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Panel II: Military Diplomacy for Improving Capabilities and Access

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Hearing Co-chairs, Chairman Bartholomew and Commissioner Schriver, Vice Chairman Wong, and members of the Commission: Thank you for this opportunity to share my thoughts on China's overseas military activities and the role that China's State-owned enterprises (SOEs) in particular play in supporting those efforts.

The past two decades have witnessed dramatic growth in the People's Liberation Army's (PLA) activity abroad. Beginning in 2004 with Hu Jintao's decision to give the PLA the task of protecting China's growing overseas interests and continuing with the launch of the PLA Navy's counter piracy operations in 2008 as well as the establishment of China's first overseas base in Djibouti in 2017, the PLA has continued to expand its overseas footprint.¹ More recently, publicly available reporting indicates that Beijing is seeking to expand the PLA's overseas access by building additional military facilities in Cambodia and the UAE² and has expressed interest in a host of other locations throughout Africa, the Middle East, and Central and Southeast Asia—locations which fall along key trade routes and strategic sea lanes of communication.³

These efforts to expand the PLA's overseas presence follow on the heels of two decades of Chinese foreign investment and economic activities which have coalesced in the Belt and Road Initiative (BRI), a program aimed at leveraging Chinese lending, investment, and technical expertise to construct infrastructure projects around the globe.⁴ As a result of BRI, Chinese firms, led in large part by the nation's state-owned enterprises (SOEs), have spent billions on critical infrastructure projects around the globe.

More recently, Xi Jinping's April 2022 speech at the Boao Forum, in which he proposed forming a "Global Security Initiative" designed to "reject the Cold War mentality, oppose unilateralism, and

¹ On Hu Jintao's New Historic Missions, see, for example, Dan Hartnett, "The 'New Historic Missions': Reflections on Hu Jintao's Military Legacy," in Roy Kamphausen, David Lai, and Travis Tanner, ed. *Assessing the People's Liberation Army in the Hu Jintao Era* (Carlisle, PA: US Army War College Press, 2014), pp. 31-80. On China's counterpiracy operations, see Andrew S. Erickson and Austin M. Strange, *Six Years at Sea...and Counting: Gulf of Aden Anti-Piracy and China's Maritime Commons Presence* (Washington, DC: Jamestown Foundation/Brookings Institution Press, 2015). On the establishment of China's base in Djibouti, see Erica Downs, Jeffrey Becker, and Patrick deGategno, *China's Military Support Facility in Djibouti: The Economic and Security Dimensions of China's First Overseas Base* (Arlington, VA, Center for Naval Analyses, 2017).

² Ellen Nakashima and Cate Cadell, "China Secretly Building Naval Facility in Cambodia, Western Officials Say," *Washington Post*, June 6, 2022, <https://www.washingtonpost.com/national-security/2022/06/06/cambodia-china-navy-base-ream/>; Warren P. Strobel, "U.A.E. Shut Down China Facility Under U.S. Pressure, Emirates Says," *Wall Street Journal*, December 9, 2021, <https://www.wsj.com/articles/u-a-e-confirms-it-halted-work-on-secret-chinese-port-project-after-pressure-from-u-s-11639070894>.

³ Cristina L. Garafola, Timothy R. Heath, Christian Curriden, Meagan L. Smith, Derek Grossman, Nathan Chandler, and Stephen Watts, *The People's Liberation Army's Search for Overseas Basing and Access: A Framework to Assess Potential Host Nations* (Santa Monica, CA: RAND Corporation, 2022), https://www.rand.org/pubs/research_reports/RRA1496-2.html.

⁴ Jeffrey Becker, Erica Downs, Ben DeThomas, and Patrick deGategno, *China's Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road* (Arlington, VA: Center for Naval Analyses, 2019), <https://www.cna.org/reports/2017/07/DIM-2017-U-015308-Final3.pdf>.

say no to bloc confrontation,” may presage a more assertive PRC foreign and security policy moving forward.⁵

Viewed together, China’s economic and security activities raise several important questions regarding the role of China’s commercial firms in PLA operations abroad. They also raise some potential implications for the United States and for U.S. partners and allies.

