



ASSESSMENT ON
U.S. DEFENSE IMPLICATIONS OF
CHINA'S EXPANDING GLOBAL ACCESS



DECEMBER 2018

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EXECUTIVE SUMMARY

This report assesses China's global expansion by military and nonmilitary means, implications of China's activities, and the U.S. response, as mandated by Section 1259b, "Assessment on United States Defense Implications of China's Expanding Global Access," of the National Defense Authorization Act for Fiscal Year 2018, Public Law 115-91.

China's Global Expansion

The report describes China's expansion by a range of means, including military access and engagement; the One Belt, One Road (OBOR) and Digital Silk Road initiatives; technology acquisition; and a growing economic footprint; with a focus on areas of military expertise.

The Chinese Communist Party's foreign policy reflects its strategic objectives. The *U.S. National Security Strategy* states that China seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor as the preeminent power. China's most substantial expansion of its military access in recent years has occurred in its near-abroad, where territorial disputes in the East and South China Seas persist, but China has also expanded its military operations further from the Chinese mainland. China seeks this presence based on its changing military focus and expanding international economic interests, which are increasing demands for the PLA to operate in more distant maritime environments to protect Chinese citizens, investments, and critical sea lines of communication.

China in 2018 indicated interest in establishing bases in Cambodia and Vanuatu. Although both governments have publicly stated they are not willing to host a Chinese military base, Phnom Penh in the last two years has agreed to receive new military aid from Beijing and participate in bilateral exercises with the PLA.

In 2017, China's leaders said OBOR, which at first included economic initiatives in Asia, South Asia, Africa, and Europe, now encompasses all regions of the world, including the Arctic and Latin America, demonstrating the scope and reach of Beijing's ambition. While some OBOR projects appear to be motivated by economic considerations, OBOR also serves a greater strategic purpose. China intends to use OBOR to develop strong economic ties with other countries, shape their interests to align with China's, and deter confrontation or criticism of China's approach to or stance on sensitive issues.

President Xi has promoted the "21st Century Digital Silk Road" alongside OBOR. Chinese state-owned or state-affiliated enterprises, including China Telecom, China Unicom, China Mobile, Huawei, and ZTE, have invested or submitted bids globally in areas such as 5G mobile technology, fiber optic links, undersea cables, remote sensing infrastructure connected to China's Beidou satellite navigation system, and other information and communications technology infrastructure. While providing benefits to host countries, these projects will also facilitate China's efforts to expand science and technology cooperation, promote its unique national technical standards, further its objectives for technology transfer, and potentially enable politically-motivated censorship. Data legally acquired via some of these projects may also contribute to China's own technological development in areas such as artificial intelligence.

China is also pursuing global leadership in strategic industries through state-backed investment, as outlined in its Five-Year Plans, "Made in China 2025" industrial strategy, and other national

documents. China seeks to be the world leader in artificial intelligence by 2030, for example. Many of the key technologies China is targeting are integral to the rapid technological change occurring in multiple industries. These capabilities are key not only to economic growth, but to the United States' ability to maintain its military advantage. The report identifies a wide range of efforts China has undertaken to achieve its national technology goals.

Implications of China's Activities

The Department has not viewed every one of these activities as a problem, and U.S. policy supports principles under which countries determine their own economic interests and needs. However, the Department is concerned by actions China's government has taken that are out of step with international norms, diminish countries' sovereignty, or undermine the security of the United States, our allies, or our partners.

China's expanding global activities in some of the areas listed above present military force posture, access, training, and logistics implications for the United States and China. The PLA's first overseas military base in Djibouti and probable follow-on bases will increase China's ability to deter use of conventional military force, sustain operations abroad, and hold strategic economic corridors at risk. The PLA's expanding global capabilities provide military options to observe or complicate adversary activities in the event of a conflict.

Some OBOR investments could create potential military advantages for China, should it require access to selected foreign ports to pre-position the necessary logistics support to sustain naval deployments to protect its growing interests in waters as distant as the Indian Ocean, Mediterranean Sea, and Atlantic Ocean.

China's wider global activities could also be leveraged to exert political influence. While many of China's generous investment financing offers benefit their host nations, they often come with strings attached. The report provides 17 examples of cases in which Chinese investment and project financing that bypasses regular market mechanisms has resulted in negative economic effects for the host country; in which economic deals have carried costs to host country sovereignty; or in which China has employed economic incentives or economic coercion to achieve specific political objectives. China's attempts to gain veto authority over other countries' decisions, and its coercion directed at U.S. allies and partners in particular, will likely threaten U.S. posture and access if not addressed.

U.S. Response

The Department has responded to these implications in line with the *U.S. National Defense Strategy* (NDS) and in support of whole-of-government action. The NDS identifies long-term strategic competitions with China and Russia as the principal priorities for the Department. The Department is implementing four strategic ways: building a more lethal force to gain military advantage, strengthening allies and partners to generate robust networks that can advance shared interests, reforming the Department to realize greater performance and affordability, and expanding the competitive space to create U.S. advantages and impose dilemmas on competitors. Importantly, competition does not mean conflict is inevitable, or preclude cooperation with China on areas of mutual interest. The NDS sets the U.S. military relationship with China on a path of transparency and non-aggression.

DoD also supports a whole-of-government response as China's expanding global activities are not primarily or exclusively a military issue. The report lists several select interagency initiatives DoD has supported including 1) aligning the NDS with the *U.S. National Security Strategy*, which identifies growing competition with China as a long-term challenge and prompts a whole-of-government focus; 2) the *U.S. Strategic Framework for the Indo-Pacific*, which emphasizes a vision for a "free and open Indo-Pacific" that provides security, stability, and prosperity for all; 3) continuing to fly, sail, and operate wherever international law allows; 4) confronting China over its market-distorting policies and practices, forced technology transfers, failure to respect intellectual property, and cyber intrusions into U.S. commercial networks; and 5) working with the executive branch and Congress to maintain U.S. competitiveness and protect the U.S. national security innovation base.

DoD will continue to assess the military implications of China's expanding global access in support of these actions, and ensure the Department provides combat-credible military forces needed to fight a war and win, should deterrence fail.

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I. INTRODUCTION

Section 1259b, “Assessment on United States Defense Implications of China’s Expanding Global Access,” of the National Defense Authorization Act for Fiscal Year 2018, Public Law 115-91, provides that the Secretary of Defense, in consultation with the Secretary of State, shall assess the foreign military and non-military activities of the People’s Republic of China that could affect the regional and global national security and defense interests of the United States.

This report fulfills this requirement and addresses its specific elements, including discussing China’s expansion by military and nonmilitary means (tourism, media, influence campaigns, investment projects, infrastructure, and access to foreign ports and military bases); implications of these activities for the military force posture, access, training, and logistics of the United States and China; and U.S. strategy and policy for mitigating the harmful effects resulting from such means, where applicable to the Department.

II. CHINA’S GLOBAL EXPANSION

A. China’s Strategic Intent

Primary Objectives. Since 2002, China’s leaders – including President Xi Jinping – have characterized the initial two decades of the 21st century as a “period of strategic opportunity.” They assess that during this time international conditions will facilitate domestic development and the expansion of China’s “comprehensive national power,” which outside observers believe will serve what they assess to be the Chinese Communist Party’s (CCP’s) overriding strategic objectives:

- Perpetuate CCP rule;
- Maintain domestic stability;
- Sustain economic growth and development;
- Defend national sovereignty and territorial integrity;
- Secure China’s status as a great power and, ultimately, reacquire regional preeminence; and
- Safeguard China’s interests abroad.

The CCP has distilled these objectives into President Xi’s “China Dream of national rejuvenation.” The concept, first articulated by Xi shortly after the 2012 leadership transition, encapsulates a long-standing national aspiration of establishing a powerful and prosperous China. President Xi and other leaders also link the China Dream to two high-profile centenary goals: achieving a “moderately prosperous society” by the 100th anniversary of the CCP in 2021, and building a “prosperous, strong, democratic, civilized, harmonious, and beautiful modernized socialist strong country” by the 100th anniversary of the establishment of the People’s Republic of China (PRC) in 2049. At the 19th Party Congress in October 2017, President Xi also enumerated objectives for the “basic realization of socialist modernization” by 2035, which included China becoming one of the most “innovation-oriented” countries, significant enhancement of the country’s soft power, and continued economic prosperity. China has also established plans to achieve global leadership in strategic industries and advance its military modernization, as discussed under “Technology Acquisition” later in this report.

Foreign Policy Objectives. The CCP’s foreign policy reflects its strategic objectives. The U.S. *National Security Strategy* states that China, as a revisionist power, is actively competing against the United States and our allies and partners, in a fundamentally political contest between those who favor repressive societies and those who favor free societies. China specifically seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor as the preeminent power. The U.S. *National Defense Strategy* (NDS) adds that China wants to shape a world consistent with its authoritarian model—gaining veto authority over other nations’ economic, diplomatic, and security decisions.

