

# Regional Dynamics and Strategic Concerns in South Asia

## China's Role

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# Regional Dynamics and Strategic Concerns in South Asia: China's Role

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*This background paper was prepared as part of a study of U.S. strategic concerns in South Asia and the regional dynamics and priorities that are likely to influence U.S. policy there between 2014 and 2026. It is one of 10 such papers covering the relevant internal dynamics, trends, relationships, and scenarios in China, Iran, the Gulf States, Central Asia, Russia, Turkey, Europe, India, Pakistan, and Afghanistan. The final report, South Asia Regional Dynamics and Strategic Concerns: A Framework for U.S. Policy and Strategy in South Asia, 2014–2026, by Robert D. Lamb, Sadika Hameed, and Kathryn Mixon, is available at <http://c3.csis.org> and includes a framework on which the United States may base the development of policies and strategy in South Asia over the next 12 years.*

## ***China's Relations with the United States***

The United States and China have a multi-dimensional relationship that cuts across increasingly large swathes of each other's economic, diplomatic, and security interests. The relationship is characterized by a mix of competition and cooperation, with the balance of those elements varying by issue and region, and fluctuating according to broader trends in the bilateral relationship. The two sides are deeply embedded in a global economic order that requires the free movement of commerce and capital, providing a significant shared interest in the fundamental stability of the international system, from energy supplies to global finance. However, translating these higher order interests into practical cooperation has proved difficult, given the other ideological and strategic differences between the two sides. China's primary regional focus is its immediate neighborhood in East Asia, and recent years have seen intensification in the competitive elements of the U.S.-China relationship there. This is likely to deepen as China expands its military presence and capabilities, and becomes increasingly assertive about its territorial claims, including against U.S. allies. U.S.-China competition is less acute in other regions, where Beijing's military reach is more modest and its economic activities are often beneficial. South Asia largely falls under this umbrella, and, except during times of exceptional crisis, has been a second order issue in the relationship.

## ***Internal Trends and Dynamics***

The main internal factors affecting China's influence and interests in South Asia are the state of the Chinese economy and the development of China's western regions, principally Xinjiang, but also Tibet and the southwestern province of Yunnan. Public opinion plays only a relatively modest role in China's South Asia relationships but could weigh more heavily if relations with India worsen or if the security situation in Pakistan deteriorates.

China's economic capacities and requirements remain the most important internal factor driving its interests in the region. Its strategic interests have not changed significantly since the end of the Cold War, but its economic growth, and its specific economic needs—from natural resources to transit routes—have changed the scale of its influence and the balance of its relationships in South Asia. The next period will likely see a continued expansion of its economic weight regionally, with investment and trade

flows at levels consequential enough to have an impact on stability issues in both Pakistan and Afghanistan. The push to strengthen economic development in the west, partly through a build-up of transport and infrastructure connections with its neighbors, will have an increasing bearing on states across the region—including the Gwadar-Xinjiang route and the Kunming-Chittagong route (via Burma and northeast India).

Concerns over stability and acts of terrorism in Xinjiang will be the other principal influence. China's fears about separatism and extremism there will exert considerable influence on its dealings across the whole region. A major escalation of stability concerns in Tibet, especially if there were traceable links to Tibetan exile groups in India, would also have ramifications for China's stance. In both Xinjiang and Tibet, continued population flows from Han Chinese are a source of tension.

China's position would be influenced in the event of a serious slowdown of economic growth. The prospects for an economic downturn in China have increased significantly, putting the new Chinese leadership under pressure to push through a program of economic reforms. Even a "muddling through" outcome could reduce the trend rate of growth to a level well below that of the last three decades. A slowdown of growth could influence China's financing capacity and willingness to push various of its strategic economic projects to completion or to utilize them in future; the macro-impact would also be felt by all the economies in the region, even if the depth of its economic integration is still relatively modest, due to its weight in the global economy.

Major political changes in China would also have a significant influence on its policy in the region. While assessments by most China analysts of the likelihood for a major political system-change in the time period still consider the probability to be low, the prospect of the Communist Party's hold on power faltering in the coming years has increased to a level where it needs to be taken into account in policy planning. The impact of any political transition in China on stability in South Asia would span a range of issues, including the turmoil of the transition itself; the nature of the emerging political system; and the role of public opinion in foreign policymaking during and after the transition. Viewed purely through the prism of Chinese foreign policy toward the region, South Asia policy is likely to be one of the areas least affected, given the relative absence of ideological considerations or strong public opinion pressures. However, an uncertain or unstable transition resulting in significant stability issues in Xinjiang or Tibet could have direct spillover effects; any major power war in East Asia would have a series of strategic (and economic) ramifications across South Asia; the establishment of either a military-dominated or populist government in China could increase tensions with India, for example. (A detailed analysis of the different potential scenarios and their ramifications is beyond the scope of this paper.)

