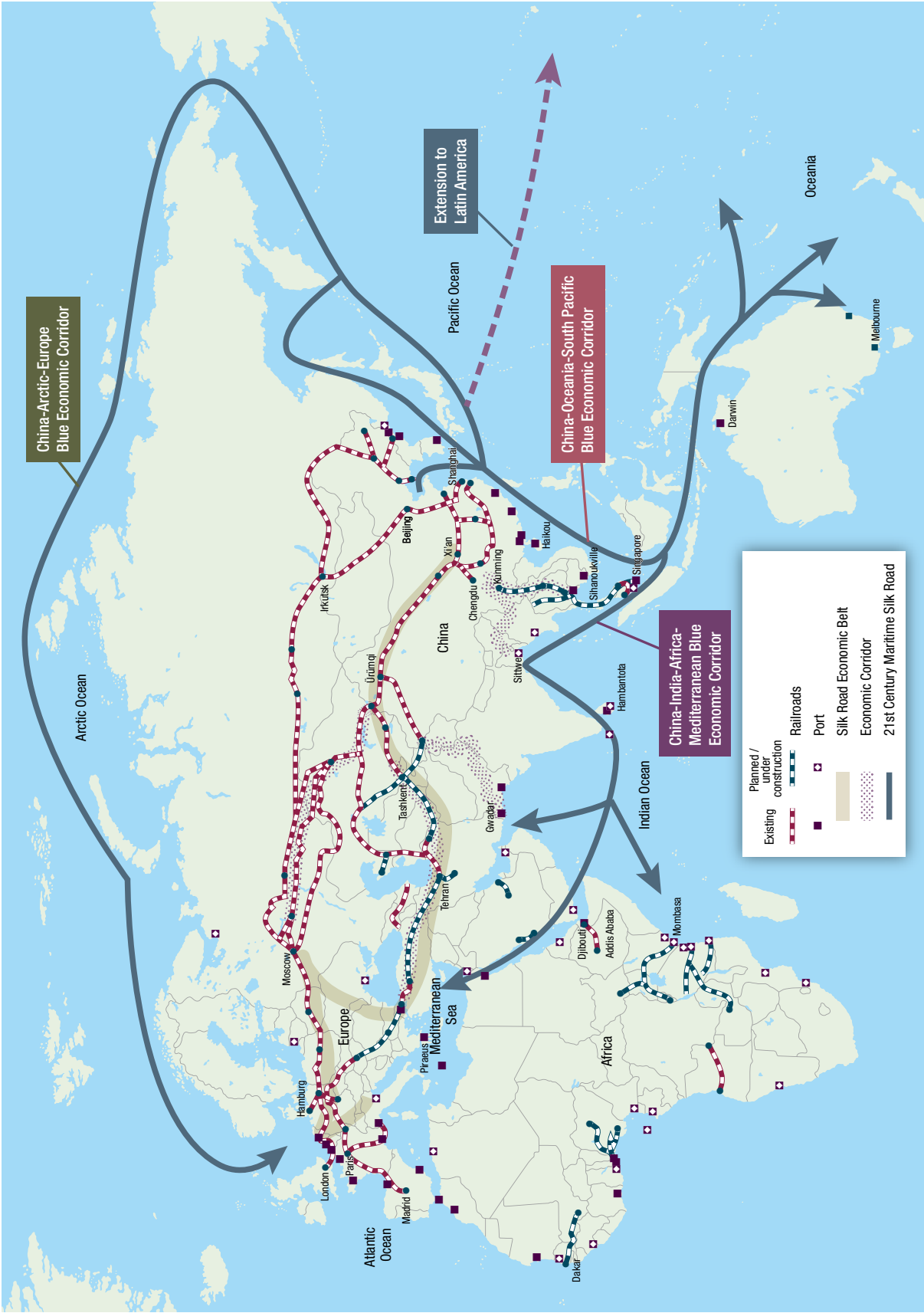


The *Liaoning* cruising in sea area south of Yonaguni Island in Japan (Joint Staff, Japan Ministry of Defense, "Movements by Chinese Naval Vessels," April 20, 2018)

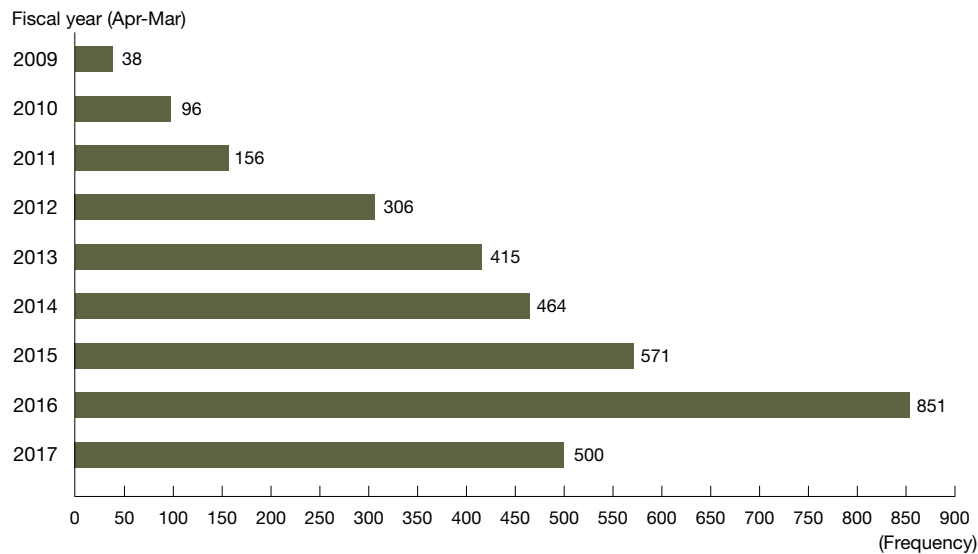


An H-6 bomber flying in the Western Pacific (Joint Staff, Japan Ministry of Defense, "Flights by Chinese Aircraft in the East China Sea and the Pacific," May 11, 2018)

Figure 1-4: Expanding BRI



Source: Compiled by the author from Mercator Institute for China Studies, "China Creates a Global Infrastructure Network," July 6, 2018; "一带一路海上合作设想：建设三条蓝色经济通道 [Vision for Maritime Cooperation under the Belt and Road Initiative: To Establish the Three Blue Economic Passages]," Sohu, June 21, 2017; and other sources.

Figure 1-5: Japan Self-Defense Forces Scrambles against Chinese Aircraft

Source: Compiled by the author from materials released by the Joint Staff, Japan Ministry of Defense.

Base has made it easier for the PLA to conduct such activities, as well as humanitarian assistance, more smoothly.¹⁹ Elsewhere, the PLA Navy and Russian Navy conducted combined exercises in the Baltic Sea in July 2017 with the three participating PLA Navy vessels having traveled from the Indian Ocean via the Atlantic Ocean to Kaliningrad, where they took part in such activities as air-defense exercises and search and rescue exercises jointly with Russian Navy vessels.²⁰ According to a Chinese national defense white paper, the “protection of the security of overseas interests” is now a strategic duty of the PLA.²¹ In line with the promotion of the BRI, there has been a surge in the number of Chinese corporations and workers active overseas, and China’s expansion of its military presence in the Indian Ocean as well as in the direction of Africa and Europe can also be viewed as aiming to ensure China’s burgeoning “overseas interests” in those regions.

3. Xi Jinping’s Plan to Restructure the International Order Faces a Tough Road

In October 2017, Xi Jinping was reelected general secretary at the 19th National Congress of the CPC. Having consolidated his political authority within the party, he declared the

policy of further promoting “major-country diplomacy with Chinese characteristics” with himself as the advocator. In a report to the party congress, Xi Jinping presented his assessment of the current world situation, saying that “changes in the global governance system and international order are speeding up,” stressing the need to promote the “creation of a new type of international relations characterized by mutual respect, fairness, justice, and win-win cooperation,” and calling for the creation of a “community of a shared future for mankind.” In addition, he declared that “the active encouragement of international cooperation in the BRI would enable China to fulfill its role as a responsible great power, taking an active part in reforming and creating the global governance system, and contributing its wisdom and strength.”²² As far as the BRI was concerned, moreover, the CPC Constitution, revised at the first meeting of the 19th National Congress of the CPC, also clearly stipulated the “pursuit of the BRI.”²³

Judging from those circumstances, an important element of Xi Jinping’s political authority has been “major-country diplomacy with Chinese characteristics,” which aims to restructure the international order, and the banner policy for Xi Jinping’s diplomacy has been the BRI, which represents the concrete means for its realization. At the first session of the 13th National People’s Congress that convened in March 2018, Foreign Minister Wang Yi, speaking at a press conference, described President Xi Jinping as the “chief architect of major-country diplomacy with Chinese characteristics.”²⁴ At a meeting of the Central Conference on Work Related to Foreign Affairs held in June of the same year, General Secretary Xi Jinping reconfirmed the importance of constructing and promoting the BRI, along with “reforming the global governance system,” building the “community of a shared future for mankind,” “protecting core interests,” and so forth. Yang Jiechi, director of the Office of the Foreign Affairs Commission of the CPC Central Committee, pointed out that “the most important outcome of this conference is that it established the guiding position of Xi Jinping thought on diplomacy.”²⁵

President Xi Jinping himself has actively been engaged in carrying out diplomacy in emerging-market countries and developing countries, eager to demonstrate positive results for his “major-country diplomacy with Chinese characteristics.” In June 2018, the 18th Meeting of the Council of Heads of Member States of the Shanghai Cooperation Organization (SCO) was held in Qingdao, China. At the summit—which was the first time for the leaders of India and Pakistan to participate since their countries officially joined the SCO, besides participating by Russia and the countries of Central Asia—an appeal was made for the necessity to “unflaggingly continue reforms in the global governance system,” with the assertion made that the SCO member countries should cooperate in promoting the creation of a “new type of international relations” to build an “SCO community of a shared future.”²⁶ In July 2018, the eighth ministerial meeting of the China-Arab States Cooperation Forum took

place in Beijing, in which Xi Jinping stressed that “Arab countries are natural partners of China in the joint construction of the BRI,” and expressed his idea of constructing a “China-Arab community of a shared future” leveraged by the BRI.²⁷ Xi Jinping also made a tour of several countries in the Middle East and Africa while on his way to and from the BRICS summit of five emerging countries (Brazil, Russia, India, China, and South Africa) in South Africa. On that occasion, he visited the United Arab Emirates, Senegal, Rwanda, and Mauritius, signing agreements with each concerning the BRI. At the BRICS Business Forum held in Johannesburg, South Africa, Xi Jinping asserted, “the next decade will be a crucial one with faster changes in the international landscape and the international alignment of forces,” as well as one with a “profound reshaping of the global governance system,” emphasizing that the BRICS countries ought to play a constructive role in bringing about a “new type of international relations” and developing a “community of a shared future for mankind.” He also declared, “I hope that the BRICS countries and African countries, along with the emerging-market countries and developing countries more broadly, will all join the network of partners for the joint construction of the BRI.”²⁸

Although China has been pursuing diplomacy on a grand scale in that way under the aegis of President Xi Jinping, aiming at the restructuring of the international order, and with the construction of a “new type of international relations” and a “community of a shared future for mankind” as its pillars, the outlook for that policy is hardly rosy, as the pursuit of “major-country diplomacy with Chinese characteristics” has brought several issues into relief. The first issue is the fact that it has triggered warning bells and a backlash on the part of the advanced democratic countries, particularly the United States. China criticizes the existing international order, with the advanced countries at its helm, as being “unjust and improper,” and has argued for the creation of a “new type of international relations” that would empower the voice of developing countries. From the standpoint of the advanced democratic countries, however, which have striven hard to maintain and reinforce a free and open international order as a global commons, such a remark by China comes off as provocative. Above all, the United States has become increasingly wary of China’s actions concerning the international order, given that it has been confronted by specific Chinese moves to change the status quo by coercion, such as the upgrading of its A2/AD capabilities vis-à-vis the United States in East Asian waters. The US National Security Strategy released in December 2017 explicitly painted China as a force seeking to change the status quo of the existing international order by coercion, harshly criticizing it as “seek[ing] to displace the United States in the Indo-Pacific region.”²⁹ That heightened strategic sense of caution toward China on the part of the United States has probably served as a backdrop for the harsh position adopted by the Donald Trump administration in trade issues with that country. There is also concern in Western Europe that China’s growing influence on the countries of Central

and Eastern Europe (CEE) may detract from the EU's centripetal force. At the China-CEE 16+1 Summit held in Bulgaria in July 2018, Chinese Premier Li Keqiang, while promoting the construction of the BRI in the region, also tried to alleviate Western Europe's concerns about China by stressing that the project would benefit the whole continent, helping the "balanced development in the region and the European integration process," and said that the 16+1 cooperation would help shrink the developmental gap among individual European countries.³⁰

The second issue is the growing suspicion on the part of developing countries concerning China's promotion of the BRI. Although China has been pursuing the project smoothly in many parts of the world, there has also been an increasing incidence of trouble, the most notable of which was the construction of Hambantota Port in Sri Lanka. The port facilities in that project have been developed thanks to heavy financing by China, but as the project lacked economic rationality, among other reasons, Sri Lanka found it difficult to repay the loans, so Chinese companies ended up taking out a 99-year lease on the port. That has led to the criticism of such projects as "debt traps," a situation in which developing countries are lent an excessive amount of debt to undertake unsustainable economic projects, and then are forced to hand back those projects to China on account of their inability to pay the money back.³¹ Moreover, another reason for the growing distrust toward China is its pursuit of the BRI in a way that overlooks the democratic processes in its partner countries, thus lacking in transparency. Several instances have occurred already in which projects in the BRI have come under critical scrutiny as new leaders take the reins of government. When a new president was elected in Sri Lanka in 2015, he heaped heated criticism on the projects within the BRI that were promoted by the previous administration. After the Malaysian election of 2018, also, the new Mahathir bin Mohamad administration said it would reconsider projects that the previous administration had agreed upon with China, such as the construction of a railway, pronouncing the debt burden too large. China's tendency to rely on its relations with authority figures to promote its BRI causes it to pay scant regard to democratic decision processes and accountability to citizens, so is starting to serve as a hindrance.

The third issue, then, is the way that China's stance of adamantly insisting upon the protection of its "core interests" has hampered improved relations with its neighbors. The Xi Jinping administration views both territorial sovereignty and maritime rights and interests as its "core interests," and is moving ahead with their securement and expansion with the backdrop of its military power. China has fortified its military bases in the South China Sea, and stepped up activities by its warships and aircraft in the East China Sea and the Western Pacific, as well as triggering a military standoff with India over the Doklam plateau (claimed by both China and Bhutan). What China regards as its "core interests" are also vital national interests for the other countries involved in disputes, making it quite difficult for them to

make concessions to China. The more China attempts to ram through changes in the status quo backed by its military strength, the greater the distrust toward China grows in the other countries. At first, the Xi Jinping administration professed the target of building a “community of a shared future among its neighbors,” then went on to call for the creations of a “community of a shared future for mankind.” However, given that the “community of a shared future among its neighbors” cannot be built without gaining the trust of the countries on its periphery, the same applies even more so for the “community of a shared future for mankind,” the realization of which can only be described as impossible.

A turning point has likely been reached in the “major-country diplomacy with Chinese characteristics” under President Xi Jinping, which has promoted the targets of revamping the international order and protecting China’s “core interests.” If China is earnest about its aim of revamping the international order, it needs not only to emphasize the confrontation between advanced and developing countries, but also to strive to acquire the understanding and cooperation of the advanced countries, which have played a role in the maintenance of the existing order. Also, to bolster coordination with developing countries, it is important for China to gain the trust not only of certain leaders from those countries but also their citizens at large. For China to exhibit leadership in reforming global governance, it must first solidify the support of the countries in its surrounding regions. Much attention will be focused in the coming years on whether the Xi Jinping administration can deftly balance the two principles of the “path of peaceful development” and the protection of its “core interests” by first establishing a true “community of a shared future among its neighbors.”

(Author: Masafumi Iida)

Preface

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Chapter 2

China's Formation of the Regional Order and ASEAN's Responses: From "Rise" to "Center"

(Tomotaka Shoji)



1. ASEAN and the Rise of China

Southeast Asia occupies a geopolitically important location as a junction between the Pacific and Indian oceans at almost the center of the Indo-Pacific region. This region also covers major international sea lanes such as the South China Sea and the Strait of Malacca. For China, Southeast Asia is not just a vital strategic point in these sea lines of communication linking it with the Middle East, Africa, and Europe. While southern China adjoins the countries of continental Southeast Asia, with which it has close economic ties, the continental part of Southeast Asia is important for the security of China. For these reasons, Southeast Asia is a geopolitically vital region for China and an essential piece in the jigsaw puzzle of China's concept of the regional order represented by the "Belt and Road."

For similar geopolitical reasons, Japan and the United States also view Southeast Asia as a region where they have important strategic interests. In addition to Japan's continuing economic cooperation, the Abe administration has been greatly strengthening its security cooperation with the Association of Southeast Asian Nations (ASEAN) countries, and visits by leading statesmen between Japan and ASEAN countries have increased significantly in recent years. In the United States, former President Barack Obama's policy of "rebalancing toward the Asia Pacific" identified ASEAN as one of its targets for stronger cooperation. Based on this rebalancing, the United States stated that, in addition to its traditional alliances with the Philippines and Thailand, it would promote security cooperation with Indonesia and Vietnam as new partners.

While China promotes its Belt and Road Initiative (BRI), Japan and the United States have been striving to maintain and enhance a regional order that emphasizes democracy and the rule of law based on the vision of a "Free and Open Indo-Pacific." As a result, disputes are arising between China on one side and Japan and the United States on the other regarding the future order of the Indo-Pacific region. Caught in the middle of this conflict between two regional orders, how is ASEAN responding and what position does it aim to occupy within the region? Bearing these issues in mind, this chapter examines China's pursuit of a new regional order and ASEAN's responses, with particular focus on the two aspects of security issues regarding the South China Sea and economic cooperation represented by the BRI. In this analysis, the key words are the various "dualities" and "balances" that have characterized the relationships of ASEAN countries with China.