Strategic competition does not mean conflict is inevitable, nor does it preclude cooperation on areas of mutual interest. The *National Defense Strategy* seeks to set the United States’ military relationship with China on a path of transparency and non-aggression. However, a realistic assessment of China’s strategy and intent inform the U.S. government’s understanding of – and actions to address – China’s expanding global activities and influence.

Expanding International Role. As China’s foreign interests and power have expanded in pursuit of these objectives, it has become a more prominent player in the international community. In his speech to the CCP’s 19th Party Congress in October 2017, President Xi advocated the construction of an international “community of common human destiny,” highlighting China’s willingness to work with people of all countries, while stressing that China will defend its core interests and territorial sovereignty and is not afraid to respond to provocations.

Xi’s remarks underscore a trend in China’s foreign policy in which it seeks a higher-profile role in existing regional and global institutions, while selectively pursuing the establishment of new multilateral mechanisms. For instance, China launched the Asian Infrastructure Investment Bank (AIIB) in January 2016, with 57 founding members, to promote infrastructure development in Asia.

China’s global trade and investment footprint has also grown rapidly, featuring infrastructure projects funded and implemented by Chinese state banks and firms. Beginning in 2013, China has attempted to reconceptualize its overseas infrastructure investment under its “One Belt, One Road” (OBOR) Initiative (which China has since renamed the “Belt and Road Initiative” in English, although the name remains unchanged in Chinese). However, OBOR projects have not been funded through AIIB, as of the writing of this report. China’s plans are indicative of its intention to use economic means to advance its interests and enhance its global role by integrating hard infrastructure development with trade and financial architecture.

China continues to regard stable relations with its neighbors, and the United States, as key to its development. China sees the United States as the dominant regional and global actor with the greatest potential to either support or disrupt China’s rise. China seeks to depict itself as pursuing a peaceful development strategy in the region, conscious that if its neighbors view it primarily as a threat, they may try to more actively hedge against China’s growing power. At the same time, China portrays itself as resolute in defending its interests.

Military Role. China’s attention to missions guarding its overseas interests and outward shifts in its military emphasis have increasingly propelled the People’s Liberation Army (PLA) beyond China’s borders and its immediate periphery.

In 2015, China outlined eight “strategic tasks,” or types of missions the PLA must be ready to execute: safeguard the sovereignty of China’s territory; safeguard national unification; safeguard China’s

interests in new domains such as space and cyberspace; maintain strategic deterrence; participate in international security cooperation; maintain China's political security and social stability; and conduct emergency rescue, disaster relief, and "rights and interest protection" missions. International security cooperation and emergency rescue, disaster relief, and "rights and interest protection" reflect China's new overseas interests and expanding requirements to protect these interests.

China's military emphasis has also shifted outward. The PLAN's evolving focus – from "offshore waters defense" to a mix of "offshore waters defense" and "open seas protection" – reflects the PLA leadership's expanding interest in a wider operational reach. China's military strategy and ongoing PLA reforms reflect the abandonment of its historically land-centric mentality. Similarly, doctrinal references to "forward edge defense" that would move potential conflicts far from China's territory suggest PLA strategists envision an increasingly global role, which they are actively implementing. China officially opened its first military base in Djibouti in August 2017 and will likely seek to establish rotational presence, dual-use access, or additional military logistics facilities in countries in which it has interests at play, those that offer critical accesses, and those with which it has friendly relationships.

China's pursuit of expanded global military access is thus driven both by new PLA missions to protect overseas interests and by a shifting approach to potential contingencies along its maritime periphery. Based on China's doctrine and current behavior, the United States should anticipate Beijing's continued efforts to enhance its military access overseas.

B. Expansion by Direct Military Means

Military Access

Near-Abroad. China's most substantial expansion of its military access in recent years has occurred in its near-abroad, where territorial disputes in the East and South China Seas persist. China continues to exercise low-intensity coercion to advance its claims in the East and South China Seas and uses an opportunistically-timed progression of incremental but intensifying steps to attempt to increase effective control over disputed areas while avoiding escalation to military conflict.

China's Spratly Islands outpost expansion is currently focused on building out the land-based capabilities of its three largest outposts – Fiery Cross, Subi, and Mischief Reefs – after completion of its four smaller outposts early in 2016. China has not undertaken substantial land reclamation at any of the Spratly Islands outposts it occupies since adding over 3,200 acres of land to the seven features in late 2015. Major construction at the largest outposts include new airfields – all with runways at least 8,800 feet in length – large port facilities, and water and fuel storage. As of late 2016, China was constructing 24 fighter-sized hangars, fixed-weapons positions, barracks, administration buildings, and communication facilities at each of the three outposts. China has since completed key operations and support infrastructure at each of these outposts, enabling the deployment of combat aircraft. China now has the capacity to house up to three fighter units in the Spratly Islands.

China has also completed shore-based infrastructure on its four smaller outposts in the Spratly Islands: Johnson, Gaven, Hughes, and Cuarteron Reefs. Since early 2016, China has installed fixed, land-based naval guns, fixed and mobile anti-aircraft missile batteries, and improved communications infrastructure on each outpost.

Global. China has also expanded its military operations further from the Chinese mainland. China's approach includes PLA visits and in some cases, requests for military access, logistics, or basing agreements, typically in countries where China has provided economic investment in civilian ports, and especially in strategic locations such as key maritime "chokepoints." In Greece and Sri Lanka, for example, Chinese investment in civilian ports has been followed by deployments or visits of the PLA. In some cases, the PLA is seeking a greater presence for contingency use or a permanent presence.

China seeks this presence based on its changing military focus and expanding international economic interests, which are increasing demands for the PLA to operate in more distant maritime environments to protect Chinese citizens, investments, and critical sea lines of communication (SLOCs). These demands require logistics and intelligence support, including in the Indian Ocean and more distant areas. China is expanding its access to foreign ports to pre-position the necessary logistics support to regularize and sustain deployments in the "far seas." A robust overseas logistics and basing infrastructure will allow China to project and sustain military power at greater distances. China's leaders may judge that a mixture of military logistics models, including preferred access to overseas commercial ports and a limited number of exclusive PLA logistic facilities – probably collocated with commercial ports – most closely aligns with China's overseas military logistics needs. The PLAN ultimately seeks to be able to operate across the greater Indo-Pacific region in high-intensity actions over a period of several months, in pursuit of the missions discussed under "Strategic Intent" above.

In August 2017, China officially opened its first overseas military base at Doraleh, Djibouti, which started with an expansion at Doraleh port in 2013. China claims its Djibouti base supports PLA counterpiracy, Humanitarian Assistance/Disaster Relief (HA/DR), and Peace Keeping Operations (PKO). The base includes barracks, an underground facility, a tarmac and eight hangars for helicopter and unmanned aerial vehicle (UAV) operations. A PLA Navy Marine Corps mechanized infantry company with at least eight infantry fighting vehicles arrived in July 2017. The unit is capable of supporting future noncombatant evacuation operations, search and seizure in the Gulf of Aden, hostage rescue, and small-scale combat actions. In July 2018, China began constructing a 450-meter pier, which could be capable of berthing at least four ships as early as mid-2019. This base, along with regular naval vessel visits to foreign ports, extend the reach of China's armed forces, reflecting China's growing influence.

China may seek to establish additional military bases in countries with which it has a longstanding friendly relationship and similar strategic interests, such as Pakistan, and in which there is a precedent for hosting foreign militaries. However, China's overseas military basing will be constrained by the willingness of countries to support a PLA presence. In 2018, China indicated interest in establishing bases in Cambodia and Vanuatu. Although both governments have publicly stated they are not willing to host a Chinese military base, Phnom Penh has agreed to receive new military aid from Beijing and participate in bilateral exercises with the PLA in the last two years.

Military Engagement

China's military and defense industry additionally contribute to promoting its interests abroad through arms sales, military diplomacy, and international exercises.

Arms Sales. China's arms sales are conducted via state-run organizations that primarily seek to generate profits and offset defense-related research and development costs. Arms transfers are also a

component of China's foreign policy, used in conjunction with other military cooperation, economic aid, and development assistance to support broader foreign policy goals. These include securing access to natural resources and export markets, promoting political influence among host country elites, and building support in international forums.

Between 2012 and 2016, China was the fifth largest arms supplier in the world, completing more than \$20 billion in sales including \$8 billion in military equipment sales to Indo-Pacific countries, primarily to Pakistan (many funded via loans), Bangladesh, and Burma. China's second largest arms sales were to the Middle East and North Africa, likely due to the demand for armed UAVs – a niche market where China is one of the world's few suppliers. China's ability to remain among the top five global arms suppliers largely hinges on continued strong sales to Pakistan and demand for its armed UAVs.