### ***Key Influencers***

China's policy in South Asia is characterized by an unusually prominent role for the People's Liberation Army and intelligence services, which refract through China's closest relationship in the region (and closest friendship globally) with Pakistan. Other influential actors include state-owned enterprises and, to a lesser degree private enterprises operating in the region (most of the major companies operating in South Asia are State Owned Enterprises (SOEs), with a very small number of exceptions such as Huawei); the ministry of commerce; the financing arms of the Chinese state (EXIM bank, China Development Bank); the Chinese foreign ministry; the Chinese Communist Party's International Department, and the ultimate decisionmaking body, the Politburo Standing Committee, as well as its subsidiary decisionmaking bodies, such as the Foreign Affairs

Leading Small Group. Regional governments bordering on South Asia—particularly the Xinjiang Uighur Autonomous Region—also have an influence on commercial activities (with ramifications for stability in the region), and on counter-terrorism policy. The Chinese government is attentive to the reaction of its Muslim population, particularly the Uighurs in Xinjiang, with whom relations have been persistently tense, and to the security of its overseas citizens in the region.

The relative influence and the nature of the interests of the different actors reflects China's priorities in the region: balancing against India, addressing terrorist threats, and expanding its economic activities. Some of these, such as Beijing's major resource investments, civil nuclear power plants and infrastructure projects have strategic qualities rather than just narrowly commercial ones. When it comes to personnel, for the most part influence is a function of institutional position, though at times individuals with a specialist background may give temporarily outsized weight to a particular role—such as Luo Zhaohui as director-general for Asia in the Ministry of Foreign Affairs.

China's close relationship with Pakistan, which is central to the security dimensions of its policy toward both India and Afghanistan, has been mediated through its military, intelligence services, and senior political leaders. The PLA's influence stems from its comprehensive network of relationships with the Pakistani military, spanning each branch of the armed services, PLA-linked companies involved in joint production of supplies and equipment, continued cooperation on nuclear and missile technology, and military intelligence (2-PLA). The intelligence services have been focused on the terrorist threat in Afghanistan, Pakistan, and Central Asia since the 1990s, as well as involving themselves in dealing with nonstate actors (such as the Taliban, with which China established diplomatic contact in the late 1990s and maintained intelligence contacts during their subsequent exile in Pakistan, focused particularly on counterterrorism concerns), giving them a disproportionate interest in the region. Exposure to Pakistan and Afghanistan among Chinese civilians has been significantly less than to India, and the broad debates over whether to pursue a more “balanced” approach to policy in the region have at points been, roughly speaking, divided between those in the Chinese system on the civilian side who see the economic potential of the relationship with India as far greater, and the military guardians of the traditional tilt toward Pakistan.

## ***Regional Relations***

### *China's Relations with Afghanistan*

China's current strategic interests in Afghanistan are concerned with a series of negative outcomes that it wishes to avoid: that the country becomes a safe haven for Chinese Uighur militant groups again, as it was in the late 1990s; that insecurity there destabilizes Pakistan, its most important partner in the region; that insecurity there destabilizes states in Central Asia; that the rise of extremist forces there exercises ideological influence across the region and potentially in Xinjiang itself; or that proxy battles in Afghanistan between India and Pakistan escalate tensions in South Asia. China also has an interest in ensuring that there is no long-term U.S. military presence in the country, which it sees (however inaccurately) as an “encirclement” threat, though this now coexists with anxiety that the United States will leave too quickly for Beijing's comfort.

China has a set of commercial activities in the country, largely focused on natural resources, at present copper (Aynak) and oil (Amu Darya, with the promise of more to come), although these are not sufficiently central to China's economic interests that it

would unwilling to pass the opportunities up if the security situation in Afghanistan became too difficult. In the round though, these factors give China a broad interest in minimizing instability in the country, finding a stable balance of power between political forces there, and ensuring that there is no “victory” for extremists. China has largely sat on the sidelines in Afghanistan for much of the last ten years, trying to avoid being seen to be actively cooperating with the United States or NATO forces, minimizing its political exposure, and carefully balancing its relations with different actors. More recently, Beijing has started to accept that it will need to take on a more active role in dealing with Afghanistan—at least diplomatically—if it wishes to secure the set of political, security, and economic outcomes that it seeks.