China has always been an important external country for the ASEAN members. Bilateral relations between each member and China, as well as multilateral relations with China based on ASEAN, have continually had a great impact on the international politics of Southeast Asia and domestic politics in each country. After the end of the Cold War, the significance of China in the region changed dramatically and steadily increased. China was

transformed from a supporter of communist guerillas in Southeast Asia and an “exporter of revolution” to destabilize countries’ political systems into a mutually beneficial partner that extended its reform and opening-up policy overseas and promoted economic cooperation. In particular, the turning point that greatly changed ASEAN countries’ perception of China was its response to the Asian financial crisis of 1997. Experiencing relatively little direct impact, China decided against devaluing the yuan and carried out a policy of stimulating domestic demand to promote imports from ASEAN countries, leaving the abiding impression of a country that had contributed to the economic recovery of ASEAN, which had suffered greatly from the crisis.¹

At the same time, security issues arose between China and ASEAN. Around the end of the Cold War, China made aggressive incursions in the South China Sea, where various disputes over territorial sovereignty, maritime resources, and the like, existed between China and ASEAN countries. This led to incidents that had a direct impact on ASEAN security—military conflict with Vietnam over the Spratly Islands in 1988 and the establishment in 1995 of a Chinese base on Mischief Reef, over which the Philippines claimed ownership—leading to growing concerns about China in ASEAN countries. These incursions by China arose from the “power vacuum” in the strategic environment of the region after the end of the Cold War, when the United States pursued a policy of “disengagement” from Southeast Asia symbolized by the withdrawal of its military bases from the Philippines.²

From that time onwards, ASEAN has been forced to respond to the rising China from the two occasionally contradictory aspects of economics and security. The method ASEAN developed to deal with this situation may be described as a “two-track strategy,” which employed the approaches of both engagement and constraint. While deepening cooperative relations through active engagement with Beijing, ASEAN has tried to constrain China’s behavior through non-confrontational means and tried to prevent China from gaining excessive influence over ASEAN.³ The aspect of engagement has mainly consisted of promoting economic cooperation, but ASEAN hopes that persuasion through diplomatic negotiations and confidence-building measures concerning security can prevent security issues from deteriorating. On the other hand, while ASEAN has mainly employed constraint when dealing with security issues, this includes the approach of trying to prevent the expansion of China’s economic influence and the resulting excessive economic dependence of ASEAN on China.

The two-track strategy, including engagement and constraint, is based on three kinds of balance. The first, as stated above, is balance between economics and security. While ASEAN promotes economic cooperation with China with the aim of contributing to its own economic development, it strives to respond appropriately to security challenges such as those in the South China Sea. With the rise of China, ASEAN has continued to pursue both economics and security. When contradictions arise in the course of this dual pursuit, it has

taken a fair and just approach without indicating a clear order of priorities. ASEAN is a useful multilateral framework when pursuing a balance between economics and security. ASEAN's multilateral frameworks for cooperation and dialogue and the frameworks between ASEAN and China can be described as serving as a protective wall that prevents the direct exertion of China's massive influence on the small and medium-sized countries of ASEAN.

The second balance of the two-track strategy is balance of external relations. Like China, the United States has exercised strong influence on ASEAN from the time of the Cold War through the post-Cold War period to the present. Standing between these two great powers, ASEAN countries have sought to maintain balance in their relations with both, avoiding having to choose one over the other. While striving not to let either great power exert excessive influence over any country or the region as a whole, they have adopted the posture of maintaining US engagement from the security standpoint, particularly in view of the China's rising power, and constraining China.⁴

ASEAN has also made use of its frameworks to maintain balance in its external relations. The ASEAN countries have promoted the engagement in ASEAN of not only the United States and China, but also the other major external players—Japan, India, and Australia. ASEAN's objective in building cooperative relationships in all directions is the result of its need to have as many "pivots" as possible in its external relations, without relying excessively on the United States or China, or becoming paralyzed through being caught in the middle of tense US-China relations. In these ways, ASEAN countries have "hedged" against China.⁵ Through ASEAN's multilateral frameworks, they have successively established and operated cross-sectoral and comprehensive cooperative frameworks centering on external dialogue partners including the United States and China. At the bilateral level too, they have responded to both economic and security issues on the basis of cooperation and dialogue.

Thus ASEAN countries have striven to maintain their strategic autonomy while promoting economic growth by pursuing balances between the dualities of "engagement and constraint," "economics and security," and "China and the United States." ASEAN's success or failure in establishing these balances depends greatly on the foreign policy environment surrounding it, particularly the policies of China and United States towards ASEAN. From the second half of the 1990s to the first half of the 2000s, ASEAN's approach of engagement towards China was dominant and the relationship between them strengthened. In 2002, ASEAN and China concluded the Framework Agreement on Comprehensive Economic Cooperation, which included concrete measures promoting a free trade agreement, such as tariff reductions, taking the first step in the formation of a China-ASEAN free trade area. In 2003, China became the first dialogue partner to become a member of the Treaty of Amity and Cooperation (TAC) in Southeast Asia, concluding a strategic partnership with ASEAN

as well as displaying a positive attitude to building a comprehensive relationship with it, including political cooperation.

ASEAN's two-track strategy also demonstrated its effectiveness regarding the South China Sea. In response to China's active incursions in this sea area from the second half of the 1980s to the first half of the 1990s, ASEAN succeeded in building a framework, with itself at the center, for promoting engagement and dialogue regarding post-Cold War regional security with the main external countries by establishing in 1994 the ASEAN Regional Forum (ARF), a security cooperation framework for the Asia-Pacific region which included the United States and China. In addition, a Track II level workshop on South China Sea issues was set up in 1990, particularly through the initiative of Indonesia. In these ways, ASEAN established a framework, albeit unofficial, for regular discussions with China regarding the South China Sea.

After that, South China Sea issues came to be discussed by ASEAN and China at the Track I level in senior officials' meetings (SOM), foreign ministers' meetings, and summit meetings, and discussions proceeded concerning the establishment of a code of conduct (COC) in the South China Sea. This led to the signing of the Declaration on the Conduct of Parties in the South China Sea (DOC) by ASEAN and China in 2002. In addition to declaring that the parties would promote cooperation in the peaceful resolution of disputes, self-restraint by the parties concerned toward the stabilization of situations, and marine scientific research, the DOC stated that "The Parties concerned reaffirm that the adoption of a code of conduct in the South China Sea would further promote peace and stability in the region and agree to work, on the basis of consensus, towards the eventual attainment of this objective."⁶ China's agreement to hold multilateral discussions with ASEAN concerning South China Sea issues showed the prioritization of its objective of strengthening its relationship with ASEAN with a focus on economic ties over its concerns about the complication of negotiations. At this time, China's posture was in accord with ASEAN's policy of separating and balancing economics and security.

2. ASEAN's Response to Territorial Disputes in the South China Sea

After the signing of the DOC, ASEAN seemed to take a further step towards peaceful resolution of South China Sea issues by aiming to develop it into a legally binding COC. However, the issues entered a new phase around 2010 and disputes over the South China Sea escalated and became more complicated. The primary factor behind this was that China, which had greatly strengthened its naval power and the capabilities of its maritime law enforcement agencies against the background of its economic growth, once again made active incursions

Figure 2-1: Territorial Disputes in the South China Sea

Source: Compiled by the author.

into the South China Sea. The target of its first confrontation was Vietnam. In addition to successive seizures of Vietnamese fishing boats operating in the vicinity of the Paracel Islands by patrol boats of the China's maritime law enforcement agency, an incident occurred in which the cables of a Vietnamese oil exploration vessel were cut by the Chinese authorities. As a result of repeated incidents such as these, Vietnam came to have deep security concerns.

The oil drilling platform incident of 2014 was particularly shocking for Vietnam. In May 2014, China set up a massive semi-submersible oil drilling platform and began exploration operations in the seas off the Paracel Islands, over which Vietnam and China dispute territorial sovereignty, although China has de facto control. Viewing this as an act to strengthen China's control over the Paracel Islands by creating a *fait accompli*, Vietnam protested strongly and resisted, dispatching coast guard patrol boats to the site. Although the situation calmed down after China withdrew the oil rig in July, the incident demonstrated to Vietnam the limitations of trying to deal with such an incident on its own. Vietnam came to understand that, however much it tried to stabilize relations with China on a bilateral level, it could not prevent China's infringement of its sovereignty and maritime rights. Since then, Vietnam has made more positive, albeit cautious, efforts to promote security cooperation with other major external powers, particularly the United States and Japan.⁷

In 2012, the Scarborough Shoal incident occurred between China and the Philippines under the Benigno Aquino administration. In April of that year, the Philippine navy

discovered and tried to arrest Chinese fishermen operating at Scarborough Shoal about 200 kilometers west of the island of Luzon in the Philippines. Two patrol boats of the Chinese maritime law enforcement agency responded by blocking the approach of the Philippine vessel, resulting in a standoff at the shoal. The standoff lasted for two months, during which China put economic pressure on the Philippines, imposing import restrictions on bananas, its main export product, and suspending travel tours of Chinese to the Philippines. It was the understanding of the Philippines that the two sides had both agreed to withdraw from the shoal in the subsequent negotiations. However, in spite of the Philippines' withdrawal, Chinese patrol boats returned to the vicinity of the shoal and prevented Philippine vessels from approaching while Chinese fishing boats continued operations there. China had put Scarborough Shoal under its de facto control.

As these clashes with Vietnam and the Philippines showed, China had begun to challenge the existing maritime order and regional order by attempting to change the status quo by force in the South China Sea. When responding to China's actions, ASEAN tried to promote separation and balance between economics and security, but China actively linked the two. Specifically, China converted its economic power into political influence and sometimes tried to make ASEAN bow to its wishes in security disputes by means of intimidating economic diplomacy. The economic measures China used against the Philippines in the Scarborough Shoal incident were typical of this approach.

In the background of China's political use of economic power against ASEAN countries was the expansion of its economic influence. As a result of the ASEAN-China Free Trade Agreement of 2002, the trade amount between them increased dramatically, and by the mid-2000s China had become ASEAN's largest trading partner. Accordingly, China became indispensable to ASEAN's economy, while the fact that the Chinese economy was not so dependent on ASEAN gave China the leeway to adopt a tough political and diplomatic stance towards ASEAN. This is also the reason why China came to take a bold and aggressive approach to ASEAN countries with the use of physical force in the South China Sea.

In addition to this intimidating economic diplomacy, China used its economic power to pursue a "divide and rule" policy towards ASEAN. While it put economic pressure on ASEAN countries that defied its wishes, it provided economic support to those that were compliant. A typical example of this is Cambodia. Cambodia has had a historically close relationship with China, and in recent years it has received massive economic support. Accordingly, the Hun Sen regime has consistently supported China's position in regional disputes, including South China Sea issues.

This policy gave rise to a conflict of opinions within ASEAN concerning its response to China over South China Sea issues. The effects of China's ASEAN "divide and rule" policy and the limitations of ASEAN's formation of a unified position regarding the South

China Sea were revealed by the Cambodian chairmanship issue in 2012. At the ASEAN Foreign Ministers' Meeting in July 2012, the participants failed to agree on a joint communiqué for the first time in ASEAN's history and no communiqué was issued. The reason for this was that, while the Philippines and Vietnam requested the inclusion of a specific statement about the Scarborough Shoal incident rather than an allusion to it, Cambodia, then the ASEAN chair, consistently rejected this and the discussions finally broke down.⁸ The strengthening of ASEAN economic engagement with China had ironically weakened the effects of constraint, leaving less room for maintaining a unified ASEAN stance concerning South China Sea issues.

One of the balances ASEAN has pursued, the balance between external powers, particularly between its relations with the United States and China, has been maintained to some extent, partly because of the United States' active engagement in South China Sea issues. When these issues reoccurred, unlike in the 1990s, the United States adopted the clear posture of being a stakeholder. At the ARF held in July 2010, for example, Secretary of State Hillary Clinton clearly stated that the United States had a strategic interest in the South China Sea. Furthermore, the Pentagon announced its new Defense Strategic Guidance (DSG) in January 2012, formularizing its "rebalancing" toward the Asia Pacific. ASEAN interpreted this "rebalancing toward the Asia Pacific" as the strengthening of US engagement in South China Sea issues and of its military presence in Southeast Asia, particularly through the rotational deployment of US Marines to Darwin, Australia, and the plan to deploy littoral combat ships (LCS) to Singapore.⁹

In response to the US rebalancing policy, the Philippines promoted discussions regarding the strengthening of the presence of US armed forces in the Philippines through rotational deployment, and the two countries signed an Enhanced Defense Cooperation Agreement (EDCA) in April 2014. The objectives of the EDCA were the enhancement of the maritime security and maritime domain awareness (MDA) of the Philippine armed forces, the rotational deployment of US forces to locations in the Philippines agreed by the two countries, and the implementation of joint exercises and training utilizing these locations.¹⁰ At around the same time, Vietnam also embarked on security cooperation with the United States in earnest. In addition to strategic dialogues, joint exercises, visits to Vietnam by US navy vessels, the first visit to the United States by the General Secretary of the Vietnamese Communist Party took place in July 2015. The US announcement of the complete lifting of its arms embargo when President Obama visited Vietnam in May 2016 strongly reinforced the impression of rapprochement between the two countries based on political trust.¹¹

With the United States' active engagement, South China Sea issues became more complex as they expanded from diplomatic problems between ASEAN and China in the 1990s into tensions and conflicts, including military aspects, between the great powers of the

United States and China. Caught between the United States and China, ASEAN welcomed US engagement as a means of restraining China's excessive military influence, but as military tensions increased between the United States and China, it was also concerned that it might destabilize the region. While the tug of war between the United States and China caused divisions within ASEAN, the attempts by ASEAN to maintain its integrity amid these divisions created an overall balance. This balance played the role of preventing ASEAN from becoming biased towards either the United States or China.

With the inauguration of the Donald Trump administration in the United States in January 2017, the security outlook for Southeast Asia, including the South China Sea, became shrouded in uncertainty. Rather than the Trump administration, however, it was the birth of the Rodrigo Duterte administration in the Philippines in June 2016 that caused a major structural shift in ASEAN's response to the South China Sea. The Duterte administration completely changed the South China Sea policy of the preceding Aquino administration, shifting from a posture of confrontation with China to one of dialogue. The primary reason for this policy shift was a rebalancing between security and economics. For the Philippines, like other ASEAN countries, although the South China Sea is an important challenge, cooperation and aid from China for the construction of infrastructure and economic development is indispensable. President Duterte's policy priorities are domestic public order and economic measures. It was also necessary for him to promote a restoration of balance between security and economics to ensure the continuous support of the people. The Duterte administration softened the Philippines' posture of confrontation in the South China Sea in order to improve relations with China and secure its economic cooperation.¹²

The Philippines has also attempted to rebalance its relationship with the United States with its relationship with China. President Duterte made wide-ranging changes in alliance relations with the United States, reducing the frequency and scale of various joint exercises, terminating the joint Philippine-US naval patrols in the South China Sea, and alluding to the possible revision of the EDCA.¹³ Behind this policy shift lay Duterte's personal mistrust of the United States based on his experience when he was mayor of Davao and his doubt about the US-Philippine alliance that the United States would actually have a showdown with China to protect the sovereignty of the Philippines. This led to his strategic calculation that a confrontational posture toward China in the South China Sea was not a good policy for his country.¹⁴ President Duterte actually had direct talks with President Xi Jinping in October 2016, and the fact that Philippine fishermen were able to operate in the vicinity of Scarborough Shoal demonstrates to some extent the effectiveness of his conciliatory attitude towards China.¹⁵

This shift in the South China Sea policy of the Duterte administration had a great influence on ASEAN's response. Firstly, it had an impact on the arbitral ruling regarding the South China Sea. In January 2013, the Philippines under the previous Aquino administration

instituted arbitral proceedings based on the United Nations Convention on the Law of the Sea (UNCLOS) regarding the sovereign rights claimed by China in the South China Sea. Three and half years later, on July 12, 2016, the arbitral tribunal handed down its ruling. This ruling stated that there was no legal basis for the historical rights claimed by China such as the “nine-dash line,” that none of the islands in the South China sea were “islands” according to the UNCLOS definition, and that China was violating the Philippines’ exclusive economic zone (EEZ) and its sovereign rights on the continental shelf. In short, the ruling recognized almost all of the Philippines’ claims and rejected almost all the rights claimed by China.¹⁶ China refused to take part in the arbitration process from the beginning, claiming that there was a defect in the proceedings, and it strongly opposed the ruling and announced its refusal to accept it.

The Philippines had won its “legal warfare” with China, but the Duterte administration, which was inaugurated at almost the same time as the issuance of the arbitral ruling, in consideration of its relationship with China, responded cautiously to the ruling. Most ASEAN countries, including Vietnam, rather than calling upon China to follow the ruling, made moderate announcements calling for the self-restraint of the countries involved and the peaceful resolution of the disputes. Furthermore, Cambodia refused to declare its standpoint regarding the ruling, stating that the arbitral proceedings had nothing to do with ASEAN, while Laos and Brunei did not make any announcement at all.¹⁷ Faced with China’s strong opposition and having had the rug pulled from under it by the Philippines’ extremely cautious response, ASEAN missed its opportunity to make positive use of the arbitral ruling to resolve the South China Sea issues. The Chairman’s Statement of the ASEAN Summit held in Vientiane in September 2016 made no mention of the ruling.

When the Philippines was the ASEAN chair in 2017, it further promoted this policy of not discussing the arbitral ruling in ASEAN. At the press conference before the ASEAN Summit in April 2017, President Duterte showed his negative attitude by stating that it was a “waste of time” to discuss the ruling at the meeting, and the matter was not put on the agenda at any of the ASEAN-related meetings in 2017.¹⁸ Thus it became “established policy” not to deal with the arbitral ruling within ASEAN. This tacit permission for China to ignore the ruling could be viewed as ASEAN’s acceptance of China’s attempts to change the status quo in the South China Sea in opposition to the existing order based on international law.

The second impact of the Philippines’ policy shift was on the Chairman’s Statement of the ASEAN Summit. As the ASEAN chair in 2017, the Philippines greatly reduced and diluted references in the Chairman’s Statement to the South China Sea. For instance, compared to the Chairman’s Statement of the previous ASEAN Summit held in September 2016, with Laos as the ASEAN chair, the number of paragraphs related to the South China Sea in the 2017 statement decreased greatly from eight to two. Furthermore, unlike the 2016 statement,

it did not contain any restraining words or phrases referring to the reclamation or militarization of islands in the South China Sea, such as "land reclamation," "escalation of activities," and "non-militarization". Speaking on behalf of China's claims even more forcefully than Laos, which had been considered pro-China, the behavior of the Philippines as the ASEAN chair created a magnetic field that drew the whole of ASEAN strongly towards China.

The third impact was on COC discussions. Although the conclusion of the COC in the DOC of 2002 had been highly acclaimed, COC discussions had hardly advanced at all in almost 15 years since the conclusion of the DOC. This was mainly due to China's negative attitude, but at the time of the ASEAN-China Foreign Ministers' Meeting held at the end of July 2016 immediately after the arbitral ruling, China's Foreign Minister Wang Yi announced his wish to speed up the COC discussions, stating that he wanted to bring discussions on the framework of the COC to a close by the middle of 2017.¹⁹ This shift by China towards a positive attitude was the result of the arbitral tribunal's urging of China to aim for some form of resolution of South China Sea issues with ASEAN. At the ASEAN-China SOM in May 2017, the two parties reached an agreement on a COC framework, and at the ASEAN-China Foreign Ministers' Meeting in August a framework agreement was endorsed. The specific conditions of the framework agreement have not been publicly disclosed, but according to some media reports and research, it is insufficient in that it lacked provisions concerning legally binding force, the geographical scope of the agreement, or enforcement and arbitration mechanisms. On the other hand, it included new statements concerning the prevention and management of incidents and a stronger commitment was made to maritime security and freedom of navigation.²⁰

After the framework agreement, discussions again came to a halt, but in late June 2018, about a year after the agreement, the 15th ASEAN-China SOM on the Implementation of the DOC took place in Changsha in Hunan Province.²¹ On that occasion discussions were held between ASEAN and China on the specific contents of the COC, but it remains unclear as to what COC will be determined and when the COC will be concluded. However, China may insist that, since the COC discussions are being continued, it is possible that the South China Sea problem can be resolved bilaterally with ASEAN and that there is no need for countries outside the region, such as the United States and Japan, to become involved. Moreover, in view of concerns that the COC will consist of rules under which China take the lead and ASEAN has a subordinate position, it is possible that the COC discussions may become part of China's efforts to establish the regional order. Indeed, China's proposal at the ASEAN-China Foreign Ministers' Meeting in August 2018 to conduct regular joint military exercises in the South China Sea and its refusal to permit joint exercises with any countries outside the region without the prior agreement of the countries concerned suggest just this kind of Chinese approach.