Chinese arms are lower quality and less reliable than those offered by the top international arms suppliers, but many have advanced capabilities. Most of China's customers are developing countries that prefer less expensive Chinese arms. These arms generally come with few end-use restrictions, which is attractive to customers who may not have access to other arms sources for political or economic reasons. Key developments and examples include the following:

- Submarines are becoming a more prominent Chinese export to countries along China's periphery. In 2015, China signed an agreement to sell Pakistan eight YUAN-class submarines; the first four submarines will be built in China and the remaining four in Pakistan. China delivered two MING-class diesel attack submarines to Bangladesh in late-2016 and continues to market a variety of submarine options at international trade shows. In May 2017, China finalized a \$390 million contract with Thailand for one Chinese-built S26T diesel-electric submarine to be delivered in 2023.
- China has sold armed UAVs to several Middle East and North African states, including Iraq, Saudi Arabia, Egypt, and the United Arab Emirates. China faces little competition for sale of such systems, as most countries that produce armed UAVs are restricted from selling the technology as signatories of the Missile Technology Control Regime and/or the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies.
- In March 2018, state-owned China Shipbuilding Industry Corporation (CSIC) signed an MOU with the Royal Thai Armed Forces to collaborate on unspecified military equipment and technologies. CSIC claimed the deal contributed to Xi Jinping's "going out" strategy to expand China's defense industry presence in key foreign markets.
- In June 2018, China finalized contracts with Pakistan and Bangladesh for conventional arms. The Pakistan contract is for delivery of two Type 054A multi-role frigates valued at \$500 million, which Pakistan anticipates receiving before 2021. The Bangladesh contract is reportedly valued at more than \$200 million for the sale of an additional 23 K-8W intermediate jet trainers. Bangladesh currently operates K-8W aircraft it bought from China in 2014.
- In July 2018, China's defense attaché announced Beijing would donate a frigate to the Sri Lankan Navy. The donation came three weeks after the Sri Lankan Navy announced its plan to shift its Southern Command HQ to Hambantota Port to reinforce sovereignty over the

port, which the PRC leased for 99 years and a Chinese state-owned enterprise owns and operates. The PLA is also constructing facilities at the Sri Lankan military academy.

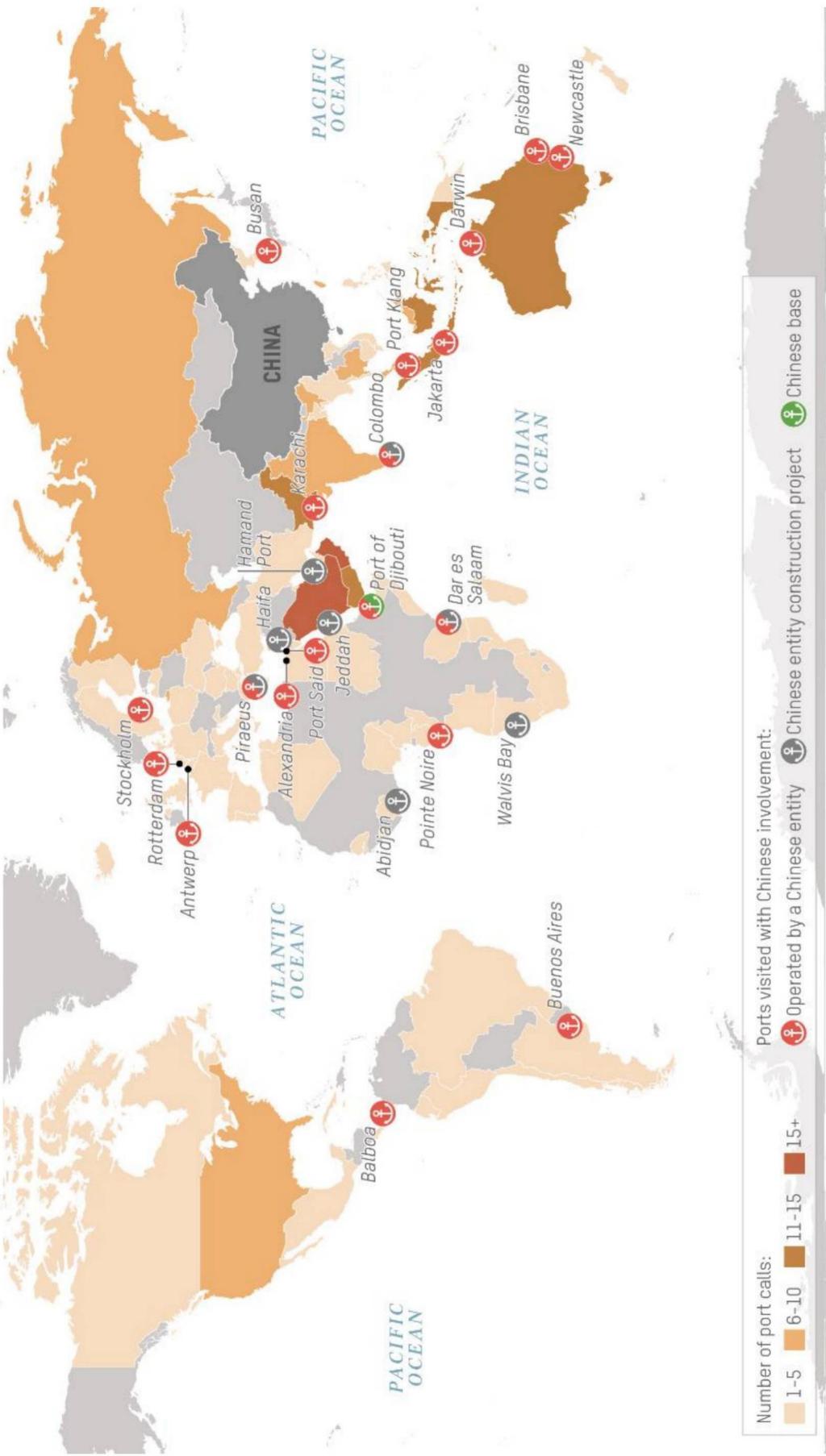
Military Diplomacy. Senior-level visits and exchanges provide China with opportunities to increase military officers' international exposure and advance foreign relations through military assistance programs and personal relationship development. Expanded PLA travel abroad enables PLA officers to observe and study foreign military command structures, unit formations, and operational training. Furthermore, PLA senior leaders are beginning to actively shape the methods by which shared security concerns are addressed during their participation in multilateral coordination mechanisms. For example, in August 2016 then-Chief of the Joint Staff Department Fang Fenghui participated in the inaugural meeting of the Quadrilateral Cooperation and Coordination Mechanism, a military counterterrorism pact between Afghanistan, China, Pakistan, and Tajikistan. In a more recent example, the PRC hosted Defense Ministers from multiple Western Hemisphere nations to participate in the fourth Sino-Latin American Defense Forum in October and November 2018.

Professional military education exchanges are another tool of Chinese military diplomacy. Many Latin American and Caribbean countries send officers to the strategic-level College of Defense Studies at the National Defense University; some of these countries also send officers to the PLAA and PLAN command schools. China's professional military education exchanges will increase in South America with countries that cut diplomatic relations with Taiwan, which could limit U.S. professional military education exchanges due to strained defense relations.

The PLAN conducted numerous port calls from 2008-2017, as shown in the graphic on page 7. In 2017, a trio of PLAN ships conducted the PLAN's longest-ever goodwill deployment, visiting 20 countries in Asia, Europe, Africa, and Oceania.

The PLAN's hospital ship "Peace Ark" conducted the goodwill cruise HARMONIOUS MISSION in mid to late 2018, with stops in Papua New Guinea, Vanuatu, Fiji, Tonga, Venezuela, Grenada, Dominica, Antigua and Barbuda, Dominican Republic, Ecuador, and Chile, along with a Panama Canal Transit.

China's Expanding Global Access: Port Calls 2008-2017



International Exercises. The PLA's participation in international military exercises continued to expand in 2017 and 2018 as the PLA exercised with countries outside of the Indo-Pacific region. Many of these exercises focused on counterterrorism, border security, PKO, and disaster relief; however, some included conventional ground, maritime, and air warfare training.

- Chinese military personnel participated in a bilateral exercise with Nepal for the first time in April 2017. The exercise focused on counterterrorism operations and was preceded by a visit by China's Minister of Defense, Chang Wangquan, the first visit by a Chinese defense minister in 15 years.
- China conducted naval exercises with Russia in the Baltic Sea in July and in the Sea of Japan and the Sea of Okhotsk in September 2017. The two navies exercised submarine rescue, joint air defense, and anti-submarine operations. This was the PLAN's sixth exercise with Russia since 2012 and the first to occur in the Baltic Sea.
- China hosted the sixth iteration of the SHAHEEN exercise series with Pakistan in September 2017. The exercise aims to develop closer ties between both countries' air forces. This year's exercise included live-fire target practice, night warfare, close air support training, and participation by PLAN aircraft for the first time.
- The PLA in March 2018 held its second joint military drill with the Cambodian Armed Forces since 2016. GOLDEN DRAGON 2018 included 216 PLA personnel and focused on counter-terrorism and HA/DR. Chinese and Cambodian participants conducted a live-fire exercise simulating military intervention involving hostages. The Cambodian Defense Minister and the Chinese ambassador observed the exercise.
- A PLAN guided-missile destroyer and a guided-missile frigate participated in KOMODO 2018, a multilateral naval exercise hosted by the Indonesian Navy, in May. Assets from the United States, France, Indonesia, Malaysia, Russia, and Thailand participated in the six-day exercise, which comprised a harbor phase, a sea phase, and a civic mission phase. The U.S. participated in exercise task groups that did not include Russian or Chinese assets or personnel.
- The PLA participated for the first time in Russia's annual VOSTOK military exercise in Russia's far east in September 2018. The PLA contributed 3,200 troops, 600-900 pieces of military equipment, and 30 aircraft and helicopters. The exercise was Russia's largest since 1981.
- The PLAN participated for the first time in KAKADU, Australia's largest maritime exercise, in September 2018. A total of 27 countries participated, including the United States.

