

CHAPTER 2

U.S.-CHINA SECURITY RELATIONS

SECTION 1: YEAR IN REVIEW: SECURITY AND FOREIGN AFFAIRS

Key Findings

- China's territorial disputes in the South China Sea and in South Asia flared in 2017. China continued to rely primarily on non-military and semiofficial actors (such as the China Coast Guard and maritime militia) to advance its interests in the disputed South China Sea, straining already-unsettled relations with the Philippines and Vietnam. The 2016 ruling by the Permanent Court of Arbitration in The Hague, which overwhelmingly sided against China's position, has not deterred Beijing. China's territorial assertiveness was also on display when Chinese armed forces attempted to consolidate control over territory disputed by Bhutan and India. Ultimately, India was more successful than the Philippines and Vietnam in countering Chinese coercion.
- China's One Belt, One Road initiative continued to expand in 2017. Although China claims the mega-project is primarily economic in nature, strategic imperatives are at the heart of the initiative. China aims to use One Belt, One Road projects to expand its access to strategically important places, particularly in the Indian Ocean; to enhance its energy security; and to increase its leverage and influence over other countries.
- The People's Liberation Army continues to extend its presence outside of China's immediate periphery by opening its first overseas military base in Djibouti, increasing its contributions to UN peacekeeping operations, and conducting more bilateral and multilateral exercises. China's arms exports continued to grow in volume and sophistication in 2017, although they remain limited to low- and middle-income countries and are dwarfed by U.S. and Russian sales in value. The People's Liberation Army's expanded exercise portfolio includes new partners, such as Burma and Nepal, as well as long-time partners Pakistan and Russia. China's defense ties with Russia continued an upward trend in 2017.
- U.S.-China security relations saw new dialogue formats emerge following the U.S. presidential transition, but were marked by growing tension due to disagreements over issues such as North Korean denuclearization and China's continued coercive actions in regional territorial disputes.

Introduction

The year 2017 saw the continued expansion of China’s military, security, and other foreign policy activities in pursuit of national interests close to home and far afield. Beijing continued to advance its maritime and territorial claims to the frustration of its neighbors and the international community; Chinese President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping continued his ambitious military reform and reorganization effort; and China’s global security engagement and international military footprint continued to expand. Although the Xi government and the Donald Trump Administration sought common ground, tensions increased.

This section, based on Commission hearings and briefings, the Commission’s May 2017 fact-finding trip to Asia, discussions with outside experts, and open source research and analysis, considers these and other trends. It examines China’s territorial disputes in the South China Sea and with India; the One Belt, One Road initiative; military reform and reorganization; international military engagement; and security ties with the United States, among other things. (For a full discussion of recent developments in China’s military modernization, see Chapter 2, Section 2, “China’s Military Modernization in 2017.”)

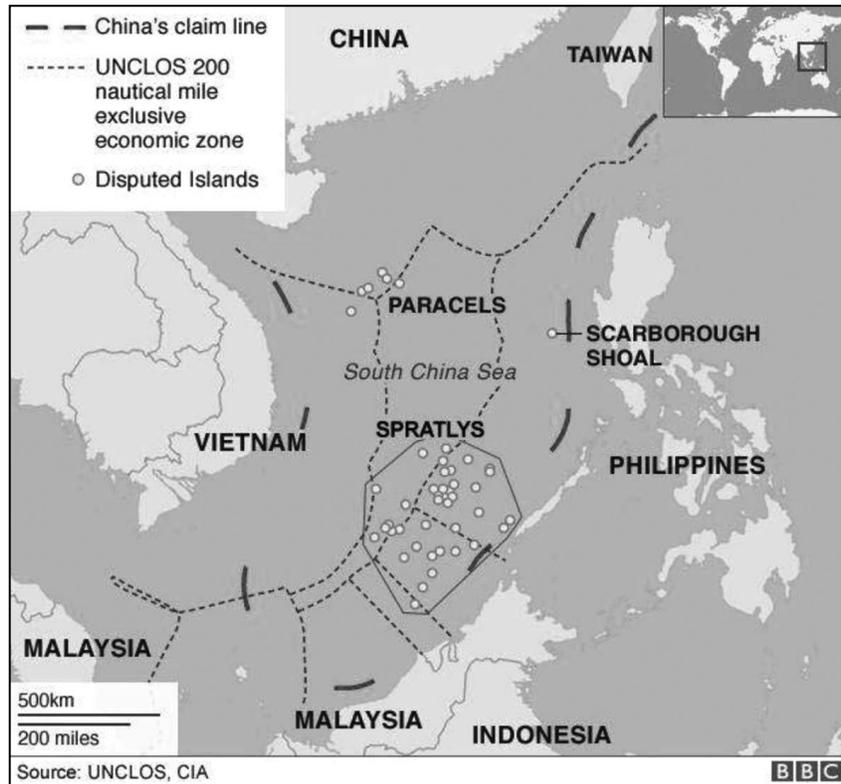
Major Developments in China’s Security and Foreign Affairs in 2017