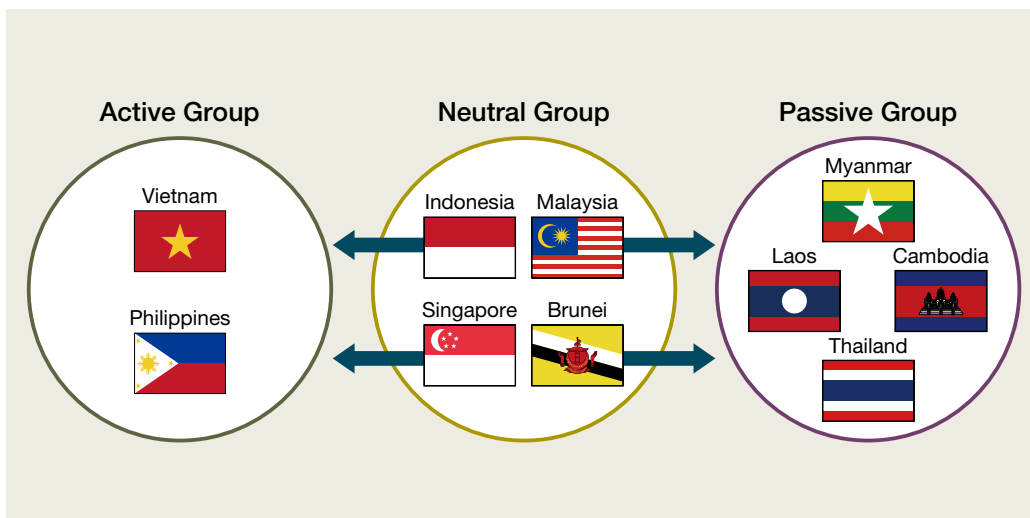
Table 2-1: Comparison of Chairman’s Statements of ASEAN Summits concerning the South China Sea (underlining by the author)

1. Chairman’s Statement of the 28th and 29th ASEAN Summits, September 2016 (Chair: Laos)	2. Chairman’s Statement of the 30th ASEAN Summit, April 2017 (Chair: The Philippines)
121. We remain seriously concerned over recent and ongoing developments and took note of the concerns expressed by some Leaders on the <u>land reclamations</u> and <u>escalation of activities</u> in the area, which have eroded trust and confidence, increased tensions and may undermine peace, security and stability in the region.	<p>120. We reaffirmed the importance of maintaining peace, stability, security and freedom of navigation and over-flight in and above the South China Sea. We welcomed the operationalization of the Guidelines for Hotline Communications among Senior Officials of the Ministries of Foreign Affairs of ASEAN Member States and China in Response to Maritime Emergencies in the Implementation of the Declaration on the Conduct of Parties in the South China Sea and look forward to the early operationalization of the other early harvest measure which is the Joint Statement on the Application of the Code for Unplanned Encounters at Sea (CUES) in the South China Sea. We took note of concerns expressed by some Leaders over recent developments in the area. We reaffirmed the importance of the need to enhance mutual trust and confidence, exercising self-restraint in the conduct of activities, and avoiding actions that may further complicate the situation, and pursuing the peaceful resolution of disputes, without resorting to the threat or use of force.</p>
122. We reaffirmed the importance of maintaining and promoting peace, security, stability, safety and freedom of navigation in and over-flight above the South China Sea.	
123. We further reaffirmed the need to enhance mutual trust and confidence, exercise self-restraint in the conduct of activities and avoid actions that may further complicate the situation, and pursue peaceful resolution of disputes in accordance with international law, including the 1982 United Nations Convention on the Law of the Sea (UNCLOS).	
124. We emphasized the importance of <u>non-militarization</u> and self-restraint in the conduct of all activities, including <u>land reclamation</u> that could further complicate the situation and escalate tensions in the South China Sea.	
125. We underscored the importance of the full and effective implementation of the DOC in its entirety, and while noting the momentum and new phase of consultations, urged all parties to work expeditiously for the early adoption of an effective Code of Conduct (COC), including through increasing the frequency of ASEAN-China Senior Officials’ Meetings and Joint Working Group Meetings on the Implementation of the DOC.	
126. We highlighted the urgency to intensify efforts to achieve further substantive progress in the implementation of the DOC in its entirety as well as substantive negotiations for the early conclusion of the COC including the outline and timeline of the COC.	
127. Pursuant to the full and effective implementation of the DOC in its entirety, and pending the early adoption of an effective COC, we stressed the importance of undertaking confidence building and preventive measures to enhance, among others, trust and confidence amongst parties.	
128. We welcomed the adoption of the Joint Statement of the Foreign Ministers of ASEAN Member States and China on the Full and Effective Implementation of the Declaration on the Conduct of Parties in the South China Sea and also welcomed the Joint Statement on the Application of the Code for Unplanned Encounters at Sea (CUES) in the South China Sea and the Guidelines for Hotline Communications among Senior Officials of the Ministries of Foreign Affairs of ASEAN Member States and China in Response to Maritime Emergencies in the Implementation of the Declaration on the Conduct of Parties in the South China Sea which will be adopted by the 19th ASEAN-China Summit to Commemorate the 25th Anniversary of ASEAN-China Dialogue Relations.	



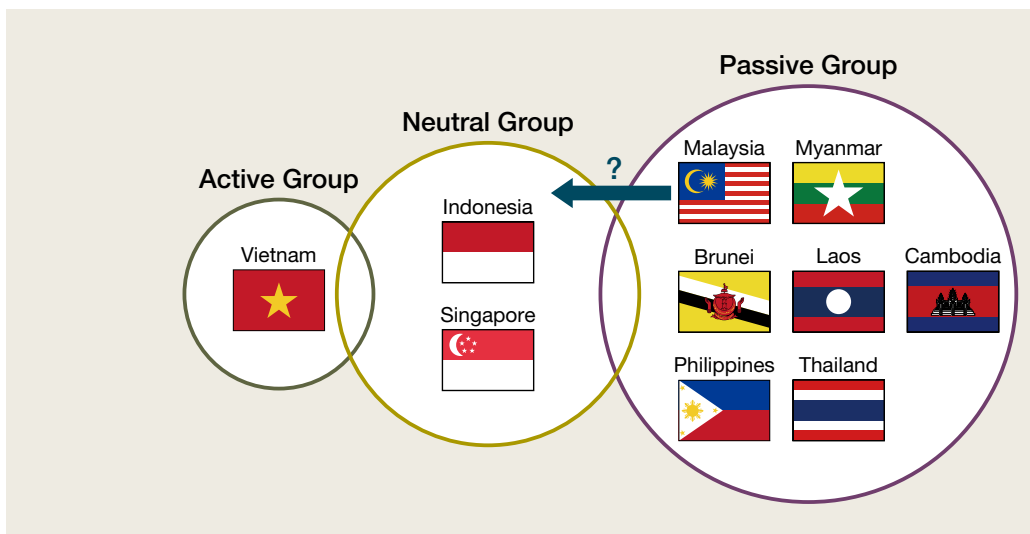
Source: ASEAN, “Chairman’s Statement of the 28th and 29th ASEAN Summits, Vientiane, September 6-7, 2016: Turning Vision into Reality for a Dynamic ASEAN Community”; ASEAN, “Chairman’s Statement, 30th ASEAN Summit, Manila, April 29, 2017: Partnering for Change, Engaging the World.”

Figure 2-2: Differences of Attitude toward the South China Sea of ASEAN Countries (with the Philippines under President Aquino)



Source: Compiled by the author.

Figure 2-3: Differences of Attitude toward the South China Sea of ASEAN Countries (with the Philippines under President Duterte)



Source: Compiled by the author.

3. ASEAN Being Incorporated into the BRI

While ASEAN has followed a very loose process with China for resolving disputes in the South China Sea, China has in recent years been further deepening its rapid economic involvement in ASEAN by promoting its BRI. “Belt and Road” is an initiative in which China aims to create comprehensive cooperative relationships with Asia, Europe, and Africa. One of its main pillars is Chinese aid for the construction of infrastructure. China has been

providing simultaneous and parallel support to countries in the region for the construction of all kinds of infrastructure from massive infrastructure such as ports, railways, and expressways to industrial parks, and hydroelectric and thermal power generation facilities. Southeast Asia is one of the priority regions in the BRI. Since advocating this initiative, China has been accelerating its support for the construction of various infrastructure centering on the countries of continental Southeast Asia.

ASEAN's response to China's aid offensive based on the BRI has basically been positive. This is because ASEAN has always desired funds and technological support from outside the region in order to develop infrastructure within it. From the policy viewpoint, this is manifested in "ASEAN Connectivity." At the ASEAN Summit in 2009, ASEAN announced its concept of connectivity officially and comprehensively in the ASEAN Leaders' Statement on ASEAN Connectivity. As policies to contribute to the strengthening of connectivity, the statement pointed out the need for the development of transportation infrastructure, such as roads, railways, and sea and air transport routes, to provide physical links within the region of Southeast Asia and the building of networks among the various means of transportation.²² In the following year of 2010, ASEAN announced the Master Plan on ASEAN Connectivity (Hanoi Master Plan) and indicated three directions for the strengthening of connectivity that ASEAN should achieve through the realization of the ASEAN Community by 2015, namely, infrastructure development (physical connectivity), effective systems and mechanisms (institutional connectivity) and promotion of exchange among people (people-to-people connectivity).²³

ASEAN's project to enhance connectivity identified the development of physical infrastructure as its highest priority and required massive funds, and it was assumed that positive support from countries outside the region would be essential to procure these funds. In this regard, the BRI, which promotes infrastructure development in each country and region through support from China, including the provision of capital, was intrinsically linked with ASEAN Connectivity. The fact that all the ASEAN member countries, including Vietnam

and the Philippines under the Aquino administration, even though both were in sharp confrontations with China in the South China Sea, participated in the Asian Infrastructure Investment Bank (AIIB), which had been set up through China's initiative, from the time it was launched vividly shows ASEAN's need for Chinese support and its positive attitude toward it.

China's advocacy of the BRI coincides with the launching of the ASEAN Community at the end of 2015. After the launch of the ASEAN Community, the Master Plan on ASEAN Connectivity 2025 (New Master Plan) was announced in August 2016 as a revision of the Hanoi Master Plan. The New Master Plan synthesized all the initiatives for strengthening connectivity up to that time and formulated plans for projects after the establishment of the ASEAN Community. While promoting the three types of connectivity—physical, institutional and people-to-people—indicated in the Hanoi Master Plan, it determined five strategic areas: (1) sustainable infrastructure, (2) digital innovation, (3) seamless logistics, (4) regulatory excellence, and (5) people mobility. Since the development of sustainable infrastructure was placed at the top of the list, the New Master Plan showed once again that ASEAN's highest priority was the development of physical infrastructure such as roads, railways, and ports. As part of ASEAN's specific project plans, the Plan stipulated its provisional calculation that an annual investment in the region of at least US\$110 billion was needed and emphasized that it would be essential to explore various ways to procure such massive funds, including support from the governments of countries outside the region.²⁴

The Joint Statement of the ASEAN-China Summit held in Vientiane in September 2016 stated: "We will continue to strengthen cooperation in the area of connectivity that will bring mutual benefits, including through capacity building and resource mobilization for the Master Plan on ASEAN Connectivity 2025 (MPAC 2025), exploring ways to improve connectivity between both sides by synergizing common priorities identified in the MPAC 2025 and China's Belt and Road initiative, and encourage the active involvement of relevant multilateral financial institutions."²⁵

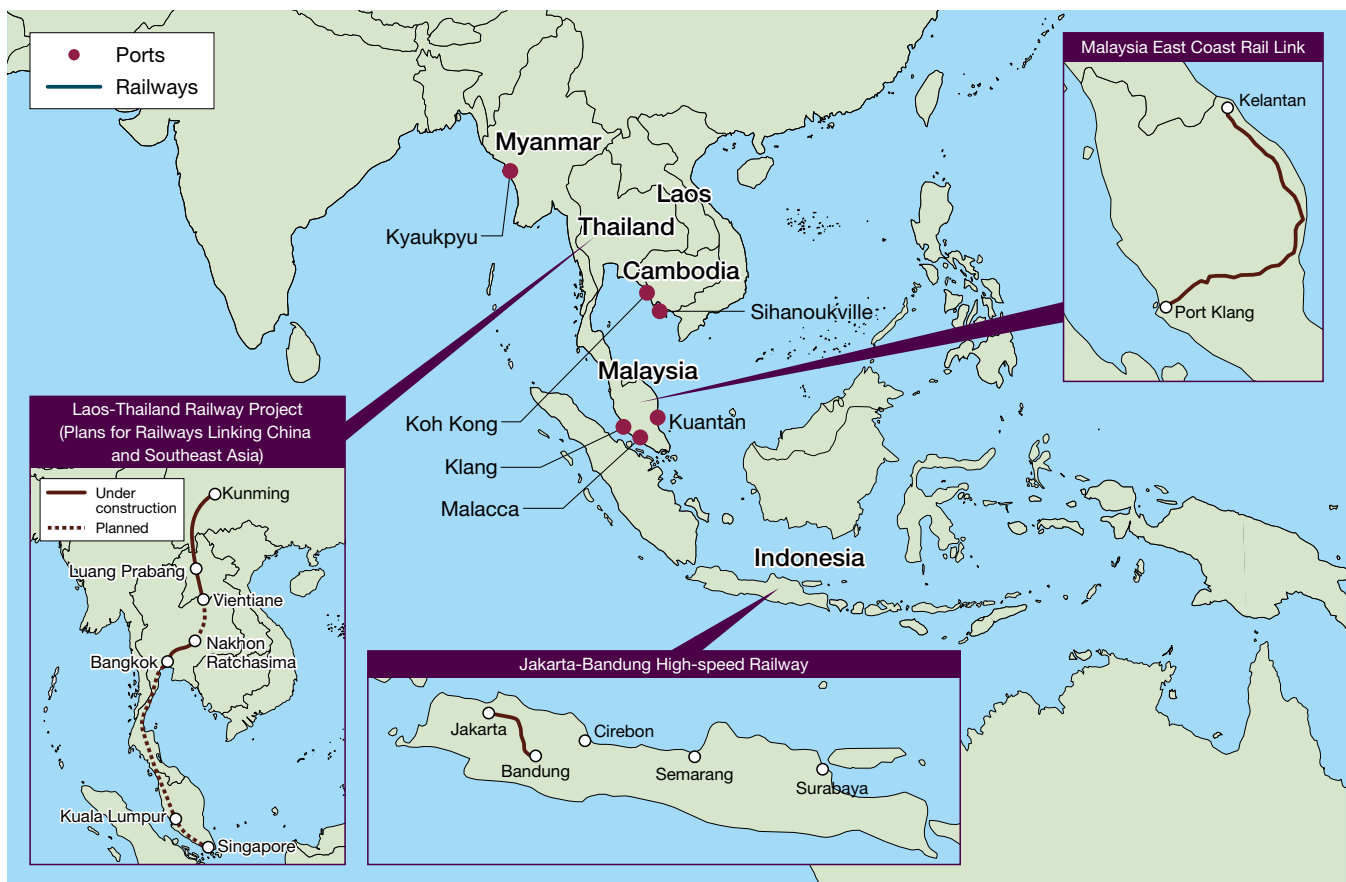
The Chairman's Statement of the Summit stated: "The ASEAN Leaders appreciated China's continued support for enhancing connectivity within ASEAN and the region, through supporting the implementation of the Master Plan on ASEAN Connectivity 2025. We looked forward to the active involvement and contribution of the Asian Infrastructure Investment Bank (AIIB) in promoting enhanced ASEAN and regional connectivity. We were further determined to maximize the utilization of existing mechanism and committed resources as well as to explore cooperation to enhance connectivity between ASEAN and China."²⁶

In these ways, ASEAN has explicitly and organically linked connectivity with the BRI and has made clear its intention to realize its own project plan within China's initiative. Against the background of this combination of ASEAN Connectivity and the BRI, ASEAN's top leaders displayed a posture of positively accepting support from China at the bilateral level. Malaysia and Cambodia were particularly positive. Malaysian Prime Minister Najib Razak, in an interview when he took part in the Belt and Road Forum for International Cooperation in Beijing in May 2017, emphasized that the relationships between China and the countries participating in the BRI was mutually beneficial, reflecting his great

expectations of support from China for ASEAN-related projects such as the China-Laos railway, high-speed railways in Indonesia and Thailand, and the East Coast Rail Link in Malaysia.²⁷ At a press conference at the same Belt and Road Forum, Cambodian Prime Minister Hun Sen expressed strong support for China’s initiative, saying that the Belt and Road funding from China gave hope to ASEAN countries.²⁸ In addition, Myanmar’s State Counsellor Aung San Suu Kyi had a meeting with President Xi Jinping at the time of the Forum and commented, “The Belt and Road initiative will bring peace, reconciliation, and prosperity to the region and the world.”²⁹

The various infrastructure construction projects supported by China in ASEAN countries are being conducted under government-led planning and construction has already begun on some of them. However, China’s formation of a regional order through support for infrastructure construction goes beyond initiatives centering on building physical structures such as the BRI. Entry by Chinese companies into the communications sector in Southeast Asia is also conspicuous. Giant Chinese IT e-commerce companies such as Alibaba and Tencent are rapidly expanding their share in Southeast Asia, as are the Chinese cellphone

Figure 2-4: Infrastructure Construction Support for ASEAN Countries Based on China’s BRI



Source: Compiled by the author.

brands Huawei and Xiaomi. Considering that ASEAN's connectivity enhancement project includes the IT sector, these developments can be viewed as part of China's formation of a regional order through ASEAN connectivity. At the same time, this expansion of China's influence in cyberspace in Southeast Asia may also have an impact on political security from the standpoint of acquiring and collecting information.