PLA exercises with foreign countries from 2008-2017 are shown in the graphic on pages 9-11 (note: 2018 PLA exercises will be addressed in the next *China Military Power Report*).

China's Expanding Global Access: Exercises 2008-2017

Since 2008, Chinese officials have increasingly relied on bilateral and multilateral exercises to advance China's diplomatic outreach to key regions on its periphery and to gain knowledge of U.S. and Western techniques, tactics, and procedures. People's Liberation Army (PLA) "symbolic" exercises probably are intended to promote cooperation and Beijing's military diplomacy. Chinese "substantive" exercises probably are intended to provide opportunities for the PLA to participate with strategic partners, acquire knowledge, or operate in sensitive geographic areas. China particularly has sought out exercises with NATO countries and U.S. partners that operate Western military equipment. The PLA Air Force has also conducted bilateral exercises with Thailand and Turkey, allowing PLA pilots to train against F-16 fighters and gain insight into Western command and control systems.

Year	Exercise	Partner Nation	Year	Exercise	Partner Nation
2008	Hand-in-Hand 2008	India	2010	Blue Strike 2010	Thailand
2008	Strike 2008	Thailand	2010	Strike 2010	Thailand
2009	Friendship Operation 2009	Romania	2011	Divine Eagle 2011	Belarus
2009	Peace Mission 2009	Russia	2011	Sharp Knife 2011	Indonesia
2009	Peace Shield 2009	Russia	2011	Unnamed	Pakistan
2009	Peace Angel 2009	Gabon	2011	Aman	Pakistan
2009	Peacekeeping Mission	Mongolia	2011	Friendship 2011	Pakistan
2009	Unnamed	Pakistan	2011	Shaheen-1	Pakistan
2009	Aman	Pakistan	2011	Unnamed	Thailand
2009	Cooperation 2009	Singapore	2012	Cooperation Spirit 2012	Australia
2010	Unnamed	Italy	2012	Maritime Cooperation 2012	Russia
2010	Anatolian Eagle	Turkey	2012	Divine Eagle 2012	Belarus
2010	Peace Mission 2010	Kazakhstan	2012	Cooperation	Colombia
2010	Unnamed	Pakistan	2012	Sharp Knife 2012	Indonesia
2010	Friendship 2010	Pakistan	2012	Cormorant Strike	Sri Lanka
2010	Friendship Operation 2010	Romania	2012	Peace Mission 2012	Tajikistan
2010	Cooperation 2010	Singapore	2012	Blue Strike 2012	Thailand
2010	Unnamed	Singapore	2013	Hand-in-Hand 2013	India

● Bilateral ● Multilateral | ● Substantive ● Symbolic

China's Expanding Global Access: Exercises 2008-2017 (continued)

Year	Exercise	Partner Nation	Year	Exercise	Partner Nation
2013	Phoenix Spirit	New Zealand	2014	Peace Angel 2014	Pakistan
2013	Maritime Cooperation 2013	Russia	2014	Shaheen-3	Pakistan
2013	Peace Mission 2013	Russia	2014	Cooperation 2014	Singapore
2013	Prairie Pioneer	Mongolia	2014	Beyond 2014	Tanzania
2013	Shaheen-2	Pakistan	2014	AHex	Thailand
2013	Strike 2013	Thailand	2014	Cobra Gold 2014	Thailand
2013	Prairie Pioneer	Mongolia	2015	Kowari 2015	Australia
2013	Shaheen-2	Pakistan	2015	Hand-in-Hand 2015	India
2013	Strike 2013	Thailand	2015	Khaan Quest 2015	Australia
2014	Kakadu 2014	Australia	2015	Tropic Twilight	New Zealand
2014	Kowari 2014	Australia	2015	Naval Interaction 2015 (I)	Russia
2014	Venus 2	European Union	2015	Joint Sea 2015	Russia
2014	Hand-in-Hand 2014	India	2015	Tank Biathlon 2015	Russia
2014	Aviadarts 2014	Russia	2015	International Military Games 2015	Russia
2014	Maritime Cooperation 2014	Russia	2015	Joint Sea 2015 (II)	Russia
2014	Peace Mission 2014	Russia	2015	Cormorant Strike VI 2015	Sri Lanka
2014	Rubezh	Russia	2015	Dashing Eagle 2015	Belarus
2014	Tank Biathlon 2014	Russia	2015	Cobra Gold 2015	Thailand
2014	Border Defense Cooperation 2014	Russia	2015	IMDEX Asia	Indonesia
2014	Western Pacific Naval Symposium	Host	2015	Fox Hunting 2015	Kazakhstan
2014	Aviadarts 2014	Belarus	2015	Falcon 2015	Mongolia
2014	Komodo 2014	Indonesia	2015	Shaheen-4	Pakistan
2014	Sharp Knife 2014	Indonesia	2015	Warrior-III	Pakistan
2014	Peace and Friendship 2014	Malaysia	2015	Friends	Pakistan

● Bilateral ● Multilateral | ● Substantive ● Symbolic

China's Expanding Global Access: Exercises 2008-2017 (continued)

Year	Exercise	Partner Nation	Year	Exercise	Partner Nation
2015	Maritime Cooperation 2015	Singapore	2016	Friendship 2016	Pakistan
2016	Pandaroo-2016	Australia	2016	Shaheen 5	Pakistan
2016	Kowari 2016	Australia	2016	Blue Strike 2016	Thailand
2016	Australian Army Skill At Arms Meeting (AASAM)	Australia	2016	Komodo 2016	Indonesia
2016	Hand-in-Hand 2016	India	2017	Sagarmatha Friendship-2017	Nepal
2016	ADMM-Plus Maritime Security Exercise 2016	New Zealand	2017	Joint Sea 2017	Russia
2016	Peace Mission 2016	Russia	2017	Falcon Strike 2017	Thailand
2016	Joint Sea 2016	Russia	2017	Shaheen VI	Pakistan
2016	International Army Games 2016	Russia	2017	Panda Kangaroo	Australia
2016	Airborne Platoon 2016	Russia	2017	Friend 2017	Pakistan
2016	Aviadarts 2016	Russia	2017	Aman-2017	Pakistan
2016	Tank Biathlon 2016	Russia	2017	Cobra Gold 2017	Thailand
2016	Aerospace Security 2016	Russia	2017	Khaan Quest 2017	Mongolia
2016	Keys to the Sky 2016	Russia	2017	Eastern Angel Rescue	Lebanon
2016	Seaborne Assault 2016	Russia	2017	Kowari 2017	Australia
2016	Western Pacific Naval Symposium	Indonesia	2017	Cormorant Strike VIII	Sri Lanka
2016	Jungle Patrol Competition	Brazil			
2016	International Physical Agility and Combat Efficiency System (PACES)	Nepal			

● Bilateral ● Multilateral | ● Substantive ● Symbolic

C. Expansion by Non-Military Means

Infrastructure Investment: The One Belt, One Road Initiative

China's OBOR initiative, publicly released in 2013, aims to expand economic and commercial ties to China by developing transportation infrastructure, natural gas pipelines, hydropower projects, technology and industrial parks. China views OBOR as a way to enhance its trade connectivity, reduce surplus domestic industrial capacity, develop poorer interior provinces, promote energy security, and internationalize Chinese industrial and financial standards, to include the yuan.

While some OBOR projects appear to be motivated by economic considerations, OBOR also serves a greater strategic purpose. China intends to use OBOR to develop strong economic ties with other countries, shape their interests to align with China's, and deter confrontation or criticism of China's approach to or stance on sensitive issues. Countries participating in OBOR can develop economic dependencies from over-reliance on Chinese capital and labor. Some OBOR investments could create potential military advantages for China, should it require access to selected foreign ports to pre-position the necessary logistics support to sustain naval deployments to protect its growing interests in waters as distant as the Indian Ocean, Mediterranean Sea, and Atlantic Ocean.

Ports operated or constructed by a Chinese entity that were also visited by the PLAN from 2008-2017 are shown in the graphic on page 7, demonstrating instances in which OBOR has intersected with China's military diplomacy.