### *China’s Relations with Pakistan*

China’s relationship with Pakistan is still underpinned by a shared rivalry with India. Ensuring that Pakistan can continue to perform a credible balancing role and tie India down, not only on its Western border but on the subcontinent more broadly, is still a principal goal for Chinese policy. The deep convergence of strategic interests between China and Pakistan in this core area has provided a base for a much broader degree of cooperation though, from military technology transfers to mutual diplomatic support. Pakistan plays an important role for Beijing in dissuading the extremist groups over which it has influence from targeting China, and cracking down on the ones that will not be dissuaded - most of the remaining members of the East Turkistan Islamic Movement / Turkistan Islamic Party, the principal group that concerns Beijing, are located in North Waziristan. And China has expanded its economic relations with Pakistan, though these remain more significant for projects that are not purely commercial in nature, such as the civil nuclear power projects or Gwadar port.

In recent years, China has been increasingly concerned about instability and rising extremism in Pakistan, whether for its broader impact on the country, for its impact on specific Sino-Pakistani economic projects, or for threats to Chinese citizens in the country, which have escalated. China has longer-standing concerns about the risks of war between Pakistan and India, which would have a hugely damaging impact on Chinese interests, and has sought to encourage the reduction of tensions between the two sides. China has also been concerned to ensure that Pakistan’s relationship with the United States is neither too close to endanger China’s own relationship nor (more importantly of late) too cold to guarantee continued U.S. military and economic support, with risks that China would even be stuck in the middle of a relationship of outright hostility. Increasingly, China also wants Pakistan to play a role in ensuring a stable outcome in Afghanistan, and to look out for Chinese interests there in the lead up and aftermath of U.S. withdrawal.

China has cooperated with Pakistan on both the civilian and military aspects of its nuclear program. While the most intensive period of nuclear proliferation took place in the early 1980s, when China transferred bomb designs and highly enriched uranium to Pakistan, and in the late 1980s and early 1990s, when it delivered ballistic missiles, assistance to Pakistan’s missile program has continued since then—including, for instance, to Pakistan’s cruise missiles and battlefield nuclear weapons. These have implications for its capacities in any future war with India and, in the case of the miniaturized warheads, by encouraging a riskier form of less secure and controllable weapons in Pakistan’s arsenal.

China’s support to Pakistan’s civilian nuclear program has in recent years amounted to an implicit “counter” to the U.S.-India nuclear deal, first through the

agreement to proceed with two additional 330 MW reactors at the Chashma nuclear complex, and more recently to extend this to a new phase of 1000 MW reactors, the first of which is located at the Karachi nuclear complex. These reactors have been under IAEA safeguards, with the spent fuel returned to China, and attract more criticism for their violation of the Nuclear Suppliers' Group rules and general concerns about any expansion of the presence of nuclear facilities in Pakistan than for any direct concerns about the implications for stability in the region.

### *China's Relations with India*

China's strategic interests in its dealings with India combine the navigation of a longstanding security rivalry, the maintenance of a strong economic relationship, and cooperation on points of convergence in global affairs. The security rivalry has its traditional aspects—the border dispute, Tibet, Kashmir, China's backing to Pakistan—and its more recent ones—India's rise as a power with capabilities beyond its neighborhood (such as the South China Sea), and its deepening ties to the United States (particularly following the nuclear deal), as well as China's own greater interests in the Indian Ocean. India has historically seen itself as more of an outright rival to China than vice versa, and Beijing's approach has persistently been to ensure that it remains bracketed with Pakistan instead. This is true of issues such as energy competition, too, which is perceived more acutely in India than in China—Beijing tends to believe that it has the economic wherewithal and political clout to “win” most of the contests for access to natural resources against Indian actors when it needs to.

The long-term Indian economic take-off is something on which Beijing wishes to capitalize, though, and trade ties are burgeoning, albeit so far tilted in China's favor. China has also forged cooperation with India on shared global goals, whether in climate negotiations, the Doha trade talks, or in the context of the BRICS (which has become a more institutionalized and active grouping than most had anticipated).

The balance of these different elements in the relationship has been a source of internal debate virtually since the 1950s, but even more so since the 1990s, since when there has been a standing question as to whether the importance of Chinese ties with another capable, modern, rising global economic power should merit a recalibration in Beijing's stance in South Asia. Pakistan's recent weakness and instability might have been expected to reinforce one side in this debate, but instead it has been occluded by recent developments in the U.S.-India relationship, particularly following the civil-nuclear deal. This has been treated as a source of concern, as the Indo-Soviet relationship was before it, since it appears to pose a long-term risk to the relative superiority of China's position vis-à-vis India and the prospect of a balancing coalition.