Apart from these economic links, the relationship between ASEAN and China has become increasingly close in recent years as ASEAN becomes subsumed into the BRI through connectivity. In the sense that China has moved beyond being a rising power and is now becoming the center of the regional order, the relationship between the two has reached a new stage. For ASEAN, China has evolved from being a presence that brought merely economic benefits to a more comprehensive power with great political influence. For ASEAN, which has pursued various balances concerning its external relationships, including its relationship with China, this new stage is making it increasingly difficult to promote such balances.

The first impact of this concerns the separation and balance between economics and security. In addition to ASEAN's economic dependence, China's political influence over ASEAN has expanded through its great involvement in the infrastructure development ASEAN is promoting. In most countries of mainland Southeast Asia, particularly Cambodia, Laos, and Myanmar, this Chinese influence is already giving rise to phenomena that are having an impact on political decisions at the level of policymaking in each country, as well as decision-making in ASEAN exemplified by the behavior of Cambodia when it chaired ASEAN in 2012. In the sense that China's economic presence could even exert an influence on ASEAN's response to South China Sea issues, this is turning into security concerns. This difficulty of attaining separation and balance between economics and security may lead to a determination of political priorities that puts economics ahead of security.

Indeed, that influence extends even to countries involved in disputes in the South China Sea, such as Malaysia and Brunei. Malaysia's Najib Razak administration showed great consideration for its biggest trading partner and investor, China, strictly controlling the government's statements concerning the South China Sea and further strengthening its wait-and-see approach to the problem.³⁰ Brunei, concerned about the tapering off of fiscal revenue accompanying the decrease in its oil production, has maintained silence about its own South China Sea issue in return for massive economic aid from China, and it has even been suggested that it is acting against the manifestation of any negative mood towards China within ASEAN.³¹

The shift in the South China Sea policy of the Philippines under Duterte can also be understood in this context. The 180-degree policy shift following the inauguration of the Duterte administration—which reversed the Philippines' stance as the standard-bearer of criticism of China in ASEAN at the time of the Aquino administration—created a mood that instantly promoted ASEAN's inclination towards China. In addition to being a personal

preference of President Duterte, this showed that the economic benefits China (supposedly) brings can exceed the strategic advantages in terms of security. From the viewpoint of engagement and constraint, this means that it has become even more difficult for ASEAN to apply checks against China.

The second impact is that, among ASEAN's relations with external powers, the balance between its relationships with China and the United States is breaking down. However, this is not simply the result of the expansion of China's influence over ASEAN, but also due to the United States' posture under the Trump administration, which is pursuing an "America first" principle. The fears about whether the United States will continue to be a fair and impartial superpower that is responsible for the global order, arising from its withdrawal from the Paris Accord, its Israel-biased Middle East policy, protectionist trade policies, and trade war with China, are reducing ASEAN's trust in the United States. For ASEAN, the US withdrawal from the Trans-Pacific Partnership (TPP) in particular greatly damaged the image of the United States as a defender of the regional order of East Asia. As opposed to the US withdrawal from the TPP, China's promotion of the Regional Comprehensive Economic Partnership (RCEP) has increased trust in it as a "guardian of free trade." The Trump administration, which has implemented freedom of navigation operations in the South China Sea more frequently than the Obama administration, appears to be stepping up its involvement. However, in the strategic competition with China, an involvement that heightens tensions by placing emphasis only on the military aspect is not the US approach that ASEAN desires and has rather served to increase concerns about the United States.

One cause of these concerns is the fact that the Trump administration's ASEAN policy has remained unclear. The section on the Indo-Pacific in the National Security Strategy (NSS) announced in December 2017 made the following statements about ASEAN and ASEAN countries.

- The Philippines and Thailand remain important allies and markets for Americans.
- Vietnam, Indonesia, Malaysia, and Singapore are growing security and economic partners of the United States.
- ASEAN and Asia-Pacific Economic Cooperation (APEC) remain centerpieces of the Indo-Pacific's regional architecture and platforms for promoting an order based on freedom.³²

While the NSS positively evaluates the United States' relationship with ASEAN countries in these simple statements, words and phrases emphasizing their economic value are prominent, and it has to be said that it lacks a comprehensive and strategic vision like the policy of "rebalancing toward the Asia Pacific."

This US posture is providing opportunities for China to increase its presence in ASEAN as a major power with a vision, like the BRI, for a new order in the region. From the start ASEAN had feelings of rejection towards Western values regarding human rights and democracy, viewing them being imposed unilaterally by the West without consideration of Asia's particular situation. This was exemplified by ASEAN's discussions of "Asian values" in the 1990s. In this sense, the Asian values of the 1990s can be reinterpreted and leeway is even emerging for the spread of the vision of a China-centered regional order.

The third impact, which is linked to the second, is the provision by China of new values concerning the order of priorities of the policy challenges for the region. The concepts of support based on non-interference in domestic affairs and an order that does not necessarily prioritize human rights and democracy have great appeal for the statesmen of several ASEAN countries. The concept of "sharp power" that China is said to have nowadays is giving rise to lively debate. According to the definition of its advocates, "sharp power" is the power through which an authoritarian regime takes advantage of the openness of the democratic nations it targets to interfere in politics and manipulate information to form a favorable view of its country and exert political influence in the target country so that it follows the policies of the authoritarian regime.³³

China's strategy towards ASEAN countries is somewhat different from this. It is a policy through which China uses money power to directly influence the governments, and particularly the heads of government, of ASEAN countries, which have fragile democratic systems or authoritarian systems. In this regard, there are cases in which the development of the target country is promoted through economic aid, including infrastructure construction, increasing popular support for the government of the country concerned and stabilize its structure, and there are cases of support which directly contributes to the economic benefit of individual politicians.

These kinds of Chinese influence are not limited to the creation of a relationship between the supporting and supported country through the medium of economic aid. In the event of criticism or sanctions by Western countries against an attempt by a government, particularly an individual political leader, to maintain or strengthen their power or regime, it also serves as a protective wall for such governments or leaders. A striking example of this trend was the rapid approach to China of the military government of Thailand after it came to power by a coup d'état in 2014. At present, the Hun Sen regime in Cambodia, which is attempting to maintain its power by authoritarian means, is building a very close relationship with China. In Malaysia, the honeymoon relationship of the Najib Razak administration with China was also conspicuous.

Even when Western countries step up their criticism of these countries or impose sanctions on them, the effects have become diluted because they have another source of

support in China. This does not simply compensate for the losses arising from economic sanctions, but is more comprehensive and powerful support in the sense that it provides them with a political shield in the international community. It could be said that China is aiding the retreat of democratization in Southeast Asia. From another perspective, this situation shows that the US-centered regional order is now in a period of transition as a result of the strengthening of relations with China by ASEAN countries that have been traditional allies of the United States, such as Thailand and the Philippines, as discussed above.

4. ASEAN's Attempt to "Rebalance"

However, it became clear again in 2018 that balance is the essence of ASEAN's external strategy. For the ASEAN countries, it is still very risky to unconditionally accept the regional order presented by China. In the vertical regional order with itself at the center that China favors, there are fears that China's influence would become excessive and this would leave ASEAN with less room for strategic autonomy. Excessive economic dependence on China, particularly the expansion of the trade deficit of each member country with China, is also a cause for concern.³⁴ In 2018, ASEAN's sense of balance is once again reviving and it has started moving towards "pushbacks" in its various China-related policies.

Firstly, this trend can be seen in ASEAN politics. As described above, when it was the ASEAN chair in 2017, the Philippines showed excessive consideration towards China. In response to this, the chair in 2018, Singapore, restored ASEAN's collective view to its former standpoint. In the background to this development was China's further militarization of islands in the South China Sea, deployment of missiles in the Spratly Islands, and implementation of take-off and landing exercises of H-6K bombers capable of carrying nuclear warheads in the Paracel Islands. It seems that even ASEAN could not overlook such threatening behavior.

The Chairman's Statement of the 32nd ASEAN Summit held in April 2018 returned to the direction of clearly expressing its concerns about China's actions, stating, "We discussed the matters relating to the South China Sea and took note of the concerns expressed by some Leaders on the land reclamations and activities in the area, which have eroded trust and confidence, increased tensions and may undermine peace, security and stability in the region." It also stressed "the importance of non-militarization and self-restraint."³⁵ However, this response by ASEAN did not go further than the repetition of these words, without expressing its concerns in stronger language. This is ASEAN's limit at present, and it shows how difficult it is for ASEAN to take decisive action even in determining the official language.

On the diplomatic front, ASEAN has strengthened its relationship with major external powers apart from the United States, such as India and Australia, in order to maintain a balance with China. In January 2018, the leaders of the ASEAN10 countries met with the

Indian Prime Minister Narendra Modi in Delhi at commemorative summit to mark the 25th anniversary of the India-ASEAN dialogue relations. In March 2018, the first-ever summit meeting between ASEAN and Australia was held in Canberra. These moves can be interpreted as the strengthening of "hedges" against China by ASEAN.

The second pushback is ASEAN's response to the Free and Open Indo-Pacific Strategy, which Japan began to advocate in 2016. This Strategy consists of the three pillars of promoting the rule of law, pursuing economic prosperity, and realizing peace and stability, with the aim of promoting the stability and prosperity of the entire region. One of the main focuses of the Strategy is support for infrastructure construction. In June 2018, Prime Minister Abe announced a plan to build a US\$50-billion funding framework with the aim of building infrastructure in the region.³⁶ Both the United States and India have expressed their support for the Strategy.

ASEAN countries have generally shown interest in the Free and Open Indo-Pacific Strategy and several of them have expressed support for it. For instance, at a summit meeting with the Prime Minister Abe in August 2017, Prime Minister Hun Sen of Cambodia stated that he "welcomes and supports" the Strategy.³⁷ However, there are also vague concerns about the Strategy in ASEAN, partly because its contents are still uncertain and partly because the "Quad" strategic dialogue among Japan, the United States, Australia, and India was launched at the same time. ASEAN countries are wary that, by participating in the Strategy, they may play a part in the formation of an encircling net around China by the Quad.³⁸ Here, too, ASEAN's sense of balance comes into play, resulting in a tendency to avoid the "ultimate choice" between the United States and China. Furthermore, Indonesia, the Philippines, and Thailand have been showing interest in participation in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP11). In addition to the BRI

and RCEP, this is an attempt to form a multilayered economic order by taking part in multiple economic cooperation frameworks. Their interest in TPP-11 can be interpreted as a manifestation of their feeling that they should aim for a balance between frameworks.

The third pushback is the trend towards the reconsideration of Belt and Road-related projects in ASEAN countries. The general election in Malaysia in May 2018 resulted in the first regime change in the country's history. After the new prime minister, Mahathir Bin Mohamad, took office, his administration announced the revision of infrastructure projects the previous administration had concluded with China. The new prime minister proceeded to renegotiate the East Coast Rail Link from the viewpoint of profitability and expressed the wish to postpone the project for the construction of a high-speed railway between Kuala Lumpur and Singapore.

In Myanmar, too, fears were expressed that the costs of the project to develop Kyaukpyu port were too high and there have been moves towards reviewing the project. In Indonesia, the construction period of the Jakarta-Bandung railway project has been greatly delayed, and in Thailand discussion with China concerning loan interest rates for the extended section of a rail line project with Thailand have reached a deadlock. This trend of revision of Belt and Road-related projects in ASEAN countries seems to have been greatly influenced by the case of Sri Lanka. After becoming saddled with a massive debt from the development of Hambantota Port, Sri Lanka found itself unable to repay the debt and was forced to hand over the port to China under a 99-year lease. This showed ASEAN countries

the danger of the “debt bomb” arising from the construction of infrastructure by China and has led to their revision of projects in order to protect their national sovereignty. These revisions of Belt and Road-related projects are no more than renegotiations based on considerations of profitability and the possibility of repaying debts, and do not signify any decrease in economic cooperation with China. However, it is clear that there is a trend in ASEAN towards avoiding one-sided dependence on China and restoring balance.

The fourth trend towards pushback is the possibility that the issue of China's support for authoritarian regimes

may become prominent. In Cambodia and Thailand, there have already been strong reactions against politicians. In countries under authoritarian regimes there is always the possibility of sharp confrontations between government and the people, and citizens in these countries do not always support China's commitment to the government. Although support from China enriches politicians in ASEAN countries, it may also lead to increasing dissatisfaction among the general public, such as cases where the influx of Chinese workers makes it more difficult for indigenous workers to find work in an area of development, or land prices rise rapidly as a result of its expropriation. In the Cambodian general election of July 2018, the Hun Sen regime thoroughly suppressed the opposition party and cracked down on opposition groups. In Thailand under military rule, a general election is planned for 2019, but there are fears of political instability due to confrontations between politicians and the people. In the Philippines, the conciliatory attitude of the Duterte administration towards China has also been criticized for encouraging China's maritime incursions regarding the issue of Benham Rise off the east coast of Luzon and the reoccurrence of harassment of Philippine fishermen in the South China Sea. It cannot be denied that the expansion of China's economic influence has also given rise to new political problems.

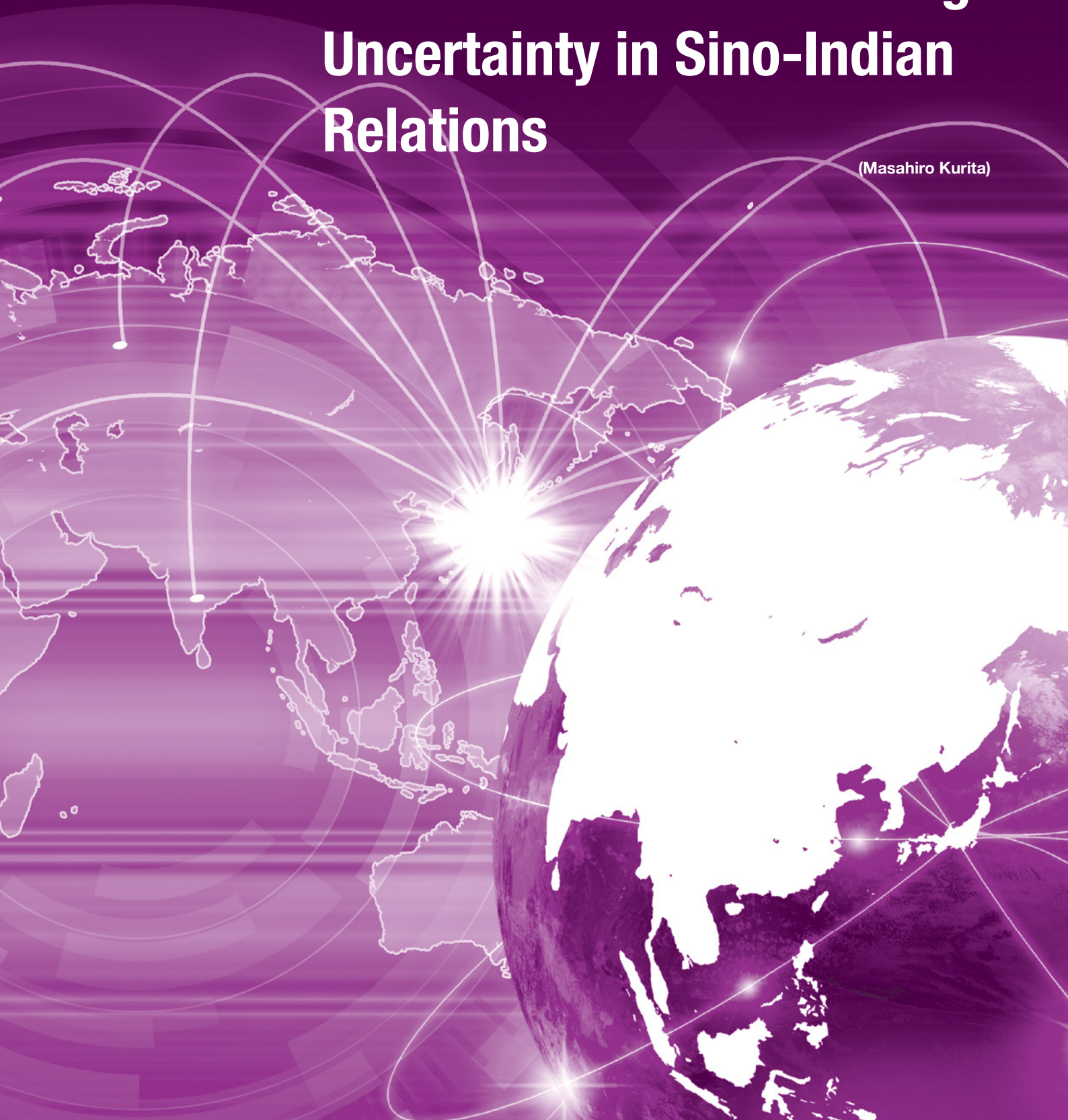
As we have seen, ASEAN has tried to respond to the rise of China by methods that promote balances between the dualities of "engagement and constraint," "economics and security," and "China and the United States." To make balance possible between each duality, a certain external environment is necessary, and ASEAN is well aware that it does not have the power to achieve this on its own. Indeed, in a situation where ASEAN is being subsumed into China's sphere of influence as it promotes the BRI, ASEAN's strategic options are becoming even narrower. However, it cannot be said that the regional vision presented by China is always attractive to ASEAN, and the vertical order that China prefers is not compatible with the ASEAN's traditional ideals of equality and consensus. Accordingly, ASEAN has sought the appropriate involvement of external powers like Japan and the United States. As it continues to pursue this two-track strategy, ASEAN is exploring points of compromise for balance, but the problem is that these points of compromise are forever changing according to the external environment, nor is it clear whether their usefulness will be maximized. It is all a matter of how skillfully ASEAN can swim in a strategic environment determined by external powers, particularly the United States and China.

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Chapter 3

The Belt and Road Initiative and South Asia: Increasing Uncertainty in Sino-Indian Relations

(Masahiro Kurita)



1. The Expansion of China's Influence in South Asia

Traditionally, China was not a major player in South Asia. Since the end of the Second World War, South Asian regional order had developed with India assuming the central position as the region's dominant power, and rejecting any involvement by external powers in the region, which India regards as its sphere of influence. It is true that small regional countries, when experiencing friction with India, often appealed for support from the nearest extraregional power, China. However, during the years when China's power was limited, its presence in South Asia never achieved a position greater than that of serving as an antithesis to Indian pressure. Even in the case of Pakistan, which has been embroiled in a territorial dispute with India as China has and hence established close relations with China that have been described as a quasi-alliance, its greatest patron in reality had always been the United States.

China's expanding economic engagement in South Asia, which gained momentum around 2010 and is now being implemented under the banner of the Belt and Road Initiative (BRI), can have the effect of boosting China's position within South Asia to that of a great power that equals India's position, at the least, and may even surpass it. In South Asia, that process, for the time being, is not being spearheaded by a blatant military approach in which China is literally establishing naval bases in the countries adjacent to the Indian Ocean. Rather, what has been steadily progressing in the region at the current stage is (1) the expansion of China's economic influence, through large-scale economic engagement centered on infrastructure development, including ports that are potentially available for military use, and (2) the expansion of China's latent political influence leveraging that economic influence.