In 2017, China's leaders said OBOR, which at first included economic initiatives in Asia, South Asia, Africa, and Europe, now encompasses all regions of the world, including the Arctic and Latin America, demonstrating the scope and reach of Beijing's ambition. China also released a "Vision of Maritime Cooperation under the Belt and Road Initiative" in 2017, which lays out three maritime corridors and the importance of maritime security cooperation. One identified corridor is from China through the Indian Ocean to Africa and the Mediterranean Sea. Another corridor is designated from China to Oceania and the South Pacific, and the last corridor from China to Europe through the Arctic Ocean.

China's government has taken other actions to centralize OBOR within its foreign policy and pursue these objectives:

- China's National Development and Reform Commission is the lead agency for OBOR, and five Politburo members participate in a leading small group on "advancing the development of the Belt and Road."
- In January 2018, China announced the formation of two courts based in China to adjudicate disputes regarding OBOR projects. There is debate whether the courts will operate in accordance with international rules and standards or adhere to Chinese laws and practices.
- In March 2018, China established the International Development Cooperation Agency to coordinate international aid, integrating responsibilities previously undertaken by the Ministries of Commerce and Foreign Affairs, to better align foreign aid with China's diplomatic strategy, including OBOR.

- In September 2018, China hosted leaders from 53 African countries at the 2018 Beijing Summit of the Forum on China-African Cooperation. President Xi used the forum to promote OBOR, called for a “China-Africa community with a shared future,” and pledged \$60 billion in additional financing.

Infrastructure Investment: The “Digital Silk Road” Initiative

President Xi has promoted the “21st Century Digital Silk Road” alongside OBOR. Although China’s government has revealed few details, President Xi has stated the initiative should involve cooperation and development in “frontier areas” including digital economy, artificial intelligence, nanotechnology, and quantum computing, as well as areas such as big data, cloud computing, and “smart cities.” President Xi has also linked the initiative to building information and communications technology infrastructure, particularly in developing countries, and to promoting cybersecurity and global internet governance reform.

Chinese state-owned or state-affiliated enterprises, including China Telecom, China Unicom, China Mobile, Huawei, and ZTE, have invested or submitted bids globally in areas such as 5G mobile technology, fiber optic links, undersea cables, remote sensing infrastructure connected to China’s Beidou satellite navigation system, and other information and communications technology infrastructure.

While providing benefits to host countries, these projects will also facilitate China’s efforts to expand science and technology cooperation, promote its unique national technical standards, further its objectives for technology transfer (discussed under “Technology Acquisition” on page 15 of this report), and potentially enable politically-motivated censorship. Data legally acquired via some of these projects may also contribute to China’s own technological development in areas such as artificial intelligence.

As China promotes the initiative it may also seek to protect its firms from global competition, as when China declined to grant regulatory approval for U.S.-based Qualcomm to acquire Dutch counterpart NXP after all eight other relevant jurisdictions approved.

In July 2018, the U.S. Federal Communications Commission denied a license application by China Mobile to operate in the United States, based on an executive branch recommendation which noted “concerns about increased risk to U.S. law enforcement and national security interests were unable to be resolved.” In August 2018, the U.S. National Defense Authorization Act for Fiscal Year 2019 prohibited U.S. federal government procurement of Huawei or ZTE telecommunications equipment, as well as telecommunications and video surveillance equipment from certain Chinese companies, among other provisions.

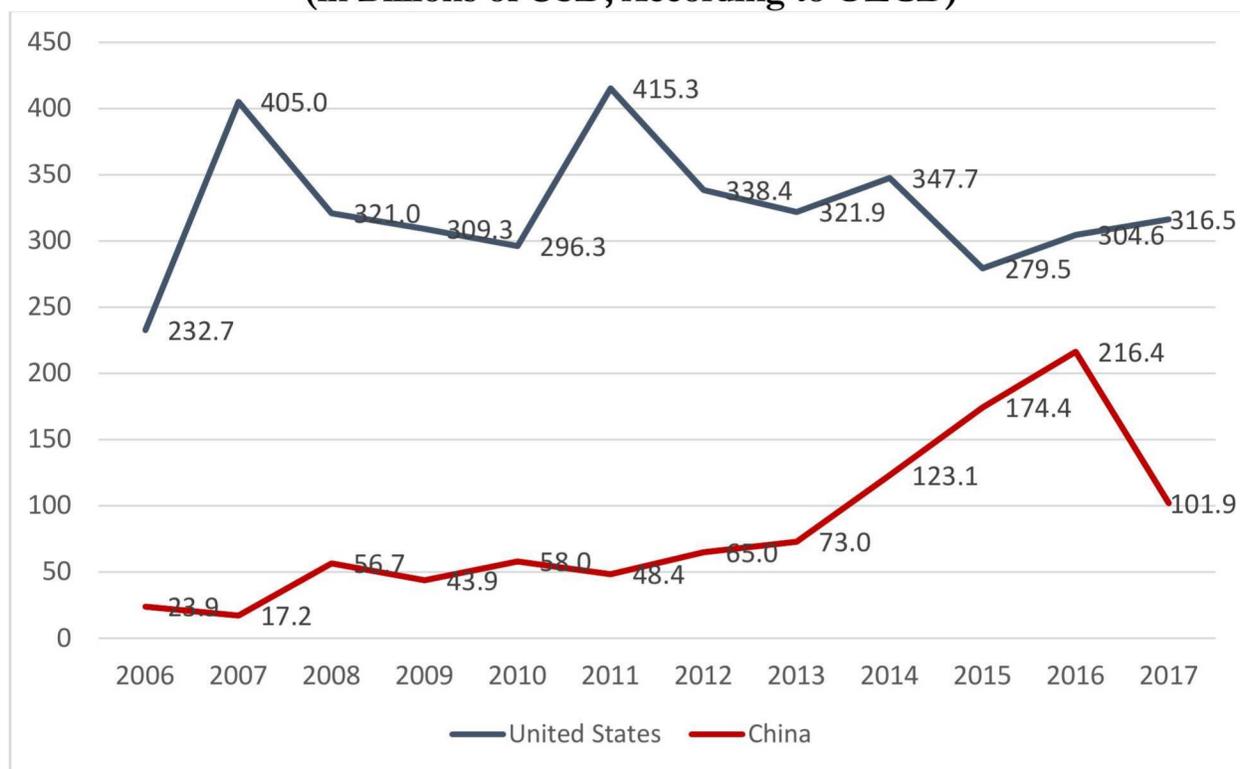
Broader Economic Trends

China’s global trade, investment, and lending footprint is growing rapidly as Chinese state policy banks and Chinese firms have financed and implemented hundreds of billions of dollars’ worth of major infrastructure projects throughout Asia, Africa, Latin America, the Middle East, and parts of Europe

since 2006. The AIIB serves as a new multilateral development bank that promotes infrastructure building in Asia, although it has not funded OBOR projects.

For example, while U.S. outbound FDI significantly exceeded that of China from 2006-2017, the gap has narrowed.

Outbound Foreign Direct Investment Flows from China and the United States (in Billions of USD, According to OECD)



China’s investment has been global in scope. According to the China Global Investment Tracker (compiled by the American Enterprise Institute and the Heritage Foundation, and tracking investments over \$100 million) from 2006-2017 China invested roughly \$299 billion in Europe, \$223 billion in North America, \$120 billion in East and Southeast Asia, \$98 billion in South America, \$91 billion in Australia, \$85 billion in West Asia (South Asia, Central Asia, and Russia), \$77 billion in Sub-Saharan Africa, and \$31 billion in the Middle East and North Africa. In the absence of a direct comparison, data from the U.S. Department of Commerce Bureau of Economic Analysis indicates U.S. FDI was likely higher in each of these regions with the exception of Sub-Saharan Africa and West Asia (but significantly higher in India), with over half in Europe.

Construction contracts from 2006-2017 measured by the Tracker totaled an additional \$205 billion in Sub-Saharan Africa, \$163 billion in West Asia, \$130 billion in the Middle East and North Africa, \$122 billion in East and Southeast Asia, \$52 billion in South America, \$38 billion in Europe, \$15 billion in Australia, and \$10 billion in North America. Most of China’s construction contracts, and some of its investments, have occurred under the OBOR label since the initiative was announced in 2013.