My comments below focus on the role of China’s business sector, particularly China’s SOEs, in assisting the PLA to improve its overseas capabilities and expand its access. Specifically, I address three related questions:

- How do Chinese firms, particularly China’s SOEs, support the PLA’s efforts to expand its overseas presence and ability to operate abroad?
- What mechanisms does the Chinese Party-State have to control China’s SOEs and leverage them to augment the PLA’s overseas capabilities?
- What are the implications of the PLA’s growing overseas presence for the United States and US allies and partners?

The remainder of my comments examines each of these three questions.

How do Chinese firms, particularly China’s SOEs, support the PLA’s efforts to expand its overseas presence and ability to operate abroad?

First, the overseas economic activities of Chinese State-owned firms have at times allowed China to become a critical player in the national development plans of other states. These economic activities provide PRC leaders with influence that they have been able to leverage into greater security cooperation and increased access for the PLA.

In Djibouti, for example, economic activities by China’s SOEs at first preceded, and later continued alongside, growing PLA access within the county. By the time the PLA opened its first overseas base in 2017, China had become the country’s largest source of capital, providing roughly 40%, or roughly \$1.4 billion, in funding for critical infrastructure investments, including the Ethiopia-Djibouti Railway, the Ethiopia-Djibouti Water Pipeline, and the Doraleh Multipurpose Port (DMP).⁶ In the case of the DMP, China’s Export-Import Bank provided preferential export buyer’s credit to the China Merchant Port Holdings–Djibouti Ports and Free Zones Authority joint venture that would develop the port.⁷ It would later open in May 2017, roughly three months before the formal inauguration of the PLA base on 1 August. These economic activities, led by China’s SOEs, would help to at first pave the way, and later work in tandem, with PRC efforts to acquire military access in the country.

⁵ “Xi Jinping Delivers a Keynote Speech at the Opening Ceremony of the Boao Forum for Asia Annual Conference 2022,” Ministry of Foreign Affairs of the People’s Republic of China, 21 April 2022, https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202204/t20220421_10671083.html.

⁶ Downs, Becker, and deGategno, *China’s Military Support Facility in Djibouti*, p. 8.

⁷ China Merchants Group, “Djibouti Project (Jibuti Xiangmu: Xing Gang Zhi lu, Shuzi Zai Tiaodong; 吉布提项目：兴港之路，数字在跳动),” China Merchants Group, February 7, 2017, www.cmhk.com/main/a/2017/b07/a32755_32845.shtml; Downs, Becker, and deGategno, *China’s Military Support Facility in Djibouti*, p. 82.

This pattern of leveraging economic investment as an anchor to support military engagement has appeared in other countries where the PLA reportedly has sought an increased military presence. In the UAE, the state-owned China National Petroleum Corporation invested over \$3 billion between 2017-2018 in the country's energy sector,⁸ while the Chinese telecommunications firm Huawei, which is ostensibly private yet closely tied to the Chinese state, has also invested heavily in the UAE's 5G telecommunications infrastructure. In 2016, the Chinese state-run China Ocean Shipping Company (COSCO) Shipping Ports signed a 35-year concession agreement with Abu Dhabi Ports, the UAE's state-owned de facto port authority.⁹ The agreement gave COSCO the right to develop, manage, and operate Khalifa Port's Container Terminal 2.¹⁰ Beijing may have sought to leverage these ties in late 2021, when the *Wall Street Journal* reported that the PRC was secretly building a military facility at the Khalifa port where COSCO Shipping Ports operates its terminal.