On the flip side of the same coin, the expansion of China's influence in that way signifies the relative decline in the influence previously enjoyed by India, the traditional dominant power in South Asia. That development is particularly prominent in the smaller nations of the region: Sri Lanka, Maldives, and Nepal.

(1) Sri Lanka

Sri Lanka, which is positioned along important sea lines of communication (SLOC) in the Indian Ocean, has historically built up a close, multifaceted relationship with India, despite some pending concerns such as the Tamil ethnic issue. For its part, India has also perceived Sri Lanka to be part of its own sphere of influence. Nonetheless, Sri Lanka started deepening its relations with China in 2005 under the tenure of President Mahinda Rajapaksa (2005-2015). While Sri Lanka's relations with both India and Western countries stagnated over alleged human rights violations by the government in the civil war that persisted through 2009, China gradually expanded its influence there through economic and military assistance. From 2005 to 2017, Sri Lanka accepted almost US\$15 billion in capital from China

largely to promote the construction of large-scale infrastructure by Chinese corporations, in order to rebuild the nation's economy ravaged by the civil war.¹

However, the infrastructure projects advanced by the Rajapaksa administration did not produce economic growth sufficiently robust to allow it to repay the massive debts assumed thereby. In particular, Hambantota Port development, into which much money was poured in spite of its dubious economic rationale having been pointed out from the outset,² ended up being a total commercial failure, along with the development of the adjacent international airport. Meanwhile, Sri Lanka's external debt, which had stood at US\$10.6 billion in 2006, had mushroomed to US\$25.3 billion by the end of 2016, corresponding to 34 percent of its gross domestic product (GDP). Of that figure, US\$3.3 billion was accounted for by China.³

Owing to mounting concerns over the situation, the opposition candidate Maithripala Sirisena, who had criticized the Rajapaksa administration for leaning toward China, achieved victory in the presidential election of January 2015. Immediately after assuming office, Sirisena carried out such actions as suspending the Colombo Port City Project that the previous administration had agreed upon with China, leading to growing speculation that he would rethink the country's growing proximity to China. However, on account of the massive debt already owed to China, and the inability to find any other lenders, the new president had no choice but to request China to reschedule the debt payments and to extend new loans to Sri Lanka, making it effectively impossible for the country to distance itself from China. By 2015, it is said that 95 percent of Sri Lankan governmental annual revenues were being applied to servicing its debt.⁴ Although the Sri Lanka government had initiated talks with China in 2016 to alleviate its debt, China refused to simply reduce the debt, so in July 2017, Sri Lanka ended up signing a debt-equity swap contract valued at US\$1.1 billion to lease Hambantota Port and 60 square kilometers of the surrounding area to China for a period of 99 years. The deal became effective the same December.⁵

(2) Maldives

The Maldives, an island nation lying to the southwest of India, always used to consider India its most important partner. India had quashed the coup d'état attempt in that country in 1988, and later extended its emergency assistance in the form of humanitarian assistance after the

Indian Ocean tsunami of 2004. Besides that, India extended various kinds of assistance to the Maldives, including public finance, in return for which the Maldives put the highest priority on its relations with India. That was the way the relationship between the two countries used to work historically.

On the other hand, the country's relations with China started to rapidly expand under the authoritarian leadership of the pro-China President Abdulla Yameen, who took office in 2013. The following year, the Maldives publicly announced its support of the 21st Century Maritime Silk Road, part of the BRI, with large-scale infrastructure development subsequently starting by Chinese firms. The number of Chinese tourists visiting the Maldives came to exceed that of Europeans, who had previously held the top spot, and at the end of 2017, the Yameen administration ran around domestic opposition to sign its first free trade agreement with China. At the same time, though, voices of concern are being raised in the Maldives about drawing so rapidly toward China. The former President Mohamed Nasheed, who had served until 2012 and is now in exile, having opposed President Yameen, has pointed out that: (1) it will be difficult for the Maldives to repay its debt to China, now mounting to US\$1.5 to 2.0 billion; (2) most of that amount was spent on building infrastructure that was unnecessary in the first place; (3) China has purchased 16 or more Maldivian islands under the Yameen administration; and (4) the whole country could be taken over if the Maldives fails to repay its loans.⁶

Against that backdrop, the Maldives went through a political crisis from February to March 2018, resulting from President Yameen's refusal to abide by the country's Supreme Court decision ordering, among other things, the dismissal of charges against Nasheed and eight others as having violated the Anti-Terrorism Act. In concert with the United Nations, the United States, and the United Kingdom, India also expressed its support of the Maldivian Supreme Court's ruling, but President Yameen still did not yield, instead declaring a state of emergency, arresting Supreme Court judges, thereby further aggravating the crisis.

Former President Nasheed requested India to make a similar military intervention to the one it had conducted to quash the Maldives coup d'état attempt of 1988. In response, the Indian Armed Forces made preparations to send transport assets and special forces,⁷ but it was ultimately decided to avoid military intervention and just to apply diplomatic pressure instead. Analysts on the outside have said that India's inaction was related to Chinese moves.⁸ Right after the crisis erupted, President Yameen dispatched a special envoy to China, with Beijing then issuing a statement calling for respect for Maldivian sovereignty and for non-intervention by foreign powers. Meanwhile, a Chinese naval fleet, composed of several destroyers and at least one frigate, entered the Indian Ocean for the first time in four years, despite the 5,000-km maritime distance involved—an event that was prominently reported by Indian media.

The crisis in the Maldives drew to a close with the expiration of the state of emergency on March 22. Still, the government has continued to refuse to abide by the Supreme Court ruling, effectively ignoring the will of India, which traditionally was regarded as its most important partner.

(3) Nepal

While Nepal and India have not always been on the best terms with each other, India has undeniably been the most important country for Nepal. Even today, India is its biggest trade partner, and Nepal depends on its open border with India, which allows for the free movement of people, goods and services, both socially and economically.⁹ Because of its geographical setting, almost all of Nepal's trade with the outside world has, for many years, been forced to transit India. Although the Nepalese side is dissatisfied with its inequality, the two countries still maintain a special relationship based on the India-Nepal Treaty of Peace and Friendship of 1950, and India regards Nepal as part of its sphere of influence.

Meanwhile, China, as a neighbor to Nepal, had also engaged in the Himalayan nation since the 1960s in order to gain influence. However, it was the virtual economic blockade of the country, reportedly imposed by India, for five months starting in September 2015, owing to the controversy over Nepal's new constitution, that triggered Nepal's inclination toward China that has frequently been mentioned in recent times. The resulting shortages of fuel, foodstuffs, medicine, and other materials sparked rising anti-India sentiment in Nepal, and the government at the time, led by Prime Minister K.P. Sharma Oli, sought help from China. That ended up breaking India's long-maintained monopoly on the supply of fuel to Nepal, as well as shoring up Nepal's confidence in China. The following year, Nepal signed an agreement with China allowing imports from third countries into Nepal to be shipped via Tianjin Port.¹⁰

With Nepal's signing in May 2017 of a memorandum declaring its participation in the BRI, some outside observers pointed out that this move was a signal to leave India's sphere of influence.¹¹ At the Nepal investment summit that preceded the signing of the memorandum, China pledged a sum of US\$8.3 billion to be invested in different sectors including hydropower and railway, compared with a paltry US\$317 million pledged by India.¹² Also, in June 2018, Nepal and China signed a memorandum regarding the construction of a railway from Tibet to Kathmandu, the feasibility studies for which had been conducted for some while. India, on the other hand, promised Nepal a hydroelectric plant and an upgrade of the railway between Jainagar in India and Janakpur in Nepal, but progress on that front has reportedly been minimal.¹³ Meanwhile, in June 2017, an India-friendly Nepali Congress government was formed, which led to scrapping a dam deal with China that constituted part of the BRI. In the election at the end of the same year, though, a leftist alliance led by pro-

Chinese Prime Minister Oli took back control of the Nepalese government.

2. The BRI Confronting Reality: India's Negative Reaction, and Its Worsening Image

(1) India's Perception of the BRI

China's expansion of political and economic influence in South Asia through stepped-up economic engagement, as described above, has set off loud warning bells in the regional hegemon, India.

As symbolized by its refusal to participate in the Belt and Road Forum for International Cooperation (BRF), held in May 2017, India is currently opposed to the BRI. The reason most often cited for its opposition is the fact that the China Pakistan Economic Corridor (CPEC), which forms part of the BRI, includes projects within Pakistan-administered Kashmir (PAK), to which India asserts a territorial claim, making it a sovereignty issue that India deems unacceptable. However, India's position toward the BRI before BRF had been ambiguous, although it clearly opposed CPEC. Moreover, as one notable Indian strategist points out, the Karakoram Highway (KKH) as a joint Sino-Pakistan infrastructure project in PAK has been there since the 1960s, but India has not made a big issue of that.¹⁴ In consideration of such points, India's ongoing opposition to the BRI involves issues that go beyond just the sovereignty concern surrounding CPEC.

One of those issues is the fear that China's expansion of political influence in South Asia threatens India's status as the dominant power in the region. India was not always antipathetic toward China's infrastructure investments in the region, as well as toward the promotion of connectivity by China per se. Since the 1990s, India has been involved in the conception of Bangladesh-China-India-Myanmar Economic Corridor (BCIM-EC), now incorporated by China into the BRI. Moreover, India is a founding member of the Asian Infrastructure Investment Bank (AIIB) that supports the initiative, and is the country with the second-highest stake in that bank, as well as its biggest borrower. On the other hand, however, the expansion of Chinese economic engagement in South Asia, no matter what the country's intentions may be, signifies to India an erosion of its own status as the regional hegemon, given that economic influence can easily be translated into political influence. In particular, if smaller regional states borrow heavily from China to fund economic cooperation with it, the resultant debt burden can act as strong political leverage for Beijing over the recipient countries. The principles raised by India in its criticisms of the BRI—namely, considerations of openness and transparency in the promotion of connectivity, as well as the financial health of the countries involved—can be seen as a reflection of its concerns that South Asian countries with meager democratic governance, by agreeing to economic

cooperation with China for projects that have questionable economic rationality, end up carrying unsustainable levels of debt that place them under China's strong political influence.

In addition to that, China's recent moves in the region involving the BRI are thought to have exacerbated India's wariness. To wit, when it announced the BRI, China made elaborate behind-the-scenes consultation with Russia, but not with India, a slight that is said to have caused offense to the latter.¹⁵ It can be conjectured that India construed the move (i.e., talking only with Russia) as evidence of China's intention not to respect its status as South Asia's hegemon. Furthermore, Sri Lanka, Maldives, and others have gradually increased the amount of debt—latent political leverage—owed to China, and India also found itself unable to apply pressure effectively against Nepal from September 2015 onward, on account of China's intervention. In May 2017, an article in the *Global Times*, a subsidiary of the *People's Daily*, the mouthpiece of the Chinese Communist Party, suggested that China, in response to its increased overseas investments in the BRI, should actively get involved in the resolution of South Asian regional disputes, such as the Kashmir issue, in which India had vehemently rejected third-country intervention. Some believe that it was that article which spurred India's resentment.¹⁶

Another issue is India's wariness about the possible strategic implication of China's economic engagement in the region. Namely, it fears that China's construction of ports that are militarily utilizable, along with the acquisition of the management rights for them, will lead to the expansion of its military presence in the Indian Ocean. From the very beginning, India had been seriously concerned about the "string of pearls" theory, advanced in the United States, according to which China would attempt to construct a network of naval bases along the perimeter of the Indian Ocean. China then went ahead to pursue the development of Hambantota Port in Sri Lanka and Gwadar Port in Pakistan—both of which were suggested as candidate sites for possible conversion to Chinese military bases—in its BRI, and since 2014, China has made submarine port calls in both of those countries (though not in those two ports per se). Also, apart from economic engagement, China agreed with Pakistan in 2015 and with Bangladesh in 2016 to provide those countries with conventional submarines. Such supply of Chinese-made equipment makes it easier in the long run for the Chinese Navy itself to be serviced in the ports of the recipient countries. It is reasonable to assume that these moves have exacerbated New Delhi's concern about Beijing's strategic intentions behind its economic projects under the banner of the BRI, and it is also likely that New Delhi viewed the handover of Sri Lanka's Hambantota Port in a similar vein.

As will be stated later, China—at least as of the current stage—has not yet necessarily been actively exploiting the strategic implication of the BRI in South Asia, nor has it been willfully aiming to erode India's position as the regional hegemon through an expansion of its political influence. Despite that, to date, the Indian policy community has largely solidified the view that the BRI is not a mere economic project but also something imbued with a politi-

cal and strategic design.¹⁷ India's wariness has been growing because of such a view.

(2) India's Countermeasures to the BRI

Driven by those concerns, India has been developing countermeasures along various levels in recent years. The first pillar has been its active engagement with smaller regional neighbors: a priority policy of the Narendra Modi administration since its launch in May 2014. Within this context, a notable case is Bangladesh. In its relationship with Dhaka, New Delhi settled the decades-old border dispute in 2015, and in 2017, it agreed to give Dhaka a US\$5 billion line of credit, including US\$500 million for the purchase of military equipment. At present, Bangladesh has increasingly come to occupy an important position in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Bangladesh-Bhutan-India-Nepal (BBIN) framework, both of which are now being advanced by India to counter the BRI.¹⁸ China is also increasing its engagement with Bangladesh, with that country promising to participate in the BRI during a visit by President Xi Jinping in 2016, when China offered US\$24.45 billion assistance and Chinese companies signed agreements with Bangladesh entities involving US\$13.6 billion.¹⁹ In advance of that, however, Bangladesh withdrew its plan to build Sonadia port with China's cooperation due to pressure from India and others, instead adopting a plan proposed by Japan to construct Matarbari Port. Thanks to such developments, India views its engagement with Bangladesh as a "successful example" of its "neighbourhood first" policy.²⁰

Elsewhere, India twice extended US\$500 million in credit to Mauritius—in 2015 and again in 2017—with an additional US\$100 million in credit extended in 2018 for that country to procure an offshore patrol vessel (OPV) from India, as well as funding construction of a light-rail network in Mauritius, built by Indian multinational company, with nearly US\$300 million in grants.²¹ As for the Seychelles, while there has been little progress in implementing the plan—hammered out in 2015—for India to construct joint-use military facilities in that country, a summit meeting held in June 2018 between the leaders of India and the Seychelles produced an agreement for the former to extend the latter a line of credit of some US\$100 million, along with India donating the Seychelles its second Dornier 228 maritime patrol aircraft.²² In 2014, both Mauritius and the Seychelles joined the maritime security cooperation framework established by India, Maldives, and Sri Lanka, and in 2017, Mauritius signed a bilateral maritime security cooperation agreement with India.

India is also endeavoring to make a comeback in those countries where China has already made conspicuous inroads. With Sri Lanka, India is working on a deal to take over the Mattala Rajapaksa International Airport in Hambantota, which, as with the adjacent port, was built with Chinese assistance with little economic justification. It is also supporting the development of Kankesanthurai Port in northern Sri Lanka. Accommodating India's

concern, Sri Lanka's Sirisena government, even during its debt talks with China, refused permission for a Chinese submarine to dock at Colombo port, unlike its predecessor who had allowed a similar visit in 2014.²³ The administration also assured India that it would not allow the Hambantota Port, even after being handed over to China, to be used for military purposes. Moreover, when Prime Minister Narendra Modi traveled to Nepal in May 2018, he stressed the importance of the two countries' cultural ties, and promised to resolve pending bilateral issues by September, thus succeeding in making some course correction in their relations.²⁴ The leaders of India and Nepal held another summit in August of the same year, signing a memorandum to link Kathmandu by a new railway with Bihar State in India. In the Maldives, the China-friendly incumbent President Yameen was defeated in the presidential election of September 2018, turning the tide in India's favor.

The second pillar of India's countermeasures against China's BRI is the pursuit of alternative multinational connectivity schemes. Within the aforementioned BBIN framework, the three countries, except for Bhutan (i.e., just India, Bangladesh, and Nepal), have already agreed on operating procedures for movement of passenger vehicles in the sub-region under the BBIN motor vehicles agreement (BBIN-MVA), facilitating the cross-border movement of vehicles. Although there had previously been little progress with BIMSTEC, which envisages the development of an economic sphere linking South Asia with Southeast Asia, India worked to shore things up by inviting the leadership of member countries to the BRICS (Brazil, Russia, India, China, and South Africa) summit held in Goa in 2016. Construction is now progressing on a 1,400-km trilateral highway linking India, Myanmar, and Thailand, which is slated to open for actual operation by the end of 2019.

Additionally, India is developing Chabahar port in Iran, along with advancing the International North-South Transport Corridor (INSTC) concept in cooperation with Russia and Iran. These projects are for India to gain access to Afghanistan, Central Asia, Russia, and Europe via Iran. In May 2016, India declared it would invest US\$500 million in the port's development, and acquired management rights in February 2018, with operation of the port targeted to begin by 2019. With the historical backdrop of India's access to Afghanistan and Central Asia having been blocked by Pakistan, INSTC and Chabahar allow India to compete with Pakistan's vision of turning itself into a regional transport hub through CPEC, including Gwadar Port, and are also meaningful in terms of enabling India to demonstrate its capability of carrying out mega-infrastructure projects jointly with other countries.²⁵ Moreover, to enhance the convenience of INSTC, in 2011 India joined the Ashgabat Agreement among Iran, Oman, Turkmenistan, and Uzbekistan, which aims to facilitate transport between Central Asia and the Gulf region.

As the third pillar, India—given the difficulty of opposing the giant power of China on its own—has increased cooperation with major external powers. While most of India's recent

moves to deepen cooperation with external powers, especially the United States and Japan, have been driven by its concern on China at least to some extent, what is noteworthy in relation to the BRI is the Asia Africa Growth Corridor (AAGC), announced in May 2017. The AAGC, which aims for Japan and India to jointly develop “high-quality infrastructure” to improve connectivity between Asia and Africa, leveraging India’s experience in Africa along with Japan’s technological and financial capabilities, is often cited by India’s strategic community as a competitive alternative to the BRI. India and Japan are also holding trilateral consultation with the United States on cooperation in the area of connectivity and infrastructure.

(3) The Worsening Image of the BRI

In South Asia, the expansion of China’s influence through economic engagement is encountering the kind of reaction and countermeasures from India as seen above. In addition, China faces another conundrum: how to deal with the diffusion of the negative image of the BRI.

China’s economic engagement under the BRI has increasingly come to be associated with the phrase “debt-trap” diplomacy—and not just in South Asia. Generally speaking, it is the discourse that, as its basic *modus operandi* in economic engagement with other countries, “Beijing typically finds a local partner, makes that local partner accept investment plans that are detrimental to their country in the long term, and then uses the debts to either acquire the project altogether or to acquire political leverage in that country.”²⁶ People with similar viewpoints contend that China’s engagement amounts to economic colonialization, or that it is a strategic attempt aiming at the expansion of a military presence using ultimately irrational economic projects as a cloak or cover-up.