Technology Acquisition

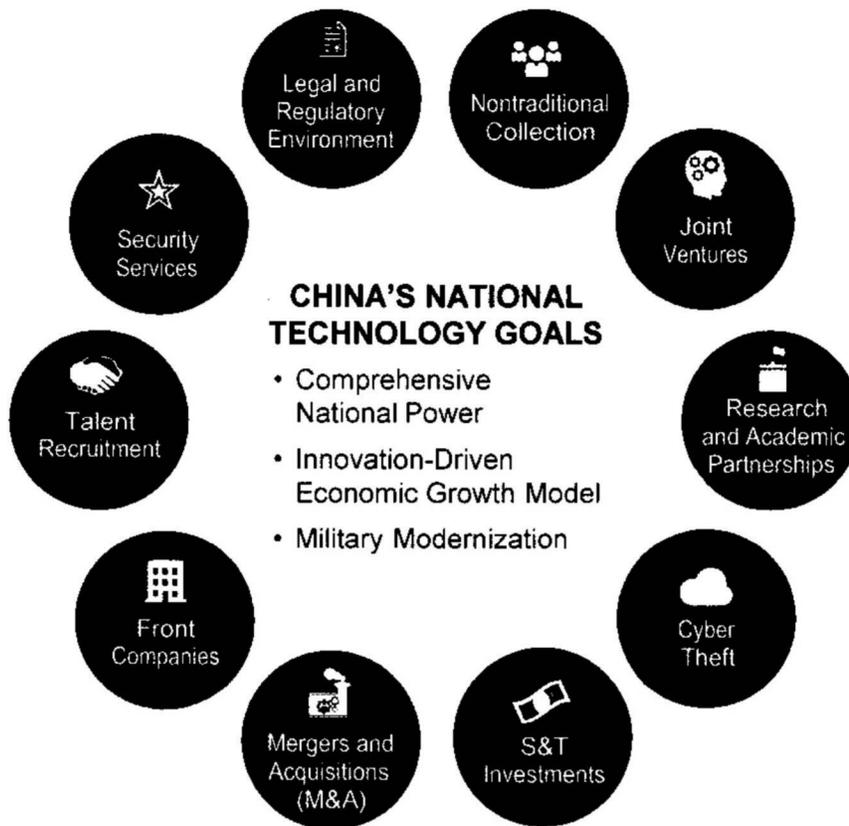
China's expanding global access has provided new opportunities to develop and acquire military and dual-use technologies, through both legitimate and unlawful means.

Military. China continues to supplement indigenous military modernization efforts through the acquisition of targeted foreign technologies and the know-how pertaining to their development, including engines for aircraft, tanks, and naval vessels; solid-state electronics and microprocessors, and guidance and control systems; enabling technologies such as cutting-edge precision machine tools; advanced diagnostic and forensic equipment; and computer-assisted design, manufacturing, and engineering. China often pursues these foreign technologies for the purpose of reverse engineering. China seeks some high-tech components and major end-items from abroad that it has difficulty producing domestically – particularly from Russia and Ukraine. China has purchased advanced Russian defense equipment such as the SA-X-21b (S-400) surface-to-air missile system and Su-35 fighter aircraft, and is pursuing a Sino-Russian joint-design and production program for a heavy-lift helicopter and diesel-electric submarines. China is partnering with Russia to purchase electronic components as well as creating joint production facilities located within Russia. In addition, China has signed significant purchase contracts with Ukraine in recent years, including contracts for assault hovercraft and aircraft engines.

Dual-Use. China is pursuing global leadership in strategic industries through state-backed investment, as outlined in its Five-Year Plans, “Made in China 2025” industrial strategy, and other national documents. China seeks to be the world leader in artificial intelligence by 2030, for example. China is also actively pursuing an intensive campaign to obtain critical, dual-use technologies through imports, foreign direct investment, industrial and cyberespionage, and establishment of foreign research and development (R&D) centers. China additionally employs joint venture and licensing requirements that pressure companies into transferring technology, while Chinese companies do not face the same barriers abroad. In an effort to gain sensitive knowledge, Beijing is increasingly looking to recruit and relocate talent to China. These efforts are illustrated in the graphic on page 16.

In 2016, China adopted the 13th Five Year Plan (2016-2020), which, among other provisions, sets focus areas for research, development, and innovation. Several of these have defense implications, including aerospace engines – including turbofan technology – and gas turbines; quantum communications and computing; innovative electronics and software; automation and robotics; special materials and applications; nanotechnology; neuroscience, neural research, and artificial intelligence; and deep space exploration and on-orbit servicing and maintenance systems. Other areas where China is concentrating significant R&D resources include nuclear fusion, hypersonic technology, and the deployment and “hardening” of an expanding constellation of multi-purpose satellites. China's drive to expand civil-military integration and international economic activity supports these goals.

Many of the key technologies China is targeting are integral to the rapid technological change occurring in multiple industries. These capabilities are key not only to economic growth, but to the United States' ability to maintain its military advantage. Advantage in this competition will go to those who not only create the best technologies, but also best protect and field them in creative operational ways that provide significant military advantages. If not hardened against Chinese legal and illegal pursuits, these actions could erode the U.S. National Security Innovation Base.



Media and Influence Operations

China has made substantial investments in foreign language media over the past decade. For example, Xinhua News Agency, China’s official state-run news agency, launched 40 new foreign bureaus and doubled the number of overseas correspondents between 2009 and 2011. Xinhua counted 162 total foreign bureaus in 2017 and aims to have 200 by 2020. China’s expanding official media presence reflects a concerted effort on the part of its leadership to shape opinions about the country and promote China’s view on key topics. President Xi Jinping urged China Global Television Network, Xinhua’s international media service, to “tell the China story well” and “spread China’s voice.”

China has made both direct and indirect investments in news media organizations abroad. China’s official investments in the U.S. media market remains primarily focused on expanding Chinese state-run media organizations. For example, Xinhua and the state-run newspaper China Daily launched operations in the United States in 2011 and 2009, respectively. Similarly, in 2012, China Central Television expanded into the United States with CCTV America. However, China has also obscured its investments in media in the United States and other countries. For example, a 2015 Reuters report revealed that China Radio International (CRI), a Chinese state-owned entity, was using subsidiaries to mask its control over 33 radio stations in 14 countries, including the United States. These radio stations broadcast pro-China content but have not registered as agents of a foreign government under the Foreign Agents Registration Act (FARA). The Chinese government also methodically cultivates

relationships with private media owners and journalists to encourage them to depict China in a positive light. These efforts demonstrate China's growing desire to shape public opinion on the international stage.

China also seeks to influence global public opinion through other means. For example, China has established and funded Confucius Institutes, affiliated with its Ministry of Education, at over 500 foreign university campuses. The stated goals of these Institutes are to promote the Chinese language and a positive image of China, inspire students to learn more about China, provide support and resources for educators and school systems to incorporate Chinese language and knowledge in their curriculum, and educate the public about Chinese culture and society.

Tourism

Outbound tourism from China has increased significantly over the past decade, becoming a reliable component of revenue for many countries in Asia. China's leadership has demonstrated its willingness and ability to restrain tourism as an economic tool to influence countries in order to promote China's interests. For example, during the 2012 standoff between China and the Philippines over the Scarborough Reef in the South China Sea, China actively restricted tourism to the Philippines. Similarly, from 2016 to 2017, China backed tourism restrictions and public boycotts on South Korea following its deployment of a U.S. missile defense system.

China may seek to use tourism-related construction by Chinese construction firms in strategic areas (e.g., Guam or Tinian) to monitor DoD activities. In addition, Chinese construction workers often remain in host nations illegally, creating a security vulnerability for nations who have limited enforcement means.

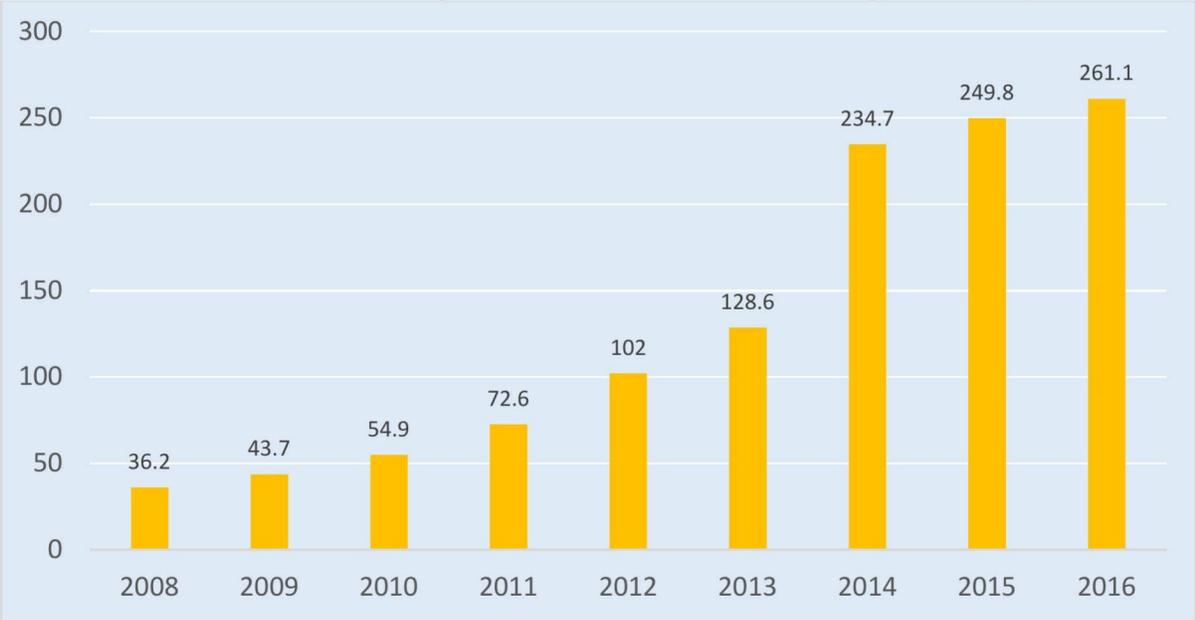
Most Popular Destinations Outside Mainland China for Chinese Tourists in 2017 (according to Nielsen)

1	Hong Kong
2	Japan
3	Macao
4	Thailand
5	Korea
6	United States
7	Singapore
8	Taiwan
9	Australia
10	France

Outbound Journeys of Chinese Tourists (in Millions of Tourists, according to World Bank)



International Expenditure by Tourists from China while Abroad (in Billions USD, according to UN World Tourism Organization)



III. IMPLICATIONS OF CHINA'S ACTIVITIES

China's expanding global activities in some of the areas listed above present military force posture, access, training, and logistics implications for the United States and China. More broadly, they provide opportunities for political influence.