China’s South China Sea Disputes

Throughout 2017, China tightened its effective control over the South China Sea by continuing to militarize the artificial islands it occupies there and pressuring other claimants such as Vietnam and the Philippines to accept its dominance.¹ China still rejects the July 2016 ruling by the Permanent Court of Arbitration in The Hague regarding its occupation and reclamation of land features in the South China Sea,² and it has increased tensions in several other ways, including by illegally seizing a U.S. Navy underwater unmanned vehicle.³ In September 2017, several U.S. officials told the *Wall Street Journal* U.S. Pacific Command had developed a plan to carry out two to three freedom of navigation operations (FONOPs)* in the region in the following months, after carrying out three FONOPs in the South China Sea earlier in the year.⁴ Meanwhile, a final Code of Conduct (COC) between the Association of Southeast Asian Nations (ASEAN) and China—intended to reduce the risk of accidents in the region’s busy sea lanes and manage crises—has yet to emerge.⁵ (See Chapter 3, Section 2, “China and Northeast Asia,” for a discussion of the East China Sea dispute.)

*According to U.S. Pacific Fleet, “[FONOPs] challenge excessive maritime claims across the globe to demonstrate [the United States’] commitment to uphold the rights, freedoms, and uses of the sea and airspace guaranteed to all nations under international law.” U.S. Pacific Fleet reported that “[U.S. forces] conducted FONOPs challenging excessive maritime claims of 22 different coastal States, including claims of [U.S.] allies and partners” in fiscal year 2016. Sam LaGrone, “UPDATED: USS Stethem Conducts Freedom of Navigation Operation Past Triton Island in South China Sea,” USNI News, July 2, 2017; U.S. Department of Defense, “U.S. Department of Defense (DOD) Freedom of Navigation (FON) Report for Fiscal Year (FY) 2016,” February 28, 2017.

Figure 1: Map of the South China Sea



Source: BBC, "Why Is the South China Sea Contentious?" July 12, 2016.

China's Rejection of the Arbitral Ruling and Its Dispute with the Philippines

It has been more than one year since the Permanent Court of Arbitration in The Hague interpreted the UN Convention on the Law of the Sea (UNCLOS)* in favor of the Philippines against China in July 2016.⁶ Although it rejected the ruling, China has been careful to conduct some of its activities in the South China Sea in ways that do not overtly violate the ruling.⁷ For example, it has refrained from constructing additional artificial islands in the Spratly Islands,[†] seizing control of land features from other claimants, and drilling for oil and gas in some disputed areas.⁸ Nonetheless, Bei-

*UNCLOS, ratified in 1982, set the historical "free seas" traditions dating from the 17th century into formal international law with more than 160 state parties; China ratified UNCLOS in 1996. Although the United States has not ratified UNCLOS, it contends the binding principles of UNCLOS conform to customary international law. United Nations, "The United Nations Convention on the Law of the Sea (A Historical Perspective)," 2012.

†The Center for Strategic and International Studies' Asia Maritime Transparency Initiative reported in August 2017 that China has continued to reclaim land in the northern Paracel Islands (which Vietnam and Taiwan also claim), particularly Tree Island, North Island, and Middle Island. The Permanent Court of Arbitration ruling did not address disputes in the Paracels. Center for Strategic and International Studies Asia Maritime Transparency Initiative, "Update: China's Continuing Reclamation in the Paracels," August 9, 2017.

jing has acted increasingly aggressive in other ways to enforce its de facto control over the South China Sea. For example, Chinese authorities continue to “intercept and intimidate” Philippine fishing boats in the Spratly Islands, according to Bill Hayton, associate fellow at the British think tank Chatham House.⁹ In March 2017, a China Coast Guard vessel reportedly fired on an unarmed Philippine fishing trawler operating not far from Gaven Reef, the location of one of China’s artificial islands.¹⁰ The only significant concession China has made to the Philippines in the wake of the arbitral ruling has been to no longer impede access of Philippine fishermen to the waters surrounding Scarborough Reef.¹¹