While that kind of criticism is not new, what fueled it was Sri Lanka’s experience with Hambantota Port. As demonstrated earlier, as a result of economically unviable investments in infrastructure projects by a pro-Chinese administration, the debt owed by Sri Lanka to China snowballed, and even when a new government was elected that tried to alter the policy’s course, there was no alternative but to re-borrow funds from China so as to deal with the excessive amount of debt, making any attempt by the new administration to “move away from China” end in failure. In the end, in return for reducing those debt levels, China effectively took over the port in which it had invested in—a facility that had been rumored to be converted into a Chinese naval base at some future point. Even if China had not originally planned on things turning out that way, the case of Hambantota Port ended up being a classic example verifying the discourse of the “debt-trap” diplomacy.

Because of the spread of such a negative image surrounding the BRI, smaller South Asian states have grown increasingly anxious and negative toward Chinese economic engagement today. In Sri Lanka, the talks about Hambantota Port’s handover have incited demonstrations condemning it as a “sell-out” of sovereignty, and tensions have even risen in

Pakistan domestically over the swelling debts and China's role in managing them.²⁷ Similar concerns about a “debt trap” are starting to rise in Nepal as well.²⁸

3. Current Status of CPEC

(1) CPEC Entering a Difficult Phase

Under such circumstances, CPEC, which was touted as the “flagship project” of the BRI, and which involves an overwhelming amount of Chinese capital, has entered a difficult phase. CPEC, a large-scale development project launched after a memorandum was signed between China and Pakistan in July 2013, revolves around the development of Gwadar Port on Pakistan's Arabian Sea coast, from where a transport network will be constructed to Kashgar in China's Xinjiang Uyghur Autonomous Region, with energy projects to be developed along its perimeter, along with the establishment of special economic zones (SEZs). Since the signing of the memorandum, the Pakistani government has forcefully promoted the project, seeing it as a “game changer” that will totally transform its economy.

CPEC is a long-term project, stretching to 2030. China's projected investment of US\$46 billion, initially announced in April 2015, has leaped to US\$62 billion, of which around US\$34 billion is earmarked for energy-related projects, such as the construction of power plants.²⁹ Moreover, the bulk of those energy projects has been designated as “early harvest” projects, with their completion slated for 2017-18. CPEC's Long-term Plan (CPEC-LTP) has positioned the period through 2020 as a time to eradicate social and economic bottlenecks in Pakistan's development. Along with those energy-related projects, the construction and improvement of major roads is supposed to be carried out in this period.³⁰ On account of such scheduling, some 22 projects worth US\$28.6 billion were in their implementation stage as of July 2018.³¹

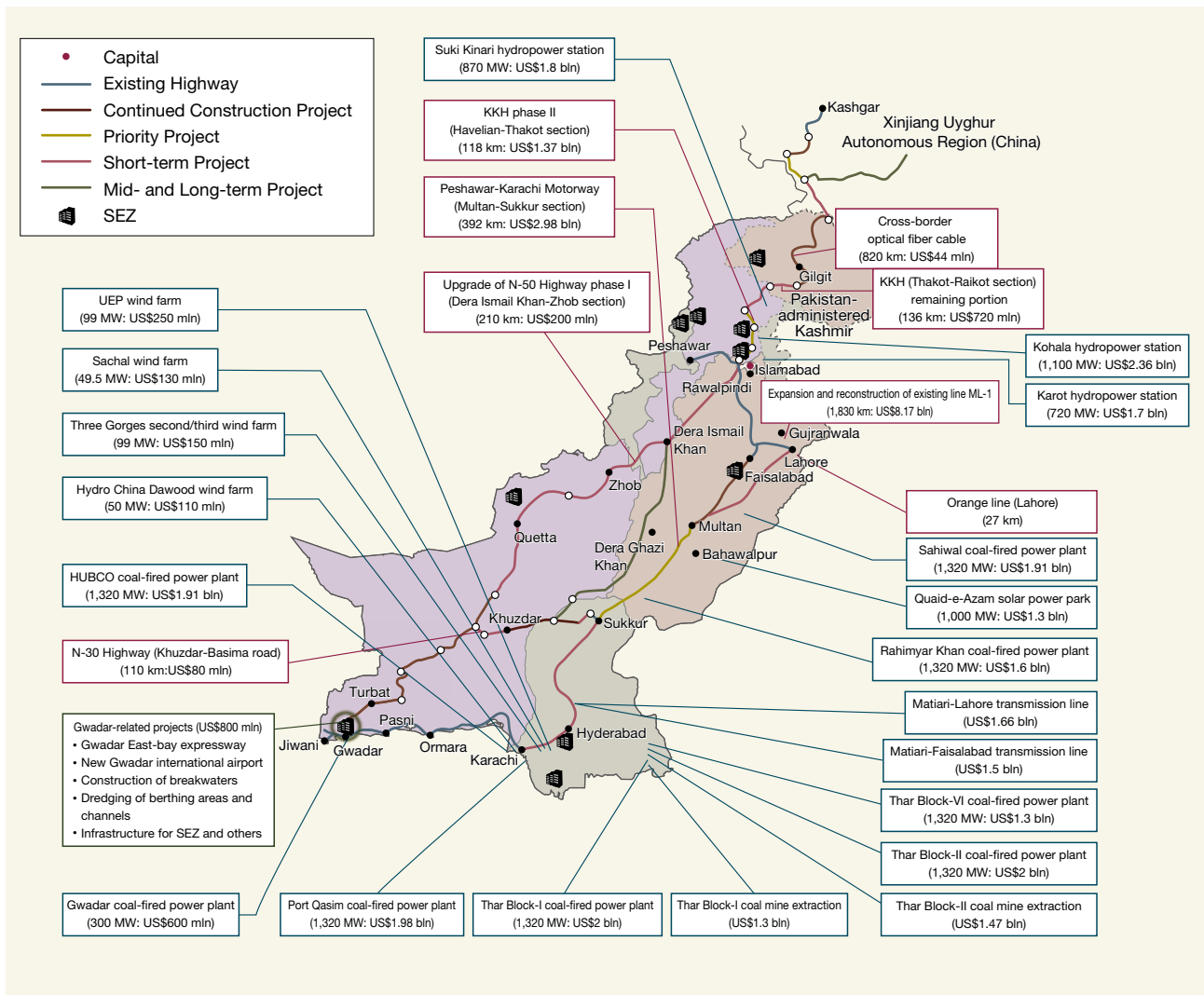
While the plan's execution has not necessarily gone according to the blueprint—with delays and cancellations plaguing many individual projects—CPEC has already had some positive influence on Pakistan. In the 2017-18 fiscal year, Pakistan achieved a GDP growth of 5.8 percent, its highest level in thirteen years.³² The International Monetary Fund (IMF) has also painted a rosy outlook for Pakistan's short-term economic growth, citing CPEC-related investments and the improvement in the power supply as some of the main reasons.³³

The problem, however, lies in what happens after that. CPEC is starting to shift away from its initial stage, focusing on energy and roads, to one centered on the establishment of SEZs and industrial cooperation. That is the stage which will potentially yield the largest impacts for Pakistan from the standpoints of economic growth and employment. In Islamabad's calculation, the export growth stemming from success in this stage is crucial to repay its massive debts. The same stage, however, has also sparked caution among the

Pakistani business community, as there seems to be no way for it to proceed smoothly. Although the Pakistani government plans to extend various forms of preferential treatment to the Chinese companies operating in the projected SEZs, opposition has come from the Pakistani business community, as they fear that if those Chinese corporations—which boast greater cost-competitiveness in the first place—get additional preferential treatment, there is no way for local companies to compete with them, resulting in the possible demise of local industry.³⁴

If the SEZs and industrial cooperation fail to materialize as hoped, exports will also fail to grow as expected, possibly leading to delays in discharging the country’s debt obligations and/or an unsustainable balance of payments deficit. In fact, such problems are already surfacing. At the end of 2017, Pakistan’s debt-to-GDP ratio had swollen to 66.3 percent

Figure 3-1: Major CPEC Projects



Source: Compiled by the author from Pakistani government materials.

(22.8 trillion Pakistani rupees) on account of, at least partially, CPEC-related borrowing.³⁵ Its repayment of CPEC-related loans is scheduled to begin in 2019, with the yearly amount set to steadily increase after that. By the 2023-24 fiscal year, the IMF has projected that Pakistan's annual loan repayment amount will reach some US\$3.5 billion to 4.5 billion.³⁶ Moreover, the country's international balance of payments is currently deteriorating to a serious degree. Although it is often expected that CPEC may facilitate the flow of foreign direct investment (FDI) into Pakistan, in reality, that has been canceled out by the increase in machinery imports from China for transport infrastructure and energy-related projects, resulting in a growing deficit in Pakistan's international payment balance.³⁷ Even if those imports were to level off, there will continue to be various factors burdening Pakistan's international balance of payments, such as its loan redemptions, profit repatriation by Chinese companies, and the import of fuel for power plants being set up under CPEC.³⁸ As of July 2018, the situation has already begun to show indications of a balance-of-payments crisis. Facing a severe shortage of foreign reserves, the State Bank of Pakistan devalued the Pakistani rupee four times between December 2017 and July 2018, but the majority view is that it will be unavoidable for Islamabad to request the IMF a bailout packages.

(2) CPEC's Strategic Implication and India-China-Pakistan Relations

As touched on previously, there are also concerns within Pakistan about the negative influences wrought by CPEC. Even before CPEC, there used to be a consensus in the Pakistani business community that China regarded Pakistan merely as a market for its exports, without any interest in investing in areas that would increase Pakistan's export competitiveness or in earning profits by establishing joint ventures on the ground.³⁹ With that background, concerns have been raised among the country's business circles and experts that CPEC is beneficial only for China, enabling it to export its domestic excess productive capacity and manpower, whereas Pakistan would be debt-ridden and in the end subjugated to China both politically and economically.⁴⁰ That sort of concern was further heightened by a report made by a local newspaper in May 2017 of the existence of a draft document of the long-term plan of CPEC, drawn up by China, detailing China's deep penetration into Pakistan's economy and society.

On the other hand, there has also been much discussion in Pakistan about the strategic benefits of CPEC. One typical example is the view that, by enhancing Pakistan's value to China, CPEC enables Islamabad to reinforce its relationship with Beijing and thereby gain leverage in its strategic competition with New Delhi. In a similar vein, it is also a common view that China positions CPEC in the traditional context of its support to Pakistan as a part of its anti-India containment strategy, and some people even suggest that it can be expected that China will be lenient about Pakistan's repayment of loans, on account of the importance it places on Pakistan in that respect.⁴¹ Also, frequent reference has been made to the

additional strategic benefits of the corridor for China, such as enabling it to escape from the Malacca Dilemma—the vulnerability of its vital energy shipments from the Gulf in wartime since the bulk of the shipments pass through the Malacca Strait which the US Navy can easily choke off—by giving it an alternative shipping route, as well as in the way it enables China to establish a naval presence near the strategically important Gulf region.⁴²

Debates about such potential strategic aspects of the corridor have similarly come to gain credence among experts and the media outside of Pakistan, making CPEC the one project generally regarded as entailing Beijing’s strategic design, under the cover of “economic development,” more than any other elements in the entire BRI scheme. Underscoring the spread of such thinking is likely the long-standing Sino-Pakistan “quasi-alliance” relationship, which has historically developed around security and diplomatic cooperation.

As such views on CPEC have spread, India, being worried about the BRI as seen in the previous section of this chapter, has inevitably heightened its concern about the corridor. India especially fears China’s turning Gwadar Port into a naval base, which would allow that country to protect its own Indian Ocean SLOC and exercise influence in the Gulf region.

Still, in view of the actual facts on the ground, the possibility of Gwadar being converted into a Chinese naval base had already been pointed out as early as the turn of the century, when China began construction on it as a commercial port, and in the more than 15 years since then, there have been no concrete signs of its conversion of the port into a naval base, nor is there any hard information publicly available that shows that Chinese naval vessels have made port calls there. Both the Chinese and Pakistani governments have repeatedly denied that China will convert Gwadar Port into a naval base, saying that it is purely a commercial port, and even the Indian Navy recognizes it as commercial at least for now.⁴³ Though China’s original intentions are unclear, it is probably even more difficult for Beijing to turn Gwadar Port into a naval base now than it had been before CPEC and the BRI were originally developed. With Gwadar Port having become one of the pillars of CPEC, the risk can no longer be ignored—for the future economic success of the port and CPEC as a whole—of third countries avoiding commercial use of the port if it is effectively made into an “Chinese

military port.” Moreover, if China converts Gwadar Port—the symbol of CPEC, which it positions as the pilot project of the BRI—into a military base, that would only fuel the criticism that the BRI is nothing but a politico-strategic scheme in the disguise of “economic development” and could instigate greater global opposition and resistance to the initiative.

Meanwhile, regardless of the ground reality in military utilization of the corridor project to date, it suits Pakistan’s interest that India is preoccupied with and is heightening its concern on the alleged strategic intent for CPEC, for that country has found its own strategic benefit in CPEC: drawing China to its side by making the “China and Pakistan versus India” structure much more entrenched, thereby gaining the upper hand against India. Pakistan’s intention to make that alignment more solid can also be seen in its increasingly vociferous claims in recent years that India, in order to derail CPEC, has been carrying out covert operations within Pakistan such as supporting terrorism and insurgency.⁴⁴ While India may indeed be in contact with anti-state armed groups within Pakistan that are hostile toward CPEC, one can conclude that Pakistan is, by trumpeting that claim, trying to portray India as an enemy to CPEC—a joint Sino-Pakistan undertaking—in order to draw China in closer as an ally.

At the same time, however, Pakistan’s stance of utilizing CPEC strategically in its competition with India, including the above-mentioned approach, is not necessarily something that China wants. There is a fundamental divergence of views between China and Pakistan about the desirable form of relations among China, India, and Pakistan. China has historically supported Pakistan as a counterweight to India, and in that context, a stable and “strong” Pakistan is desirable, with that country’s further economic development through CPEC contributing to that. However, China does not share Pakistan’s goals concerning the Kashmir issue, and Pakistan’s taking the offensive toward India—with Pakistan’s recognition that its support from China has been reinforced by the deepening of Sino-Pakistani relations through CPEC—hurts China more than it helps the country. The actions that Pakistan is likely to adopt in such a case—additional military pressure on India, such as increasing the support to terrorism in India—would have unpredictable consequences, force Beijing to waste its political capital to defend Islamabad diplomatically in the international community, and, above all, complicate China’s management of its own relations with India. As to be explained later, China hopes to gain India’s cooperation in the promotion of the BRI.

It is undeniably true that Pakistan’s role in counterbalancing India is necessary for China. However, the desirable form of Indo-Pakistani relations for China is not one marred by Pakistan’s unabated support for terrorism and relentless cross-border shelling on both sides, but rather a “managed dispute” like that which has existed between China and India for the past 30 years, and therefore, China has encouraged Pakistan to build a profitable economic relationship with India.⁴⁵

China’s recent moves in relation to CPEC include certain elements that can be interpreted as its attempts to bring about a certain course correction, given that the alleged “strategic implication” of CPEC, strongly hoped for by Pakistan, have pushed the relations among China, India, and Pakistan toward an undesirable direction for China. China has repeatedly cast “amorous glances” toward India in the attempt to get it to participate in CPEC and the

BRI, and has also carried out diplomatic efforts to get India to cooperate with Pakistan in countering regional terrorist threats.⁴⁶ China's ambassador to India has said that if India takes part in the BRI, it might change CPEC's name, as well as establish an alternative corridor to CPEC through Indian-administered Kashmir (IAK).⁴⁷ In 2018, China's Ministry of Foreign Affairs proposed open consultations with India concerning CPEC. At the same time, while Pakistan is trumpeting India's covert operations against CPEC as a common threat to China and Pakistan, China has reportedly started to engage in direct talks—bypassing Pakistani authorities—with anti-government insurgent groups hostile to CPEC in Pakistan's Balochistan Province, the very group about which Pakistan has voiced its strongest suspicions on alleged links to Indian intelligence agencies.⁴⁸

Moreover, as previously mentioned, there are some in Pakistan who have pinned their hopes on China's generosity regarding such matters as the repayment of Pakistani debts, but the Chinese response to the current balance of payments crisis seems to have thrown cold water on such hopes. Ever since 2017, Pakistan has appealed to China for help amidst a worsening deficit in its current balance of payments, arguing that a bailout package from the IMF must be avoided as it could adversely affect CPEC.⁴⁹ While China did, however, end up extending Pakistan a certain degree of support during the 2017-18 fiscal year, it did so only sparingly. The *Global Times* printed an article concerning that assistance, saying that the sustainability of China's financial support was an important issue. It noted that since China's loans were based on market principles, Pakistan's capacity to meet its debt obligations would be called into question, and that Pakistan had to implement economic reforms.⁵⁰

4. The Future of Sino-Indian Relations and South Asia

China's course correction on CPEC in that way can be seen as constituting part of its attempt to effect a course correction in broader Sino-Indian relations. China is said to have been startled at the unprecedented resoluteness India showed during the Doklam standoff that took place from June to August 2017, triggered by a border issue between China and Bhutan, with Chinese and Indian troops confronting each other. Some believe that one of the factors behind that incident was India's concern over the growing Chinese influence in the region.⁵¹ Indian people have a general tendency to regard China's actions as willfully ignoring India's interests and concerns.⁵² However, at least as far as the standoff is concerned, it does not appear to be the case that China had foreseen such a strong reaction against it by India and was willing to accept the resultant consequence, given that China attempted to show consideration toward India once the standoff ended, in an endeavor to repair relations. At the BRICS summit of September 2017, China endorsed a joint statement which condemned some allegedly Pakistan-supported terrorist groups targeting India by name. In February

2018, moreover, China removed its objections to putting Pakistan on the gray list of nations not doing enough in combating terrorist financing monitored by the Paris-based Financial Action Task Force (FATF) on Money Laundering. Two months later, China invited Prime Minister Modi to an informal summit, something that it had normally done only with the leader of the United States.

The result of the summit was described as a “reset” of Sino-Indian relations, which had been fractious until then, with both sides agreeing to carry out joint economic projects in Afghanistan, a country China is considering for inclusion in the CPEC. In June 2018, India’s Minister of Defence declared that India would not view Sino-Indian relations through the lens of Sino-Pakistani relations, though it would not alter its opposition to CPEC as a sovereignty issue.⁵³

That does not mean, however, that the competition will end between China’s expanding economic engagement in South Asia, increasingly prominent in recent times, and India’s countermeasures against it. Even after the “reset,” India has been maintaining its stance against the BRI, and, in spite of Indian objections, the rest of South Asia will not change their stance of accepting China’s economic engagement. Aside from their demand for infrastructure that cannot be met without Chinese capital, the stance of the smaller regional countries stems from the nature of the relationship traditionally built up between China and South Asia. Except for India and Bhutan, which is effectively India’s protectorate, none of the other countries in South Asia has regarded China as an adversary in any political dispute, nor have they seen it as a security threat. For the smaller countries in the region, rather, it has largely been India that traditionally acted as such a “bully,” and they have resented India’s attitude of trying to maintain the regional order to its liking, even to the point of interfering in their domestic affairs.⁵⁴ In contrast, those countries have often played the “China card” to avoid various kinds of Indian pressure. Given that situation, it is difficult to contemplate a scenario in which the other countries in the region will follow India’s position and reject the BRI. Conversely, though, India has retained strong political influence on those countries, despite not always being loved, owing to the long-standing relations it has built up with them, which are far more multifaceted than any China has established with them. Even if China wanted to do so, therefore, there are limitations as to how much it can violate India’s wishes when influencing those countries, except for Pakistan. From the standpoint of those nations, the most profitable policy option for them is obviously to let China and India compete against each other and then to skillfully maneuver between the two giants.