A. Posture and Access

Expanded Power Projection Capabilities. China's efforts to enhance its presence abroad could enable the PLA to project power at greater distances from the Chinese mainland. The establishment in Djibouti of the PLA's first overseas military base – which hosts a deployed company of Marines and equipment – and probable follow-on bases at other locations signal a turning point in the expansion of PLA operations in the Indian Ocean region and beyond. These bases, and other improvements to the PLA's ability to project power during the next decade, will increase China's ability to deter the use of conventional military force, sustain operations abroad, and hold strategic economic corridors at risk.

Growing PLA mission areas and enhanced presence abroad may also lead to an increase in the demand for the PLA to protect China's overseas interests and provide support to Chinese personnel. China's increased presence also introduces the possibility that the PLA could play a more prominent role in delivering global public goods in the future.

Expanded Options in Regional Conflicts. Importantly, while China's expanding power projection capabilities are applicable to both regional and global missions, China's military strategy remains focused on developing the capability to dissuade, deter, and if ordered, defeat a potential third-party intervention in regional conflicts. This strategy, as outlined in China's 2015 White Paper titled "China's Military Strategy" and further delineated in the latest iteration of the PLA National Defense University's "Science of Strategy," is to build strong, combat-effective armed forces capable of winning *regional* conflicts employing integrated, real-time command and control networks. In early 2017, China promulgated a "White Paper on China's Policies on Asia Pacific Security Cooperation," placing this strategy in the context of China's wider development interests. It stresses the need for a PLA able to conduct expeditionary operations and other activities to defend and secure growing Chinese national interests overseas from "destabilizing and uncertain factors." The PLA's eight strategic missions, outlined on page 2, include both regional and global components.

Examples of the regional areas on which China's military strategy is focused include the following:

- China has unresolved land border and maritime boundary disputes – including the ongoing territorial and maritime disputes in the East China Sea, South China Sea, and along the China-India border. Some of these disputes involve U.S. allies with whom there exist long-standing cooperation and security treaty commitments or strategic partners with whom there is a rapidly growing security relationship. China continues to exercise low-intensity coercion to advance its claims in the East and South China Seas.
- The PLA continues to prepare for contingencies in the Taiwan Strait to deter, and if necessary, compel Taiwan to abandon moves toward independence. The PLA also is likely preparing for a contingency to unify Taiwan with the mainland by force, while simultaneously deterring,

delaying, or denying any third-party intervention on Taiwan's behalf. Taiwan's national defense report released in 2017 cited concerns that increased PLA military activity near Taiwan pose an "enormous threat to security in the Taiwan Strait," and that Taiwan requires a "multiple deterrence strategy," to include an emphasis on developing asymmetric warfare capabilities to counter PLA advances.

The PLA's expanding global capabilities to secure Beijing's overseas interests provide military options to observe or complicate adversary activities in the event of a conflict. China's wider global activities could also be leveraged to exert political influence.

Evolving Force Structure. The PLA's force structure is evolving in line with these missions.

- China's modern naval platforms will strengthen the force's core warfighting competencies and enable credible combat operations beyond the reaches of land-based defenses. The expansion of naval operations beyond China's immediate vicinity will provide China with a diverse set of capabilities for striking targets across the Pacific and Indian Ocean regions as well as exercising control of SLOCs. Improving blue water capabilities will extend China's maritime security buffer to protect China's near- and far-seas interests more effectively.
- China's current aircraft carrier and planned follow-on carriers will extend air defense umbrellas beyond the range of coastal systems and help enable task group operations in far seas. Sea-based land attack probably is an emerging requirement for the PLAN. Chinese military experts argue that to pursue a defensive strategy in far seas, the PLAN must improve its ability to control land from the sea through development of a long-range land-attack cruise missile.
- The PLA's land-based missile and air forces enable other military assets to focus on conducting offensive missions, such as blockades and sovereignty enforcement, as well as defensive operations farther from China's shores. China also focuses on enhancing the PLA's intelligence, surveillance, and reconnaissance capabilities, which will enable improved targeting and timely responses to perceived threats.

B. Training and Logistics

Improved Training. The PLAN's ability to perform missions beyond the first island chain is modest but growing as it gains more experience operating in distant waters and acquires larger and more advanced platforms. China's experience in extended range operations primarily comes from extended task group deployments and its ongoing counterpiracy mission in the Gulf of Aden. In 2017, the PLA began implementing revised Military Training Regulations and a new Outline of Military Training, focusing on realistic training for modern warfare and preparations for joint combat operations.

- In 2017, the PLAN continued to conduct deployments into the Western/Southern Pacific and Indian Oceans, and for the second time in 2017, the Bering Sea. A trio of PLAN ships conducted the PLAN's longest-ever goodwill deployment, visiting 20 countries in Asia, Europe, Africa, and Oceania. Three other PLAN ships sailed to the Baltic Sea to conduct a joint exercise with the Russian Navy, part of their JOINT SEA exercise series; the two navies exercised air defense and anti-submarine operations and submarine rescue operations.

- China sustained its three-ship task group in the Gulf of Aden in 2017, continuing a nine-year effort to protect Chinese merchant shipping from maritime piracy. This operation is China's first enduring naval operation beyond the Asia-Pacific region. The PLAN also continued submarine deployments to the Indian Ocean, demonstrating its increasing familiarity with operating in that region and underscoring China's interest in protecting sea lines of communication beyond the South China Sea.
- Chinese intelligence-gathering ships (auxiliary general intelligence ships or AGIs) operated well beyond the first island chain in 2017; one Type 815A DONGDIAO-class AGI deployed to the Coral Sea in July to collect against a Australian-U.S. naval exercise and another DONGDIAO AGI sailed to a position off Alaska, likely to monitor a live test of the Terminal High-Altitude Air Defense (THAAD) missile defense system.

Improved Logistics. Logistics and intelligence support remain key obstacles for the PLA despite ongoing naval ship construction, particularly in more distant areas from China. China's first naval base in Djibouti may alleviate some logistics challenges for Indian Ocean operations, and China may establish additional logistics facilities over the next decade.

The PLA has made great progress in logistics reform during the past two decades, enhancing the PLA's ability to mobilize rapidly and project support along internal lines of communication for large operations (mostly disaster responses and exercises). Since 2016, the PLA has implemented structural reforms to improve command and control, procedural reforms to improve civil-military integration, and oversight mechanisms to eliminate waste and inefficiencies that stem from longstanding corrupt practices within the logistics sector. The PLA's expanding global activity will provide opportunities to gain experience and further improve logistics capabilities.

C. Opportunities for Influence

China's wider global activities could also be leveraged to exert influence.

Investment and Project Financing. Although many of China's generous investment financing offers benefit their host nations, they often come with strings attached. In some cases, Chinese investment and project financing that bypasses regular market mechanisms results in negative economic effects for the host country, including lower standards, reduced opportunities for local companies and workers, and significant debt accumulation challenges. Several examples arose in 2018:

- Malaysia has suspended or canceled several OBOR projects since August 2018, noting one could have been built by a local company for half the cost.
- Pakistan announced a review of Chinese-financed projects associated with the \$62 billion China-Pakistan Economic Corridor in September 2018. An advisor to Prime Minister Khan told reporters the previous government "gave away a lot" to China and argued for renegotiation. The government later backpedaled, claiming the statement was taken out of context.
- The Maldives' finance minister stated in November 2018 that China is building infrastructure projects in the country at significantly higher prices than previously agreed.

- China's announcement of \$60 billion in additional aid and loans for Africa occurred despite the International Monetary Fund's early 2018 warning that sub-Saharan African nations are at a growing risk of debt distress.

In other cases, unfair economic deals may provide near-term benefits but also carry costs to host country sovereignty.