Some analysts believe it is only a matter of time before China begins reclamation of Scarborough Reef, which it seized in 2012.¹² Philippine Secretary of National Defense Delfin Lorenzana said in February 2017 that he believed China would eventually begin building on the strategic location, and Philippine Supreme Court senior associate justice Antonio Carpio made a similar assessment in May 2017.¹³ During the Commission’s meeting with the Center for Strategic and International Studies’ Pacific Forum in March 2017, analysts told the Commission the Philippines had “given up” on Scarborough Reef and that Philippine President Rodrigo Duterte believes China will eventually occupy it.¹⁴

Some Philippine officials remain frustrated with the situation. Justice Carpio urged the Duterte Administration in May to file another international arbitration case and to lodge a complaint with the UN, arguing that a failure to do so would be tantamount to “selling [the Philippines] out” in exchange for Chinese loans and investment.¹⁵ In the absence of an effective dispute resolution mechanism, Philippine Foreign Secretary Alan Peter Cayetano suggested in May 2017 that ASEAN and China settle on a “gentlemen’s agreement.”¹⁶ After the first China-Philippines bilateral meeting on the issue, however, little progress was announced other than an agreement to meet again in 2018.¹⁷ Secretary Cayetano said in September 2017 that the Philippines has not wavered from its territorial claims, but has merely “changed [its] strategy” to effectively implement the findings of the arbitration.¹⁸ According to Secretary Cayetano, Presidents Duterte and Xi agreed to maintain the status quo in the South China Sea by not inhabiting additional disputed features, including Scarborough Reef.¹⁹

Resource competition, a historical flashpoint in the China-Philippines dispute, flared again in 2017 as well. In July, Ismael Ocampo, director of the Philippine Department of Energy’s Resource Development Bureau, announced the Philippines might resume exploratory drilling for oil and natural gas in more than 20 blocks near disputed Reed Bank in the South China Sea and in the Sulu Sea near the Philippine island of Palawan by the end of 2017.²⁰ The Philippines had suspended exploratory drilling in Reed Bank in late 2014 as it pursued its suit with the Permanent Court of Arbitration,²¹ which later ruled that Reed Bank fell within the Philippines’ 200-nautical mile (nm) exclusive economic zone (EEZ).²² President Duterte had

*An EEZ is a 200-nm zone extending from a country’s coastline, within which that country can exercise exclusive sovereign rights to explore for and exploit natural resources, but over which it does not have full sovereignty. UN Convention on the Law of the Sea, “Part 5: Exclusive Economic Zone.”

claimed in May that China threatened him with war if he tried to drill for oil in the disputed region,²³ but by August, Secretary Cayetano said the two countries were working on a commercial deal to explore joint energy exploitation options in the South China Sea.²⁴ Secretary Cayetano insisted no Philippine territory would be lost as a result of any future agreement between the two countries.²⁵ In late September, Philippine Energy Secretary Alfonso Cusi said a long-delayed joint venture for oil and natural gas exploration in the Palawan Sea between Philippine and Chinese state-owned companies and a Canada-listed company was ready for President Duterte's approval.²⁶

As Beijing pursues coercive tactics to strengthen its de facto control of disputed areas, it exerts pressure on Southeast Asian countries to refrain from opposing its activities—a strategy that has proven largely successful. Carl Thayer, a Southeast Asia specialist at the University of New South Wales, said in April 2017, “The reality is that ASEAN is gradually accepting that the South China Sea has become China’s lake.”²⁷ Since the arbitration, instead of responding to the Philippines’ sweeping legal victory over China by more forcefully and vocally opposing China’s claims and filing suits of their own, ASEAN member countries largely have remained silent on the matter.²⁸

Over the last two years, China has exploited ASEAN’s requirement for unanimity to its advantage by applying pressure on countries such as Cambodia and even the Philippines to prevent summit statements from including language explicitly critical of China.²⁹ The ASEAN summit’s official joint statement in April 2017 omitted any mention of 2016’s UNCLOS arbitration, land reclamation, or militarization, instead merely making a vague reference to “concerns expressed by some leaders over recent developments in the area.”³⁰ The joint statement from the August 2017 ASEAN Foreign Minister’s Meeting “took note of the concerns expressed by some Ministers on the land reclamations and activities in the area, which have eroded trust and confidence, increased tensions, and may undermine peace, security, and stability in the region,” and it “emphasized the importance of non-militarization and self-restraint in the conduct of all activities by claimants and all other states.”³¹ Secretary Cayetano said the Philippines initially opposed including the harsher language but relented in favor of “what the majority [of ASEAN] wants.”³²