Second, China's military makes ample use of the PRC commercial shipping fleet and overseas port facilities owned by China's state-owned firms. These assets provide the logistics and sustainment support that the PLA cannot currently generate on its own. For example, while China's navy has modernized rapidly in the last decade, it still lacks the logistics fleet required to support expanded global operations. The PLA Navy maintains only a limited number of replenishment ships capable of supporting far seas operations, including a handful of *Fuchi*-class supply ships and two newer *Fuyu*-class fast combat support ships, which are designed to support future carrier operations.¹¹ As a result, the PLA Navy has a limited capacity to conduct at-sea resupply of combatant ships operating far from PRC home waters.¹² Nor does the PLA have access to the types of specialized military logistics facilities that would be required to support larger operations overseas, as the PLA base in Djibouti provides only limited utility in the event of more complex operations.¹³

Instead, China's navy has made substantial use of civilian shipping and state-owned overseas commercial facilities. To be sure, all blue water navies rely on foreign commercial ports to conduct basic refuel and resupply operations. However, Chinese state firms such as COSCO and China Merchants, which operate overseas ports, can provide PLA Navy vessels with more specialized technical repairs and maintenance operations unavailable from other port operators. Since 2017, for example, PLA Navy vessels have undergone significant technical repairs or maintenance in ports in Djibouti, Egypt, Greece, Indonesia, Malaysia, Singapore, Spain, Sri

⁸ Anthony Di Paola and Mahmoud Habboush, "China Wins Big With Stakes in \$22 Billion Abu Dhabi Oil Deal," *Bloomberg*, February 19, 2017, <https://www.bloomberg.com/news/articles/2017-02-19/abu-dhabi-awards-china-s-cnpc-stake-in-main-onshore-oil-deposits>; Lucy Hornby, "China's CNPC pays \$1.2bn for Abu Dhabi oil holding," *Financial Times*, March 21, 2018, <https://www.ft.com/content/820df99c-2d68-11e8-9b4b-bc4b9f08f381>.

⁹ "COSCO Wins Concession of Khalifa Port's New Terminal," *Offshore Energy*, September 28, 2016, <https://www.offshore-energy.biz/report-cosco-wins-concession-of-khalifa-ports-new-terminal/>.

¹⁰ Downs, Becker, and deGategno, *China's Military Support Facility in Djibouti*, p. 92.

¹¹ Jeffrey Becker, "China Maritime Report No. 11: Securing China's Lifelines across the Indian Ocean" (2020), CMSI China Maritime Reports, p. 11, <https://digital-commons.usnwc.edu/cmsi-maritime-reports/11>.

¹² Ronald O'Rourke, "China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress," Congressional Research Service, Updated December 1, 2022, p. 4 <https://crsreports.congress.gov/product/details?prodcode=RL33153>.

¹³ Peter A. Dutton, Isaac B. Kardon, and Conor M. Kennedy, "China Maritime Report No. 6: Djibouti: China's First Overseas Strategic Strongpoint" (2020), CMSI China Maritime Reports, p. 6, <https://digital-commons.usnwc.edu/cmsi-maritime-reports/6>.

Lanka, and Tanzania.¹⁴ By providing these capabilities, Chinese state firms facilitate more robust overseas PLA activity, particularly PLA Navy activities, than would otherwise be possible.

What mechanisms does the Chinese Party-State have to control China's SOEs and leverage them to augment the PLA's overseas capabilities?

One of Xi's objectives since coming to power has been to reinvigorate the Party's position in society and the economy, including expanded oversight of both private and state-owned firms. While traditional means of CCP oversight through personnel appointments and Party organs have been strengthened under Xi,¹⁵ the PRC has also established new mechanisms and tools to leverage SOE capabilities more directly in the support of PLA operations. This includes new legislation, which has helped to streamline the defense mobilization process and advance PRC goals of civil-military fusion.

The 2016 *Law of the People's Republic of China on National Defense Transportation*, for example, has improved the process for military requisition of civilian transportation assets, operating both domestically and abroad, during wartime in response to natural disasters or emergencies or in the event of "special circumstances."¹⁶ In particular, Article 38 states that Chinese enterprises and agencies "shall provide shipping, aviation, vehicle, and personnel support for military actions in the protection of China's overseas interests, international rescue, and maritime escorts."¹⁷ The law additionally mandates that certain civilian vessels be built to military specifications, allowing them to support PLA operations with limited modifications. PRC commercial ships have also begun to participate in PLA exercises with increasing regularity.¹⁸

Other legislation has also improved the Party-State's ability to compel Chinese private actors to act on behalf of the PLA, even if doing so is not in their best financial interests. China's 2015 *National Security Law* states that PRC private and state-owned firms have a responsibility to the

¹⁴ Isaac B. Kardon and Wendy Leutert, "Pier Competitor: China's Power Position in Global Ports," *International Security*, Vol 46, No. 4 (Spring 2022), p. 39.