In view of that, what both China and India are probably trying to get out of their “reset” is not the termination of their competition regarding engagement in South Asia, but rather to subsume it into the modus operandi of Sino-Indian relations that has been maintained over the past three decades—one that can be best described as a “managed

dispute”—in which the friction based on individual disputes has been managed within an overarching cooperative relationship. At least since the end of the 1980s, the two countries—while grappling with multiple controversies such as border issues, Sino-Pakistani relations, and India’s association with the Tibet problem—have striven not to let those problems greatly undermine the overall Sino-Indian political relationship, in consideration of benefits they can accrue from their cooperation in various fields, such as economic interaction and the multipolarization of the western-centric international order. Although Chinese economic engagement in South Asia itself, together with the fact that regional countries desire it as a way to evade Indian pressure, is not necessarily a new phenomenon, its rapid expansion in recent years—which has instigated India’s concern about the erosion of its traditional sphere of influence—has added Sino-Indian competition regarding engagement with regional countries to the list of bilateral “thorny problems.” What is to be seen is whether it will really be possible for Beijing and New Delhi to subsume that new dispute within the traditional modality of their “managed dispute.”

Such an attempt is not necessarily doomed to fail, in view of the will of both countries actually demonstrated by their “reset.” China’s economic engagement in South Asia may also serve as a supporting factor to the cooperative aspects of the Sino-Indian relationship. Beijing’s repeated invitations for New Delhi to participate in the BRI can be seen as being underscored by actual economic motives, rather than just representing a political pose. For instance, were the BCIM-EC, which has failed to move forward due to India’s reluctance, to be realized, it would connect China’s southwestern provinces with both India and Bangladesh, creating a market on the scale of some 400 million people.⁵⁵ Even today, moreover, India-Pakistan trade is said to have the room to grow as much as seventeen times,⁵⁶ and tapping that potential is an attractive option for China and Pakistan to realize their blueprint for the latter’s export growth through SEZs and industrial cooperation, as delineated by CPEC. More than anything, India has a surfeit of infrastructure demand in which Chinese capital can definitely play a role. At the same time, India can also gain benefits from China’s economic engagement in the region. Although India has maintained its opposition, in principle, to the BRI, it has actively accepted investments from China. In 2016, cooperation agreements were signed in such areas as a high-speed railway network and renewable energies. The amount of Chinese investment in India reached more than US\$8 billion by the end of 2017.⁵⁷ During the strategic economic dialogue between the two sides in April 2018, discussions were made about China’s assistance in speeding up India’s Bangalore-Chennai railway corridor.⁵⁸ While India has justified such economic involvement by China as lying outside the BRI framework, China does not necessarily view the situation in the same way.⁵⁹ Additionally, the two countries now have a joint development project in Afghanistan agreed upon at their recent summit.

Also, China, for the time being, is expected to have to deal with the worsening image of the BRI on account of the developments surrounding Hambantota Port. The repercussions of that incident have spread globally, especially triggering severe reactions against the BRI in Southeast Asia, a region that is politically and strategically important to China because of the South China Sea issue. In view of those circumstances, it will be reasonable for China for a while to avoid actions that highlight the political and strategic implication of the BRI in South Asia, where it currently has no serious political disputes or security issues with regional states except India and Bhutan and therefore the political and strategic priority is relatively low. That should contribute, as a result, to calming down India’s response to China’s engagement in South Asia.

In the longer term, though, the prospect is not so bright that China and India will be able to continue to properly manage the friction arising from their competition over their engagement in South Asia for several reasons. First of all, it is probably unlikely that they will ever reach either a tacit or explicit mutual understanding about what actions would be “permitted” in letting the competition continue without adversely affecting overall Sino-Indian relations. Theoretically, one prospective criterion for drawing the line between “permitted” and “prohibited” actions in that competition will be whether they can have political and/or strategic ramifications—which invite India’s concern—or not. However, in reality, India views the entirety of the BRI through a political and strategic lens. That position is grounded on New Delhi’s abstract recognition that India’s political and economic influence in its own sphere of influence is being eroded by Beijing, based on the assumption that every instance of China’s economic engagement can potentially be translated into political influence. Consequently, every aspect of the BRI can be a source of concern for India at one level or another. Of course, that does not mean that India can and actually will counter every single instance of China’s economic engagement in South Asia: the choice of whether it adopts countermeasures or none at all, as well as the determination of their extent, depends on the context of each individual case. That, in turn, makes things far less predictable for China. Hence, as time passes, even though both countries may maintain the will to manage that competition, it is not hard to imagine a scenario where incidents continue to occur in which the Chinese side unwittingly crosses India’s “red line” and trigger an unexpectedly strong backlash from India, with each side thereby becoming increasingly suspicious of the other’s “cooperative” intentions.

Second, if future Sino-Indian cooperation in the fields of connectivity and infrastructure—which is presumed to undergird the cooperative aspects of the relation—does not go well, it can conversely lead to increasing doubts on both sides about the other’s intent to cooperate. The potential cause for setbacks in bilateral cooperation is not limited to a “hidden political and strategic intent,” or suspicions about that. For example, India has had concerns

about BCIM-EC—a possible candidate for future cooperation between China and itself—worrying that the project could trigger a large-scale influx of cheap goods from China, which would in turn adversely affect its domestic industries. The same situation also applies to the vision for a new corridor, proposed by China in April 2018, that would link China and India through Nepal.⁶⁰ If China muscles such projects through to completion, that would serve only to bolster India's distrust even further, and would be easily seen as underscoring the portrayal in India of the BRI as having a political and strategic design. Meanwhile, should China fail to see any concrete progress in Sino-Indian cooperation, it may end up concluding that India has no intention of cooperating with it at all.

Third, as the BRI continues to build up steam globally, with China's economic interests expanding abroad, the need for it to maintain a naval presence in the Indian Ocean will also likely increase, gradually adding to its incentive to secure bases along the coasts of the South Asian countries facing the Indian Ocean for the purpose of supporting its presence. Combined with the other two factors mentioned above, that heightened incentive will work to push China toward cashing in on the strategic implication of the BRI, no matter how much India might oppose such a move. Besides, the need for China to deal with the worsening global image of the BRI after the Hambantota Port incident—which is bound to hamper its actions for the time being—will eventually lessen with time. While that case was met by strong international condemnation, involving as it did China's so-called confiscation of a port about which rumors had swirled for some time of a military base conversion, there are other ways in which China can acquire bases for sustaining its naval operations more “modestly,” even though they are not “military/naval bases” in a literal sense. For instance, in recent years, both China and Pakistan have ramped up their rhetoric about the need for naval cooperation between the two to protect CPEC, carrying out joint exercises conceptualizing that situation. Moreover, Pakistan itself is currently boosting its defensive posture to protect CPEC including Gwadar Port. Given those developments, it is conceivable that China will adopt an approach of gradually establishing a permanent naval presence by incrementally stepping up cooperation with the efforts of the recipient country Pakistan, using other ports in that country on an ad-hoc basis—particularly Karachi, which China's navy has already been using for refueling in the Indian Ocean, and Ormara, a Pakistani naval base—and follow the same example in countries besides Pakistan.

Finally, the fourth reason is that China is expected to increasingly regard India as a security threat with the passage of time, forcing China to take an even stricter position toward India. Traditionally, China never saw India as a serious security threat, owing to its perceived military superiority over India.⁶¹ However, because of India's rise in recent years, entailing the growth of its military capabilities, China has come to gradually sense an increasing need to take India's military threat more seriously—a trend that is expected to continue into the

future. Once China’s evaluation of the gravity of India’s threat, based on its capabilities, crosses a certain threshold, the chances are high that China will start to take actions to contain India, rather than holding back out of a sense of consideration toward it, by exercising the latent political influence fostered through its economic engagement in the region and capitalizing on the strategic implication of the BRI-related projects. The “generosity” displayed by China toward India so far probably reflects the extra leeway that it feels based on its superiority.

In South Asia, China and India are expected to continue such competition over their engagement with smaller regional countries well into the future, while those smaller countries will probably try to maximize the benefits they can gain therefrom. Meanwhile, New Delhi and Beijing will strive to manage the friction deriving from that competition. As they are both influenced by certain common external factors—including the uncertainties of the trade policies of the United States—they may be able to contain such friction in the short run. Still, given the factors outlined above, the competition about their engagement in South Asia—along with the border issue, which has been intensifying in recent years—is likely to gradually undermine the traditional nature of the Sino-Indian relationship as time passes, the norm of which had been not to let friction arising from individual issues impinge upon the overall political relationship. In that process, it is likely that incidents will occur that produce tensions in the bilateral relation—either stemming from that competition itself, or else the border issue—and deals or agreements are made to settle them temporarily, such as the latest “reset.” Nonetheless, there is little prospect of the fundamental problems being resolved. In this region, the BRI—China’s grand strategy and vision for reshaping the world order in its favor—has triggered India’s resistance, which is driven by its deep-rooted fear about the decline of its own influence in a region where it had previously enjoyed the position of hegemon. That is effectively a situation in which both sides’ overarching foreign policies and the fundamental ways of thinking underlying those policies are incompatible with each other, making it difficult to look forward to the kind of resolution beyond a temporary and/or tactical shelving of the issue.

(Author: Masahiro Kurita)

Chinese Naval Activities and Pakistani Ports

At least since the early 2000s, it has been rumored that China would turn Gwadar Port in Pakistan into a naval base. In recent years, however, both Beijing and Islamabad have denied that possibility, proclaiming that the port is purely commercial.

Meanwhile, Pakistan has been reinforcing the port's security arrangement under the rubric of protecting Gwadar Port and CPEC. In January 2016, it was reported that the Pakistan Navy (PN) was in the process of shifting some of its assets from its largest naval base in Karachi to Jinnah Naval Base in Ormara near Gwadar.¹ In March 2017, the PN fully activated a task force in charge of the seaward security of Gwadar port and the protection of connecting channels, equipped with frigates, fast attack craft (FAC), aircraft, drones, and others. A special marine battalion was also raised in 2013 for the protection of Gwadar port, and the Pakistan Maritime Security Agency, a coast guard equivalent, has inducted four patrol boats from China since the end of 2016, with a view to boosting the security of the port. Although the only naval base in Gwadar operated by the PN is the modest PNS Akram, set up in the 1980s, serving as a surveillance station monitoring the port itself as well as the northern Arabian Sea, the defense of Gwadar Port is covered by a network of neighboring naval bases.² In Jiwani—near the border with Iran—the PN has another surveillance station, along with an airfield, which is also in charge of coordinating with the maritime headquarters in Karachi, and the naval aviation has an airbase in Pasni, with a new airbase starting operation in Turbat from May 2017.³

Against that backdrop, a senior official from Pakistan's Ministry of Foreign Affairs, in an interview with a local newspaper in January 2018, voiced confidence in the PN's ability to ensure the security of Chinese shipments under CPEC, while also expressing a positive attitude about cooperating with China to ensure such security, referring to the joint naval exercises as well as to the continuing visits by Chinese naval vessels to the Pakistani coast.⁴ In November 2016, also, an anonymous Pakistani naval official mentioned that Chinese naval vessels would also be deployed in coordination with the PN for the protection of Gwadar Port and maritime trade under CPEC.⁵

As can be read from these references, while both the Chinese and Pakistani authorities have invariably denied the possibility of China's establishment of a naval base on Pakistan's coast, including Gwadar, whenever someone points out such a possibility, they have never explicitly ruled out China developing a naval presence in the northern Arabian Sea in the name of the defense of CPEC and Gwadar.

Also, Chairman Dostain Khan Jamaldini of the Pakistani government's Gwadar Port Authority, the body in charge of the port's overall development, has said that naval vessels from all countries typically call at every port worldwide for bunkering, repairs and services, clearly distinguishing such activities from the establishment of naval bases.⁶ It has been pointed out that what China desires on the Indian Ocean coast is not so

much “bases,” in which troops would be permanently stationed and which can sustain wartime military operations, but rather “places” where its naval vessels engaging in military operations other than war, such as noncombatant evacuation operations and maritime security operations, could make ad-hoc visits for supply and maintenance purposes.⁷ Judging from the comments of the officials from both countries, they seem to have cautiously left open the possibility of Gwadar being used as such a “place.”

That does not necessarily mean, however, that Chinese People’s Liberation Army Navy (PLAN) will be using Gwadar in such a capacity any time soon. The more the port’s military use becomes prominent, the more it will whip up allegations that the CPEC and the BRI are just cover-ups for a strategic scheme, thereby worsening the image of the project, as well as inspiring negative reactions not just by India but also the United States, even if China avoids turning the port into a naval or military “base” in a literal sense. Gwadar Port has been getting too much attention—and suspicion—in that context.

As long as China pays heed to such points, it would be a more rational option for it—though a matter of degree—to use other ports in Pakistan. The PLAN—operating in the Indian Ocean already for such missions as dealing with piracy in the Gulf of Aden—has a record of using Karachi, Pakistan’s largest dual-use port, for ad-hoc supply, and there is a strong likelihood that it will continue to do so from now on. If China is averse to the congestion in Karachi and seeks an alternative port that could be used by its navy more proactively, the most likely choice would be the Ormara military port lying 285 km to the east of Gwadar Port, where the PN has already established the Jinnah Naval Base, with berths for ships and submarines. The above-mentioned senior official from Pakistan’s Foreign Ministry indicated, in his reference to the security of Chinese shipments and Gwadar, the prospect that all kinds of naval cooperation would take place at Ormara.⁸ In addition, while the veracity of the story is not certain, a conservative media outlet of the United States reported in January 2018 that the Chinese and Pakistani governments were in consultation about further developing the aforementioned Jiwani Port, in the vicinity of Gwadar, for use as a Chinese military facility.⁹ Right after that, a similar story was reported by a Hong Kong newspaper, saying that China was planning to establish a facility for use in supplying and maintaining its naval vessels in a location near, but separate from, the commercial port of Gwadar.¹⁰

Even if it were to enhance its military presence in the Arabian Sea using Pakistani ports, China, on account of its experience with Hambantota Port and consideration to managing its relationship with India, is likely to advance both cautiously and incrementally. There is the possibility that focusing on Gwadar Port alone may not necessarily reveal the total picture, making it necessary for us to follow China’s actions along the entire Pakistani coast more broadly.

(Author: Masahiro Kurita)

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Chapter 4

The Pacific Island Countries: The Southern Extremity of the Belt and Road Initiative

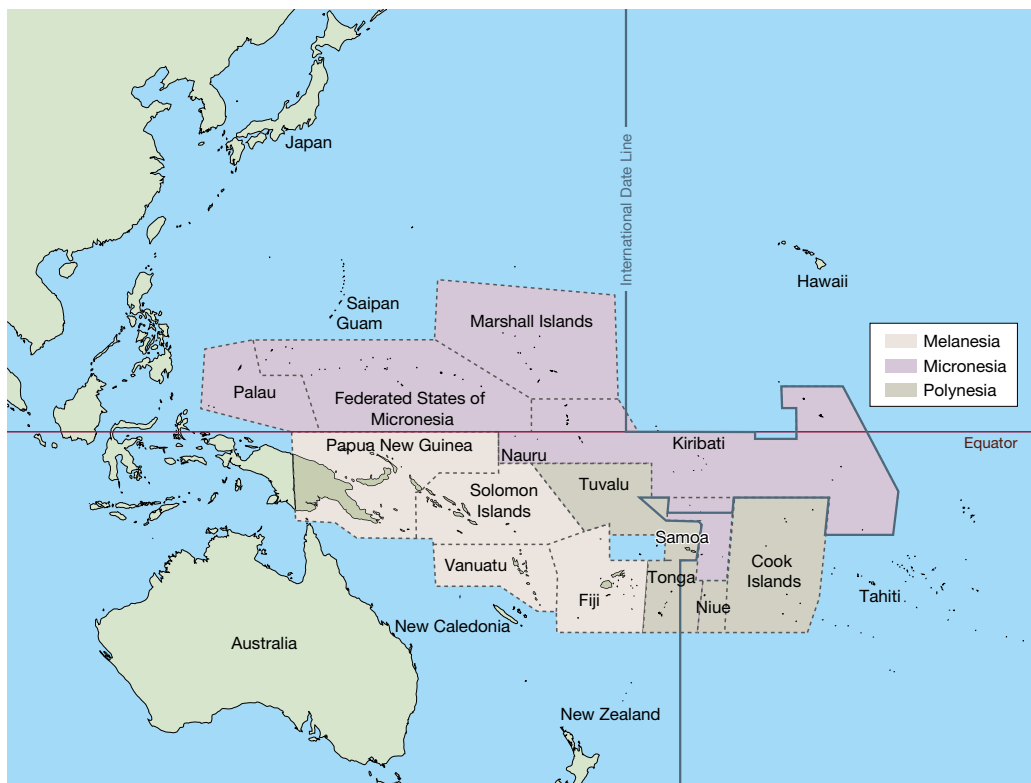
(Tomotaka Shoji)



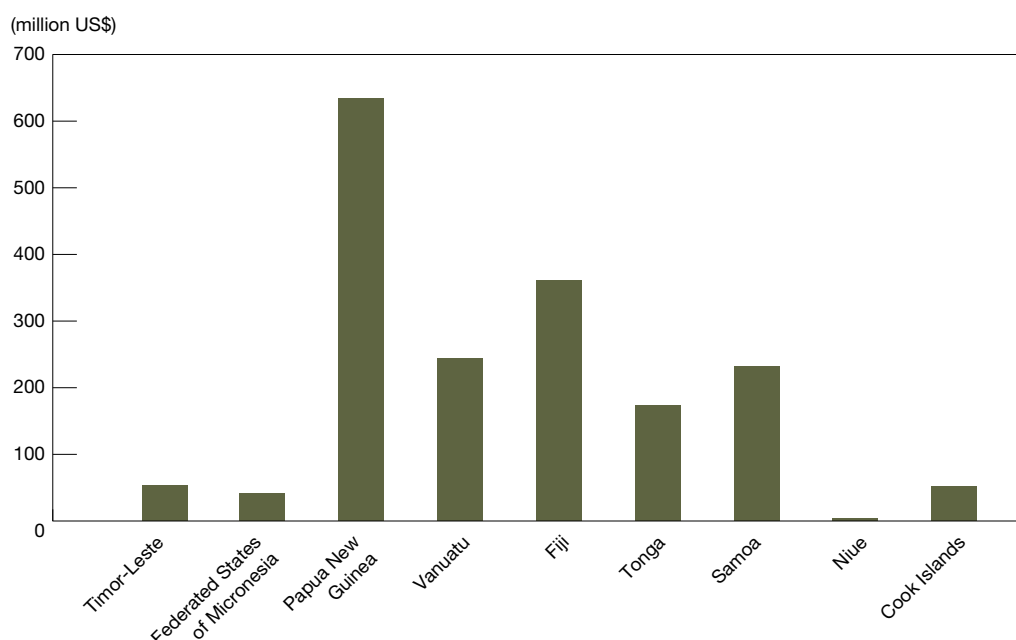
1. The Pacific Island Countries and the Belt and Road Initiative

The Pacific island countries are composed of fourteen countries in Micronesia, Melanesia, and Polynesia, along with several French-owned islands scattered throughout the region, including New Caledonia.¹ In its Belt and Road Initiative (BRI), China has demarcated the southern extremity of its so-called “21st Century Maritime Silk Road” at those states, and has been broadly strengthening its support to them, economically and otherwise, in recent years as part of that vision. Accompanying the expansion of China’s economic influence has been its mounting political influence on those states as well. Faced with the expansion of China’s comprehensive presence, the major countries of Oceania—namely, Australia and New Zealand—which had theretofore wielded substantial influence on the Pacific island countries, are viewing it problematically as a relative decline in their own influence, and have even started to entertain security concerns. In addition, other countries that had historically established themselves in the region, and which still maintain tight economic and security relations with the Pacific island countries, such as Japan and the United States, are carefully watching China’s moves there.