China’s Consolidation of Control over Artificial Islands and New Armaments

Since China suspended new land reclamation activities in the Spratly Islands, it has deployed anti-aircraft and antiship missile batteries in the Paracel Islands and at Yulin Naval Base on Hainan Island in order to build “a maritime and aerial control corridor in the South China Sea,” according to a report by ImageSat International, a satellite image analysis firm.³³ According to the firm, this control corridor is supported by the installation of point-defense systems,* combat aircraft, ships, and facilities to

*Point defense systems, such as the U.S. Patriot missile, are capable of protecting particular targets or small clusters of targets. U.S.-China Economic and Security Review Commission, 2015

service them, advanced radar equipment, and hardened missile shelters. Gregory Poling, director of the Center for Strategic and International Studies' Asia Maritime Transparency Initiative, argued that China's goal is to "extend [an] umbrella over the entire nine-dash line,* which means effectively establishing administration over all of [the waters and airspace] that China claims."³⁴

The U.S. Department of Defense (DOD) reported in its *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2017* that "major construction features at the largest [Spratly Islands] outposts include new airfields—all with runways at least 8,800 feet in length—large port facilities, and water and fuel storage" as well as 24 fighter jet-sized hangars, which could house up to three regiments of jets.³⁵ Between May and December 2016, China constructed what appeared to be point-defense installations consisting of anti-aircraft guns and unknown hexagonal structures at each of its outposts in the Spratly Islands in the southern portion of the South China Sea.³⁶ By June 2017, Fiery Cross Reef had a total of 12 hardened missile shelters, while Subi Reef and Mischief Reef had eight each.[†]³⁷

Figure 2: New Defenses on Fiery Cross Reef



Note: The image on the left depicts the reef's new missile shelters, storage facilities, and radar facilities, and the one on the right depicts its new point-defense systems.

Source: Center for Strategic and International Studies Asia Maritime Transparency Initiative, "Updated: China's Big Three near Completion," June 29, 2017; Center for Strategic and International Studies Asia Maritime Transparency Initiative, "China's New Spratly Island Defenses," December 13, 2016.

Annual Report to Congress, November 2015, 363.

*The so-called "nine-dash line" or "cow's tongue" encompasses the extent of China's territorial claims in the South China Sea—about 90 percent of its area—based on China's alleged "historical rights" that have been found not to have any legal basis in international law. For more information, see U.S.-China Economic and Security Review Commission, *2016 Annual Report to Congress*, November 2016, 374.

†In addition to new missile defenses, in May 2017 Chinese state-run media reported short-range rockets to ward off enemy frogmen—military divers trained in underwater demolition, sabotage, and infiltration—also had been deployed on Fiery Cross Reef, though the rockets had been deployed there without official acknowledgment since at least March 2013. Philip Wen, "China Installs Rocket Launchers on Disputed South China Sea Island—Report," Reuters, May 18, 2017; Keluo Liaofu, "Accidental Reveal: Navy Spratly Reef Defense Force Equipment Antifrogman Automatic Grenade Launcher," Sina, March 2, 2013. Translation.

China also has significantly improved the defenses of its facilities on Hainan Island—which includes China’s main submarine base in the region—and deployed some of its most modern aircraft to bases there. The ImageSat International report shows what appear to be several missile launch pads, including HQ–9 surface-to-air missile batteries, a radar center, and antiship missiles on a hill in the southern part of Hainan.³⁸ Images from May 2017 reveal the deployment of two KJ–500 airborne early warning and control aircraft, four Y–8Qs—China’s newest antisubmarine warfare aircraft—and three BZK–005 high-altitude, long-range reconnaissance unmanned aerial vehicles (UAVs) at the southern Lingshui Air Base.³⁹ Mike Yeo, Asia correspondent for *Defense News*, wrote in June 2017 that the close timing of the Y–8Q and the KJ–500 deployment demonstrated “China’s intention of beefing up [its] ... sea control capabilities * with the latest equipment in its inventory.”⁴⁰

China-Vietnam Dispute

Tensions flared in the ongoing dispute between Beijing and Hanoi in the South China Sea in 2017 as well. In June, China cut short a planned “border defense friendship exchange” summit with Vietnam, citing “reasons related to working arrangements.”[†]⁴¹ The *New York Times* reported that Central Military Commission (CMC) Vice Chairman General Fan Changlong arrived in Hanoi as planned but left early.⁴² Observers suggested China canceled the summit either in response to Vietnam’s perceived attempts to increase strategic cooperation with Japan and the United States or in retaliation for Vietnam’s recent oil exploration in disputed areas of the South China Sea.⁴³