¹⁵ Scott Livingston, "The Chinese Communist Party Targets the Private Sector," Center for Strategic and International Studies, October 8, 2020, <https://www.csis.org/analysis/chinese-communist-party-targets-private-sector>. On relations between the CCP, the PRC state, and SOEs, see William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca: Cornell University Press, 2016). The CCP's efforts to reinvigorate the Party's role in SOEs has been a long-standing initiative. See for example, Central Committee of the Communist Party of China, 中办发[2012]11号 关于加强和改进非公有制企业党的建设工作的意见(试行) [Opinion No. 11 on Strengthening and Improving Non-Public Enterprises' Party-Building Work], May 24, 2012, <http://www.shui5.cn/article/ec/76352.html>.

¹⁶ 屈百春, 廖鹏飞, 高志文 [Qu Baichun, Liao Pengfei, and Gao Zhiwen], 军民融合加快推进战略投送能力建设 [Military and Civilian Integration Accelerates the Development of Strategic Delivery Capabilities], 解放军报 [PLA Daily], September 5, 2016, www.81.cn/jfjbmap/content/2016-09/05/content_155683.htm.

¹⁷ 中华人民共和国国防交通法 [National Defense Transportation Law of the People's Republic of China], Xinhua, September 3, 2016, www.npc.gov.cn/zgrdw/npc/xinwen/2016-09/03/content_1996764.htm.

¹⁸ Lonnie D. Henley, "China Maritime Report No. 21: Civilian Shipping and Maritime Militia: The Logistics Backbone of a Taiwan Invasion" (2022), CMSI China Maritime Reports, p. 21, <https://digital-commons.usnwc.edu/cmsi-maritime-reports/21>.

state to help safeguard national security, while prescribing both rewards and vague punishments to incentivize cooperation.¹⁹

What are the implications of the PLA's growing overseas presence for the United States and US allies and partners?

In the short term, as the PLA becomes increasingly active abroad, U.S. and U.S. partner and ally forces will likely encounter and interact with PLA forces more frequently and in more diverse locations. If not managed carefully, unintended or unexpected interactions could lead to military confrontation and crisis. One indication that such a crisis could occur appeared in 2018, when a military grade laser, originating from China's base in Djibouti, interfered with the landing of a U.S. plane, causing minor injury to at least two US pilots.²⁰ Australian pilots experienced a similar situation in February 2022, when a PLA Navy warship operating just north of Australia's coast used an onboard laser to illuminate an Australian surveillance aircraft.²¹ As the PLA continues to expand its footprint abroad, similar events are likely to occur in the future, and if not managed properly, could escalate.

Fortunately, the U.S. and China already have several mechanisms in place designed to mitigate these types of dangers. In 2014, the two sides negotiated and signed rules of behavior for air and maritime encounters.²² China is also a signatory to the Code for Unplanned Encounters at Sea (CUES), an international framework designed to limit miscommunication between naval ships and aircraft.²³ However, frameworks such as these are only valuable if fully implemented by both sides, and China's continued reluctance to implement these agreements as negotiated means that possibility of future accidents escalating into a crisis remains high.

Over the long term, additional overseas PLA facilities pose a unique challenge to the United States. For decades, the U.S. military has enjoyed virtually unimpeded global access, and while the PLA is unlikely to have the capabilities to challenge the U.S. military globally in the near term, additional PLA bases overseas have the potential to complicate US military operations. For example, in 2021, China completed an expansion of its Djiboutian base, adding a pier large enough to accommodate the PLA Navy's new aircraft carriers and other large vessels within the

¹⁹ 中华人民共和国第十二届全国人民代表大会常务委员会第十五次会 [Fifteenth Session of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China], 中华人民共和国国家安全法 [National Security Law of the People's Republic of China], July 1, 2015, http://www.pkulaw.cn/fulltext_form.aspx?Db=chl&Gid=250527.