Across all three countries, the weight that China should attach to geostrategic threats (the U.S. role and the balancing of India) versus transnational threats (terrorism, instability, narcotics flows) draws different views from the spectrum of institutional interests in China, though recent developments in Afghanistan and Pakistan, including the U.S. withdrawal, have seen this debate rebalancing in favor of Beijing addressing the transnational threats more actively.

### ***Other Relationships***

China is unusual in maintaining good relations with virtually every country bordering Afghanistan or with historic interests there, India being the slight exception, creating scope for China to play a more active role in regional diplomacy there in future, which is

already in evidence with the new bilateral and trilateral mechanisms on the future of Afghanistan that Beijing has put in place.

### *China–Central Asia*

China's relationships in Central Asia have, since the 1990s, played an important role in ensuring that China can contain security threats emanating from Afghanistan and Pakistan—flows of narcotics, weapons, and Uighur extremists have typically passed through Central Asian states, rather than directly crossing the borders. More recently, these relationships have also been important to China's efforts to build cross-border economic and energy routes, through the Shanghai Cooperation Organization, as well as bilaterally. Concerns about the spillover effects of instability in Afghanistan and Pakistan will be one of the drivers of China's behavior, which will be more active if the direct cross-border threats—including in Central Asia—increase.

### *China-Russia*

China's relationship with Russia—between them these are the SCO's two driving forces—will influence decisions on pan-regional projects that will involve Afghanistan, Pakistan, and India, including eventual decisions on SCO membership itself. While SCO projects are often simply bilateral or trilateral initiatives that are given a multilateral “hat,” Chinese efforts to draw Afghanistan, for instance, into SCO structures are part of a process to embed it more securely, politically and economically, in the region without Beijing having to take such a visible lead in the process.

### *China-NATO*

China's historically tenuous relationship with NATO has influenced its willingness to cooperate with the Alliance in Afghanistan, but improving ties open the door for at least low-level coordination.

### *China–Middle East*

China's good relationships with Iran and with the Gulf states will also influence its choices of energy transit routes, with implications for the strategic economic geography of the region. China is a potential destination for the extension of a proposed Iran-Pakistan pipeline, and the oil and gas pipelines that may be established from Gwadar would be a transit point for energy from either Iran or the Gulf. There are also potential circumstances in which China and Pakistan could be jointly involved in supporting a Saudi Arabian nuclear weapons program. Saudi Arabia's ballistic missiles were purchased from China in the 1980s and there have been more recent discussions between Riyadh and Beijing about replacements. There are (unverified) claims that, if the regional security context pushes Saudi Arabia toward it—as a result of Iran acquiring a nuclear weapon—Pakistan has agreed to supply Saudi Arabia with the warheads that would be mated with them, which are based on a Chinese design.

## ***Conflict Scenarios***

### *Scenario: Afghanistan Stability*

If there is no worsening of Afghanistan's civil war, and certainly if the situation improves there, China will seek to expand its economic relationship, loop Afghanistan more closely into regional arrangements, and consolidate ties with the central government in Kabul (as well as with other actors in the country). China's optimal outcome is one where it can build an autonomous relationship with Afghanistan, rather than dealing with it to such a high degree through Pakistan or in the context of the U.S./Western role there. This would



ultimately lead to a “normalized” relationship with the country, akin to that of other states in Central Asia, which it has not had in the past. It is also possible over the longer term to revisit questions such as the opening of the Wakhan corridor—which currently has no infrastructure connections—in the context of other ambitious infrastructure projects in the country. Stalled projects, principally the Aynak copper mine, would move ahead, yielding revenue for the central Afghan government and deepening China’s economic stake in the country (which is currently more notional than real).

Less ambitiously, if the situation in Afghanistan stays largely as it is now rather than markedly improving, China, while remaining cautious, can be expected to take on a more active political and diplomatic role there in order to support some measure of stability and to safeguard China’s direct economic and security interests. This could include assistance to brokering relations between Afghanistan and Pakistan, exercising of bilateral influence over Pakistan, staking out positions on post-2014 political arrangements, and heightened contact with individual parties in Afghanistan (former Northern Alliance leaders, the Taliban, and the central government in Kabul).

It is hard to imagine more than a modest Chinese security role in the country, although the provision of peacekeepers under UN auspices is theoretically a possibility.