Figure 4-1: The Pacific Island Countries



Source: Compiled by the author from the Japan Ministry of Foreign Affairs website.

Figure 4-2: China's Support for the Pacific Island Countries

Source: Lowy Institute, “Chinese Aid in the Pacific.”

On a basic level, though, the Pacific island countries heartily welcome the support that they receive from China and are positive toward participation in the BRI. That stems from the fact that most of the countries, aside from such middle-income and high-income states as Palau and Nauru, are still quite poor, and desire to develop their economies through the support of China. Moreover, the scale of Chinese assistance is relatively greater than that received from other countries, and it comes with very few collateral conditions (i.e., strings attached), which constitutes another reason that such states welcome it. China has extended its assistance to all the Pacific island countries almost uniformly, without exception. Its assistance to those states in the region with relatively large-scale economies—namely, Fiji and Papua New Guinea (PNG)—has come to exceed that extended to other countries, as if in proportion to their greater scale, suggesting that both countries have become special focuses of China’s support.

In the case of Fiji, after a military government was established in that country following a coup d’état in 2006, Australia swiftly called for a restoration of the civilian government and applied economic sanctions. In response, Fiji chose to adopt the method of alleviating the effect of those sanctions by diversifying its foreign relations, one of the new partners of which was China. In 2010, it hammered out its “Look North” policy, clarifying its position of strengthening relations with China in place of the major countries of Oceania. Thanks to its increased assistance to Fiji in response to those calls, the total amount of support extended by China to that country in the decade running up to 2015 came to exceed that given by Australia.²

China had already established the precedent of emphasizing the principle of noninterference in internal affairs when drawing close to those nations in which the government had taken power through nondemocratic means and then found itself subject to criticism and sanctions from the West. Following that script, and similar to the case in Thailand, where a military government took power in 2014 after a coup d'état, China was successful in developing more intimate and stronger relations with Fiji. That has now become one of China's most powerful methods of expanding its own political influence in the international community.

Thereafter, Sino-Fijian relations have been progressing smoothly. In November 2014, China's President Xi Jinping made a visit to Fiji, during which time both countries signed five agreements related to economic and defense cooperation. China also agreed to provide material assistance to help Fiji cope with climate change, as well as green-lighting visa exemptions for Fijians traveling to China. Also, Fijian Prime Minister Josaia Voreqe Bainimarama attended the Belt and Road Forum for International Cooperation held in Beijing in May 2017, demonstrating its posture of playing its part in the BRI.³ Today, both China and Fiji are accelerating talks toward the conclusion of a memorandum of understanding on cooperation based on the BRI.

Meanwhile, PNG has also been deepening its relations with China. While maintaining its traditional cooperative relations with Australia in the economic and security spheres, it has also been active in diversifying its foreign relations, just as Fiji has. One of its most influential partners in that effect has been China. The development of mines for such minerals as nickel and cobalt has been the prime area of cooperation between the two countries.⁴ When PNG Prime Minister Peter O'Neil visited China in June 2018, the two countries reaffirmed a strategic partnership, with agreements on an expansion in China's economic cooperation based on the vision of the BRI, as well as the development of PNG's natural gas, the construction of industrial parks, and an invitation to attract more Chinese tourists to the country.⁵ Currently, both countries are conducting negotiations toward the conclusion of a bilateral free-trade agreement.

The first goal of China's boosting economic assistance to the Pacific island countries, centering on the main pillars of infrastructure improvement, resource development, and the attraction of greater numbers of Chinese tourists, has been to expand China's influence in the international community. On account of its implementation of both bilateral and multilateral comprehensive support,

including its participation in the Post-Forum Dialogue of the Pacific Islands Forum (PIF), China has come to expand its influence throughout all the Pacific island countries. Nevertheless, those states remain just another peripheral region as far as Chinese foreign policy is concerned. Rather than representing a deliberate strategy aiming at the establishment of hegemony over the region, China's activities in the region constitute one link in the chain of China's expansion of global influence, similar to its activities being carried out in the other developing regions of Asia, Africa, Latin America and the Middle East. Thus, it can be described as the outcome of an opportunistic inroad.⁶

China's second goal in the region, as seen in the case of PNG, has been to gain preferential access to the abundant national resources controlled by the Pacific island countries. Besides PNG, China has been promoting the support of similar development elsewhere in the region, working toward securing such resources as bauxite in Fiji, timber in the Solomon Islands, and fishing resources in all of the states. From the perspective of exporting those resources to China, such developmental assistance has been promoted in tandem with assistance in the improvement of port-related infrastructure.

China's third goal is to take countervailing action against Taiwan, which currently maintains diplomatic relations with six of the Pacific island countries, namely, Kiribati, the Solomon Islands, Nauru, Tuvalu, Palau, and the Marshall Islands. During the years of Taiwan's Ma Ying-jeou administration (2008-16), China took a back seat on the issue in view of its emphasis on maintaining friendly relations with that government, but since the launch of the Tsai Ing-wen administration in 2016, China has become more aggressive in trying to win over the Pacific island countries diplomatically. For example, it is increasing its economic engagement in those states with which it does not maintain diplomatic relations, such as the Marshall Islands and Palau, through trade and increased numbers of Chinese tourists.⁷

Historically, the Pacific island countries have long been a region with many immigrants from mainland China. Currently, some twenty thousand Chinese nationals and ethnic Chinese who have taken up local nationality live in the region. In relation to that, and as the fourth goal in the Pacific, China is interested in the Chinese diaspora in the region. That includes rescuing Chinese nationals in emergency situations, such as anti-Chinese riots, along with promoting trade utilizing the networks of the Chinese diaspora, as well as expanding its

political influence locally through such people.⁸

2. The Strategic Standpoint—Activities by the People’s Liberation Army (PLA) in the Pacific

The Pacific island countries also constitute an important region geopolitically. In China’s strategic “Second Island Chain” concept, they are strategically important as the terminal point of the string of islands stretching from Japan through Guam and Saipan to PNG, and also serve as a key spot along the shipping lanes stretching from the Indian Ocean and South China Sea toward the Pacific. Moreover, the Pacific island countries lie immediately adjacent to an important bridgehead of the US Navy—Guam and the Northern Mariana Islands—and are not so far from the headquarters of the US Indo-Pacific Command (USINDOPACOM) situated in Hawaii. From that perspective, it is clear that the Pacific island countries bear strategic importance should China ever attempt to check the US Navy from the south.⁹

Currently, China’s security engagement with the Pacific island countries has been primarily conducted on a bilateral level. For example, a Chinese space surveillance ship makes port calls in Fiji once or twice annually for the purpose of refueling. In addition, Fiji plans to introduce a surveillance and hydrographic vessel from China in the future, which will be employed for the improvement of that nation’s maritime domain awareness (MDA).¹⁰ PNG is also conducting cooperative activities in the non-traditional security sphere with China, such as a visit by a Chinese hospital ship to the country in July 2018, which provided medical services to local inhabitants and held training seminars for local medical personnel. Thereafter, the same hospital ship successively toured Vanuatu, Fiji, and Tonga, after which it went off to Latin America¹¹

In April 2018, Australian media reported that China was planning to construct a military base in Vanuatu.¹² As diplomatic officials from both Vanuatu and China immediately dismissed those reports, their veracity remains unclear. Nonetheless, amidst the steady expansion of the Chinese presence in the Pacific island countries, the suspicions that the PLA may be planning to launch full-fledged activities in the region—as the logical next step ensuing the country’s economic advance—is spreading among the major countries of Oceania, including Australia, as well as the United States. The reports at that time are believed to have reflected such suspicions.

Some argue that China’s BRI has a hidden “strategic objective” of eventually countering US hegemony by building upon its development of port facilities, promoted as economic assistance, to bring the PLA in and construct naval bases. Still, as mentioned earlier, there is no definite evidence at the current moment that China has a clear strategy aiming to check the United States, at least as far as the case of the Pacific island countries is concerned.¹³ The

pattern of China's advance into the Pacific island countries, rather, seems opportunistic. China is not making any concrete moves, for example, to utilize such countries strategically, even in Fiji and PNG, with which it is rapidly deepening its relations. While one cannot deny the possibility that it will initiate strategic advances in the region over the medium and/or long term, China seems to be first focusing on securing its economic rights and interests in the region, then heightening its political influence using its economic strength.

3. The Heightened Wariness of Related Countries in the Region

Related countries in the region are becoming increasingly wary of China's advances into the Pacific island countries, with the major countries of the region—Australia and New Zealand—concerned about the relative decline of their own influence. Australia, which has been heavily involved in the economic, political and security aspects of those states as the great power of the region, and which has maintained its influence there, has particularly heightened its sense of crisis. A study by the Lowy Institute, an Australian think tank based in Sydney, determined that were China actually to execute all the assistance it has promised the Pacific island countries, the total amount of that assistance would exceed the support extended by Australia, currently the largest donor country in the region.¹⁴ Also, regarding the reports of the PLA constructing a base in Vanuatu, Australia's then-prime minister Malcolm Turnbull declared, "We would view with great concern the establishment of any foreign military bases in those Pacific Island countries and neighbours of ours." However, there are limitations as to how strongly Australia can adopt a firm attitude against China insofar as that country's influence on those states is concerned, given its own high economic dependency on China.¹⁵

The United States is also making no secret of its wariness of China's inroads into the Pacific, mainly from a strategic standpoint. For instance, a report released by the congressional US-China Economic and Security Review Commission in June 2018 expressed security concerns about China's rapidly increasing investment in Micronesia from the perspective of the access by the United States to Micronesia and Guam. Also, given that the United States maintains missile-defense testing facilities in the Marshall Islands, as well as its announcement of plans in August 2017 to install a radar system in Palau to track missiles launched by North Korea, it is also concerned about China's influence on those military facilities.¹⁶

France, with its sovereign right in the area, has also become more concerned, with China's expansion of economic influence in New Caledonia representing a particular source of worry. That is not merely an economic issue, as there are signs that the independence movement in New Caledonia is picking up steam, although in the most recent national referendum conducted in November 2018, the majority of people voted against independence.

Nevertheless, the French government fears that the pro-independence faction will gain momentum with China's backing.¹⁷

During a visit by French President Emmanuel Macron to Australia and New Caledonia in April 2018, he made France's awareness of that issue especially evident. In Canberra, he advocated the creation of a "Paris-Delhi-Canberra Axis," arguing for the establishment of a new security cooperation framework in the Indo-Pacific, which also envisions the participation by such ASEAN states as Malaysia and Singapore, as well as by Japan.¹⁸ Preceding his official Oceania visit, President Macron also visited India a month earlier, agreeing to reinforce security cooperation with that country. The backdrop to that move was China's expansion of influence in the Indian Ocean, where France controls the sovereign territory of Reunion Island. France has also boosted its interest in the South China Sea, probably owing to the fact that the area is intimately related to the security of the French islands scattered throughout the broad maritime region stretching from the Indian Ocean to the Pacific.

(Author: Tomotaka Shoji)

NIDS China Security Report 2019

China's Strategy for Reshaping the Asian Order and Its Ramifications

Conclusions

(Masafumi Iida)



Conclusions

The strategy for a new international order envisioned by the Xi Jinping administration rests on two pillars. The first has been to rely on China's power as the world's second-largest economy to expand mutually cooperative relations—primarily those with developing countries—through which it can promote its own economic development in a stable international environment while playing the leading role in the formation of the regional and international order. The specific policy aiming at its realization has been the vision of the Belt and Road Initiative (BRI) proposed and promoted by China. In its early stages, the BRI put emphasis on China's surrounding regions, such as Central Asia and Southeast Asia, with the goal of creating a regional order desirable for China's development and stability. However, as the country came to promote the creation of a new international order in which developing countries have a greater voice, China's BRI has transformed into a global concept that also targets a broader area encompassing Africa, Latin America, and the like.

The second pillar of Xi Jinping's strategy for a new international order has been the reliance on China's rapidly growing military power so as to apply pressure on and force concessions from other countries concerning the issues of territorial sovereignty and maritime rights and interests—positioned by Beijing as its “core interests”—and occasionally exerting coercion to expand its control, through which it aims to achieve the securement and expansion of those interests. Indeed, Beijing has promoted the expansion of its “core interests” by actively dispatching the PLA into nearby seas and changing the status quo by coercion. In the South China Sea, it has constructed military bases and used coercion to reject the existing order based on international maritime law. In the East China Sea and Western Pacific, as well, it has boosted its military presence, not only to coerce Japan, but also to attempt to restrain the activities of the US forces. In addition, China has advocated a new “Asian security concept” that rejects the formation of alliances, and promoting the construction of a new security order in Asia.

This report has analyzed China's strategy for a new international order in Southeast Asia, South Asia, and the Pacific island countries, detailing the sort of influence that it exerts on each of those areas. China now constitutes the largest economic partner for most of the countries in Southeast Asia, with its economic influence rapidly growing in conjunction with the promotion of its BRI. Beijing has also leveraged its substantial economic assistance to steadily expand its political influence in the authoritarian countries of Southeast Asia, such as Cambodia and Laos. By applying pressure on those countries, China has successfully split the ASEAN member states' position toward South China Sea issues, thereby steadily succeeding in its efforts to parlay its existing economic influence into political influence

with the aim of creating a regional order advantageous to itself.

Meanwhile, the expansion of Chinese influence in Southeast Asia has triggered a counterreaction by ASEAN, which is endeavoring to balance such influence with that of extraregional powers. Although ASEAN had once temporarily avoided expressing concern about China's militarization of the South China Sea, it has since restored its unified voice and started to express its concerns once again. ASEAN member states are also becoming wary about China's intentions to remake the regional order through the BRI, with moves seen to achieve a balanced position through the support of the "Free and Open Indo-Pacific" vision being promoted by the United States, Japan, and others. At the same time, those countries in which projects are currently being implemented in the BRI, under China's direction, are increasingly rethinking the nature of those projects, due to concerns about their profitability, excessive debt burden, and Chinese influence on domestic politics, among other things. While China has indeed boosted its influence in Southeast Asia, it is also true that it has not yet reached the point where it has secured the assent of the region's states in reshaping the regional order in a way that it desires.

In addition, China's reliance on coercion to protect its "core interests" in Southeast Asia, coupled with its advocacy of a new security order there that rejects the formation of alliances, has also triggered heightened wariness by the United States, which has played a major role in forming and maintaining the current regional order. Above all, Beijing's steady militarization of the South China Sea has threatened the existing maritime order, symbolized by the freedom of navigation, and is regarded as aiming at weakening the US military presence, causing that country to reinforce its own countermeasures. China's heavy-handed advance into its surrounding seas, relying on coercion and aiming at securing and expanding its "core interests," seems to have triggered strategic competition with the United States for Southeast Asia.

China has been significantly boosting its economic presence in South Asia as well, successfully consolidating its relations with countries in the region. Support from China has been particularly effective in advancing economic development in the medium-sized and smaller countries of the region, which have tended to look toward stronger ties with China as a counterpoise in their relations with the region's major power, India, and have positively welcomed the BRI being promoted by China. Even India has emphasized maintaining cooperative relations with China in the economic sphere, having adopted a positive stance toward China's efforts to remake the economic order, including having become one of the founding members of the Asian Infrastructure Investment Bank (AIIB) and promoting coordination with China within the BRICS framework.

On the other hand, Beijing's hardline posture toward expanding its "core interests" has set off strong alarm bells in India in strategic terms. Against the backdrop of Beijing's lack of respect for India's status as the great power in the region, along with such moves as

the ramping up of activities by the PLA in its advance into the Indian Ocean, India has come to view China's BRI as the means by which that country aims to undermine India's strategic superiority in South Asia. New Delhi has clearly expressed its opposition to the BRI, perceiving it as a security threat, especially insofar as the CPEC is concerned, which involves a country with which India is in conflict. At the same time, Islamabad entertains high hopes for the strategic significance of the CPEC, as it wants to reinforce its coordination with China in its conflict with India—a state of affairs that has aggravated India's wariness about China even further. The growing involvement by China in South Asia has spawned more intense anti-Chinese wariness by New Delhi than China ever expected, setting off competition between the two countries in the region.

China has intensified its economic involvement in the Pacific island countries as well, grounded primarily in its BRI, and has achieved positive results in boosting its relations with the countries of the region. Many of the Pacific island countries still maintain diplomatic relations with Taipei, so Beijing has been stepping up its diplomatic pressure on Taiwan by boosting its political influence on them. However, China's expanding influence on the Pacific island countries has ended up accentuating the apprehension against China felt by such nations as Australia and France, which maintain strong ties with those states and have played a role in stabilizing the regional order.

Based on the analysis of this report, one can conclude that China's strategy for the international order has achieved a certain level of success, having strengthened its economic influence among developing countries and converting that into political influence, using the BRI as its centerpiece policy, and mustering those countries toward the goal of constructing the kind of new international order that China is arguing for. Meanwhile, China's promotion of BRI projects that are unprofitable or lack transparency, combined with its moves to rely on coercion in securing and expanding its "core interests," have caused a heightened wariness toward China among developing countries in neighboring regions. At the same time, its "major-country diplomacy with Chinese characteristics," which loudly professes the building of a "new type of international relations" and a "community of a shared future for mankind," has aroused bad feelings among the other great powers, which emphasize the maintenance of the existing order. Taking those factors into account, the international environment surrounding China has not necessarily become one that is advantageous to it. All eyes are on the way in which China will respond from now on to the various issues surrounding its strategy for the international order.

(Author: Masafumi Iida)

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Chapter 4

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