²⁰ Ryan Browne, "Chinese Lasers Injure US Military Pilots in Africa, Pentagon Says," CNN, May 4, 2018, <https://www.cnn.com/2018/05/03/politics/chinese-lasers-us-military-pilots-africa/index.html>.

²¹ "Chinese Vessel Lasing ADF Aircraft," Australian Department of Defence, February 19, 2022, <https://www.defence.gov.au/news-events/releases/2022-02-19/chinese-vessel-lasing-adf-aircraft>.

²² Department of Defense of the United States of America and the Ministry of National Defense of the People's Republic of China, "Memorandum of Understanding Between the Department of Defense of the United States of America and the Ministry of National Defense of the People's Republic of China Regarding the Rules of Behavior for Safety of Air and Maritime Encounters," November 9/10, 2014, https://dod.defense.gov/Portals/1/Documents/pubs/141112_MemorandumOfUnderstandingRegardingRules.pdf.

²³ "Code for Unplanned Encounters at Sea," USNI News, June 17, 2014, <https://news.usni.org/2014/06/17/document-conduct-unplanned-encounters-sea>.

fleet, such as the Type 075 *Yushen*-class amphibious assault vessel (LHD).²⁴ PLA Navy submarines have also conducted port visits to Karachi, Pakistan and other ports in the Indian Ocean, and China has sold Pakistan S-20 attack submarines, the export variant of the Type-041 *Yuan*-class submarines currently in service in the PLA Navy.²⁵ Should Pakistan and the PRC come to an agreement to host PLA assets on Pakistan soil, this could complicate efforts by the US military to move forces across the Indian Ocean into East Asia in the event of a crisis. A more robust PLA presence near existing US facilities could also create opportunities for surveillance and intelligence collection, allowing the PLA to improve its knowledge of what the US military is doing in those locations, as well as its ability to learn from US activities by observing US tactics, techniques, and procedures involved in operating overseas, thus improving the PLA's own capability to operate far from China's shores.²⁶

Recommendations

- **Improve U.S. understanding of how PRC activities are perceived and portrayed in potential host countries.** U.S. policy makers need a thorough understanding of how China's activities are viewed in countries where the PLA seeks access. Doing so will allow the U.S. to understand which PRC policies are resonating in which countries and why, which is critical to developing an effective response.
- **Prioritize strategically important locations and focus efforts on countering PRC activities in those locations.** As the PLA inevitably becomes more active overseas, the U.S. will need to make choices about which locations are crucial to its strategic interests. Not everywhere the PLA operates necessarily constitutes a threat, and seeking to counter PLA presence everywhere will be counterproductive.
- **Empower local civil society organizations in potential host countries to gather and disseminate information to critically evaluate the impact of PRC and PLA activities.** China's efforts to expand PLA access are often accompanied or preceded by SOE activity. Yet PRC state firms operating overseas have been accused of multiple malign behaviors including use of forced labor, exacerbating debt crises through opaque lending practices, exporting polluting industries, and engaging in other environmentally damaging practices. Greater PLA presence overseas has also at times led to an erosion of sovereignty for host nations. Helping local civil society groups gather and disseminate information on PRC activities will allow states to make more informed choices regarding the advantages and disadvantages of PRC overtures.

²⁴ Brian Gicheru Kinyua, "New Pier At China's Djibouti Base Could Accommodate Carriers," *The Maritime Executive*, April 30, 2021, <https://maritime-executive.com/article/new-pier-at-china-s-djibouti-base-could-accommodate-carriers>.

²⁵ Becker, Downs, DeThomas, and deGateño, *China's Presence in the Middle East and Western Indian Ocean: Beyond Belt and Road*, p. 45.

²⁶ Jeffrey Becker, Testimony to the House Committee on Transportation and Infrastructure, Subcommittee on Coast Guard and Maritime Transportation, Hearing titled "China's Maritime Silk Road Initiative: Implications for the Global Maritime Supply Chain," October 17, 2019, <https://www.youtube.com/watch?v=SHFDJ2qGN4Q>.