#### *Scenario: Afghanistan Instability*

If Afghanistan’s situation deteriorates, China will likely step up its efforts to assist with support to a political settlement—intensifying diplomacy with many of the regional actors, especially Pakistan, and more discreetly with different constituencies in Afghanistan itself, such as the Taliban and the old Northern Alliance leaders. Large projects would be slowed down and China would redouble efforts to ensure that there were no direct spillover effects into Xinjiang, particularly in its dealings with Central Asian governments and in its border security arrangements.

If there was a spillover into Pakistan—a strengthening of the TTP and other extremist groups there that have fraught relations with the Pakistani government—Beijing would mobilize resources to assist Pakistan in dealing with the threats, but if this proved unsuccessful, it could ultimately lead to a significant slowdown in economic projects there too. China would be far more cautious about moving ahead with plans for a “transport and energy corridor” from Xinjiang to Gwadar and if the Pakistani government was weakened more broadly, there would be long-term implications for the role in the region that it could play on China’s behalf. For the most part, Beijing’s approach would focus on ensuring that any instability is contained in Afghanistan itself—it would be very cautious about exposing itself through too direct an involvement in developments there.

#### *Scenario: India-Pakistan Instability*

If significant cross-border violence—in the form of conventional or terrorist attacks—takes place between India and Pakistan, China’s first concern will be to de-escalate it before it translates into nuclear war, as it has been during every conflict and near-conflict since the two sides tested their nuclear weapons. In all circumstances China will aim to maintain Pakistan as a viable and capable state, and strongly resist any developments that might result in a break-up of the country. China will also be more concerned in such circumstances about the security of Pakistan’s nuclear weapons, though it would be unlikely to act directly on these concerns unless Pakistan actively solicited China’s assistance—this concern would include the risks of foreign intervention against the nuclear arsenal.

If the conflict were brought about through Pakistani adventurism (a la Kargil) or terrorist groups linked to the Pakistani state (a la Mumbai), China would seek to protect the country from sanctions or any other punishments, while dissuading Pakistan from replicating or persisting with its behavior, and would not provide Pakistan with meaningful diplomatic or military support unless India was perceived to overreact in its response.

If the culpability were on India's side, China would assist Pakistan with necessary military supplies and political backing, though the prospect of a military intervention on Pakistan's behalf is slim, and the primary goal would still be to ensure that a wider conflict is averted, since Beijing sees a considerable risk that it would quickly become nuclearized.

### **Conclusions**

The rising threat of extremism has heightened China's concerns about the risks of instability across the whole region, and planted some doubts over the reliability of its closest friend, Pakistan. After many years in which China had seen the threat as containable and navigable, or at least one that can be managed by the Pakistani military, China increasingly believes that it needs to take an active role in addressing it. This has been precipitated in particular by the deterioration of Pakistan's internal security situation and anxieties about the ramifications of U.S. withdrawal from Afghanistan.

Besides its security relationship with Pakistan, China's main tools in the region are still diplomatic and economic rather than military. Yet the scale of its economic resources and the nature of the investments that it can undertake—such as risky, large-scale infrastructure projects—are consequential to South Asia's stability, if China chooses to deploy them more actively with strategic goals in mind.

China's continued goal of balancing India, and its narrow conception of the terrorist threat (typically restricted to Uighur groups) means that it cannot be expected to deal with stability issues in the region in a "like-minded" fashion. But its recent behavior vis-à-vis Afghanistan—from offering assistance in reconciliation talks with the Taliban to exercising its influence over Pakistan—as well as its longer standing willingness to contain conflict threats between India and Pakistan, mean that in important respects its role in addressing these concerns can nonetheless be expected to be constructive.

### **About the Author**

*Andrew Small is a transatlantic fellow with the Asia program at the German Marshall Fund of the United States, which he has helped lead since 2006. His research focuses on U.S.-China relations, EU-China relations, Chinese policy in South and South-West Asia, and China's role in "problem" and fragile states. He was based in GMF's Brussels office for five years, where he established the Asia program and the Stockholm China Forum, GMF's biannual China policy conference. He previously worked as the director of the Foreign Policy Centre's Beijing office; as a visiting fellow at the Chinese Academy of Social Sciences, and was an ESU scholar in the office of Senator Edward M. Kennedy. He has testified before the U.S.-China Economic and Security Review Commission and both the Foreign Affairs Committee and the Development Committee of the European Parliament, and his articles and papers have been published in Foreign Affairs, the Washington Quarterly, the New York Times, and the International Herald Tribune, as well as many other journals, magazines and newspapers. He is currently completing a book on China-Pakistan relations.*