- In 2009, China used economic incentives, including a currency swap agreement to stabilize Argentina's currency, to negotiate a 50-year, rent-free lease of nearly 500 acres for a satellite tracking facility in Argentina.
- In 2011, China reportedly agreed to forgive an undeclared amount of Tajikistan's debt and received over 1,000 square kilometers of disputed territory in exchange.
- China has also assumed control over infrastructure as a form of compensation when projects have failed. For example, China financed a roughly \$2 billion deal between Sri Lanka and a Chinese state-owned enterprise to develop Hambantota Port. In 2017, following the commercial failure of the port, Sri Lanka signed a 99-year lease for the operation of the port to the Chinese state-owned enterprise.
- China currently has claims to nearly 90 percent of Ecuador's oil reserves through commodities-backed loans.
- In his December 13, 2018 speech announcing the Administration's new Africa Strategy, U.S. National Security Advisor Bolton noted Zambia currently owes China \$6 to \$10 billion, and China is poised to take over Zambia's national power and utility company to collect on Zambia's financial obligations.

Other Forms. China has also employed economic incentives or economic coercion to achieve specific political objectives. This has affected a wide range of countries.

- In 2004, after China pledged \$122 million in assistance to Dominica, Dominica cut official ties with Taiwan.
- In 2010, China stopped exports of rare earths, a critical technology input, to Japan in response to a maritime collision and subsequent detention of a Chinese fishing boat and its captain, claiming that Japan had reached an export quota.
- In 2010, China reduced salmon imports from Norway and suspended diplomatic relations and trade discussions, after Chinese dissident Liu Xiaobo won the 2010 Nobel Peace Prize.
- In 2011, after China restructured between \$4 billion and \$6 billion of Cuba's debt, Havana reportedly agreed to extend an existing development credit to China to modernize the Santiago de Cuba port.

- In 2012, China restricted Filipino banana imports and restricted tourism to the Philippines, following clashes over the disputed Scarborough Reef.
- In 2016, China halted group tourism to Taiwan in response to the election of President Tsai Ing-wen, who Beijing perceives to harbor a pro-independence agenda.
- In 2016, after the visit of the Dalai Lama to Mongolia, China suspended talks on a major assistance loan, worsening Mongolia’s fiscal challenges and eventually driving it to seek an IMF bailout. China also increased fees on imports of mining products from Mongolia and temporarily closed an important border crossing.
- In 2016, China tried unsuccessfully to dissuade South Korea from deploying a missile defense system by restricting tourism, cutting imports, and closing nearly 90 Korean-owned supermarkets in China.
- The Dominican Republic switched diplomatic recognition to the PRC in May 2018, and El Salvador did so in August 2018. China may use these changes to incentivize other states in the region to follow this example.

IV. U.S. RESPONSE

The Department of Defense will continue to assess the military implications of China’s expanding global access and ensure the Department provides combat-credible military forces needed to fight a war and win, should deterrence fail.

Importantly, the Department has not viewed every one of China’s expanding global activities as a problem. Many countries have genuine economic development needs, particularly for infrastructure. The Asian Development Bank has assessed that developing countries in the Indo-Pacific will need \$26 trillion for infrastructure investment by 2030, for example. In addition, trade and investment often provide long-term economic benefits, including for the United States. U.S. policy does not oppose China’s investment activities as long as they respect sovereignty and rule of law, use sustainable financing, and operate in a transparent and economically sustainable manner. The principles of a “free and open Indo-Pacific” should be paramount, under which countries can determine their own economic interests and needs.

The Department is concerned by actions China’s government has taken that are out of step with international norms, diminish countries’ sovereignty, or undermine the security of the United States or that of our allies and partners. The Department has responded in line with the *U.S. National Defense Strategy* and in support of whole-of-government action.

National Defense Strategy

The NDS directs the Department to maintain favorable balances of power in three key theaters: the Indo-Pacific, Europe, and the Middle East. The Department is advancing this objective by implementing four strategic ways: building a more lethal force to gain military advantage,

strengthening allies and partners to generate robust networks that can advance shared interests, reforming the Department to realize greater performance and affordability, and expanding the competitive space to create U.S. advantages and impose dilemmas on competitors.

More specifically, a combat-credible, rapidly innovating Joint Force, suitably postured and executing creative, multi-domain operations – coupled with the access and complementary capabilities of a robust alliance and partnership network – will renew U.S. and allied military advantages in key potential warfights. Several representative actions discussed in the unclassified summary of the National Defense Strategy are furthering this effort.

Building a More Lethal Force. Noting the scope and pace of our competitors’ ambitions and capabilities, the NDS outlines plans to invest in modernization of key U.S. capabilities including nuclear forces; space and cyberspace capabilities; C4ISR; missile defense; capabilities to strike diverse targets inside adversary air and missile defense networks; smaller, dispersed, resilient, and adaptive basing; and autonomous systems.

The NDS also discusses investment in resilient and agile logistics related to this challenge. The Department is prioritizing prepositioned forward stocks and munitions, strategic mobility assets, partner and ally support, and non-commercially dependent distributed logistics and maintenance, in order to ensure logistics sustainment while under persistent multi-domain attack.

Strengthening Alliances and Attracting New Partners. The NDS notes that mutually beneficial alliances and partnerships provide a “durable, asymmetric strategic advantage that no competitor can rival or match.” U.S. allies and partners specifically “provide access to critical regions, supporting a widespread basing and logistics system that underpins the Department’s global reach.” China’s attempts to gain veto authority over other countries’ decisions, and its coercion directed at U.S. allies and partners in particular, will thus likely threaten U.S. posture and access if not addressed.

Accordingly, the NDS states the Department will work “by, with, and through our allies and partners to secure our interests and counteract this coercion.” Specifically, DoD is working to uphold our commitments while encouraging allies and partners to modernize their defense capabilities and contribute to collective security. DoD is also working to expand collaborative planning, prioritize requests for U.S. military equipment sales in conjunction with the State Department and Congress to deepen interoperability, and train to high-end combat missions in alliance, bilateral, and multilateral exercises.

Reforming the Department for Greater Performance and Affordability. The NDS recognizes the challenges presented by rapid technological advancements in dual-use areas, and China’s blurring of the lines between civil and military goals. Accordingly, it discusses efforts to organize Department structures to promote innovation, protect key technologies, and to harness and protect the national security innovation base to maintain the Department’s technological advantage. DoD’s support to whole-of-government actions also contributes to this response.

Support for Whole-of-Government Action

Importantly, the NDS also states that DoD will “support U.S. interagency approaches and work by, with, and through our allies and partners” to counter coercion and subversion by revisionist powers.

This is because China’s expanding global activities are not primarily or exclusively a military issue. The Department will continue to support an interagency-led, whole-of-government response. For example, DoD has supported several U.S. interagency initiatives:

- 1) The *National Security Strategy* states that the United States faces growing political, economic, and military competition with China, and that this is a long-term challenge demanding sustained national attention, prompting a whole-of-government focus on this issue. The *National Defense Strategy* aligns with this strategic direction.
- 2) The United States government has outlined its *Indo-Pacific Strategy*, emphasizing a vision for a “free and open Indo-Pacific” that provides security, stability, and prosperity for all. Key aspects of this vision includes open access to seas and airways, the peaceful resolution of disputes, and the ability for nations to protect their sovereignty from coercion by other countries. The Department of State, in cooperation with other U.S. government agencies and partner countries, has taken several steps to promote market economics and private-sector finance, support good governance, and build partner capacity to ensure a peaceful and secure rules-based order.
- 3) The United States continues to fly, sail, and operate wherever international law allows. The Freedom of Navigation Program provides for operational assertions of navigation rights and freedoms, in conjunction with U.S. diplomatic representations, to further the recognition of the vital national need to protect maritime rights throughout the world.
- 4) The United States has taken action to confront China over its market-distorting policies and practices, forced technology transfers, failure to respect intellectual property, and cyber intrusions into U.S. commercial networks. The United States has encouraged China to respond by undertaking necessary reforms to end its unfair trade practices and honor its promises to open its markets. Regardless, U.S. actions will place the United States in the best position to defend itself from unfair trade practices and achieve greater fairness and reciprocity in the U.S. trade relationship with China.
- 5) The executive branch, in conjunction with Congress, has worked to update key foreign investment review and export control authorities to keep pace with rapid technological change and China’s ambitious technology transfer strategies. Other actions have addressed telecommunications procurement and licensing. These policies do not seek to cut off all trade and investment exchanges with strategic competitors but to maintain U.S. competitiveness and protect the U.S. national security innovation base via robust, national security-based best practices. Ultimately, this is a global challenge the United States is addressing in conjunction with ally and partner governments and industry.

The Department will continue supporting these and other whole-of-government actions to address the implications of China’s expanding global access, and per the *National Defense Strategy* will continue to field a Joint Force that can compete, deter, and win in the increasingly complex security environment.

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The estimated cost of this report for the Department of Defense is approximately \$25,000 in Fiscal Years 2018-2019. This includes \$0 in expenses and \$25,000 in DoD labor.

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