In June 2017, Hanoi granted permission to Talisman-Vietnam, a local subsidiary of the Spanish-owned energy firm Repsol, to drill an oil “appraisal well” in an area that Mr. Hayton asserts is within Vietnam’s EEZ according to “mainstream interpretations” of UNCLOS.⁴⁴ Repsol began operations in the area on June 21.⁴⁵ Days before the planned summit, China moved an ultradeepwater oil rig to its waters close to a median line between China and Vietnam in their overlapping EEZs as a means of pressuring Vietnam to stop its own drilling.[‡]⁴⁶

*DOD defines sea control as “operations designed to secure use of the maritime domain by one’s own forces and to prevent its use by the enemy.” Chairman of the Joint Chiefs of Staff, *Joint Publication 3–32 Command and Control for Joint Maritime Operations*, August 7, 2013, i–3.

†Vietnamese state media reported in late September that the border defense friendship exchange took place September 23–24 with Vietnam’s vice secretary of the Central Military Commission and defense minister Ngo Xuan Lich and China’s vice chairman of the Central Military Commission Fan Changlong participating. The exchange occurred in Vietnam’s Lai Chau Province and in China’s Yunnan Province. Nhân Dân Online, “Fourth Vietnam-China Border Defence Friendship Exchange Launched,” September 23, 2017.

‡Between May and July 2014, the same Chinese oil rig, *Haiyang Shiyou 981*, conducted exploration activities in sites 130–150 miles off Vietnam’s coast, escorted by a large contingent of China Coast Guard, fishing, and commercial ships. According to DOD, Chinese naval “ships supported operations ... and fighters, helicopters, and reconnaissance aircraft patrolled overhead. Chinese paramilitary ships frequently resorted to ramming and use of water cannons to deter Vietnamese ships and enforce the security cordons around the rig. In mid-May, anti-Chinese protests over the rig’s deployment erupted in Vietnam and resulted in at least two Chinese deaths and more than 100 injured, after which more than 3,000 Chinese nationals were evacuated from Vietnam. China also suspended some plans for bilateral diplomatic exchanges with Vietnam.” In January 2016, the same rig was deployed to another disputed area. Mike Ives, “Vietnam Objects to Chinese Oil Rig in Disputed Waters,” *New York Times*, January 20, 2016; U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People’s Republic of China 2015*, April, 2015, 7.

In early July, Hanoi also renewed the license of ONGC Videsh, an Indian firm, to conduct exploratory oil drilling in blocks that include waters claimed by China.⁴⁷ According to Harsh V. Pant, a professor at King's College in London, by accepting Vietnam's invitation to drill against China's wishes, "ONGC Videsh not only expressed India's desire to deepen its friendship with Vietnam, but also ignored China's warning to stay away."⁴⁸ A senior official of the Indian firm told Reuters that Vietnam's interest in developing this block is primarily strategic due to only moderate potential for oil development; he said that "Vietnam also wants [India] to be there because of China's interventions in the [South China Sea]."⁴⁹ In mid-July, as a result of Chinese threats, Hanoi ended the Repsol subsidiary's drilling.⁵⁰

Amid these developments, the United States has continued to quietly enhance defense ties with Vietnam. In August 2017, U.S. Secretary of Defense James Mattis and his Vietnamese counterpart Ngo Xuan Lich agreed that a U.S. aircraft carrier would visit Vietnam in 2018, the first such visit since 1975.⁵¹

China's Seizure of U.S. Navy Underwater Unmanned Vehicle

In mid-December 2016, People's Liberation Army (PLA) Navy sailors seized a U.S. Navy underwater unmanned vehicle conducting scientific research in international waters about 50 nm northwest of the Philippines' Subic Bay. In a statement addressing the incident, China's Ministry of National Defense stated its opposition to U.S. surveillance activities in unspecified "maritime areas facing China" and described the area in question as "[China's] waters," referring neither to international law nor to its own claimed historic rights, suggesting this opposition was an expansion of Beijing's prior stance.⁵² Additionally, in May 2017, after the U.S. destroyer *Dewey* conducted a FONOP within 12 nm of Mischief Reef—one of the main artificial island bases China occupies in the Spratlys—China's Ministry of National Defense responded by claiming sovereignty over vague "adjacent sea areas," which is not a term that appears in UNCLOS.⁵³

Limited Progress on South China Sea Code of Conduct

Seventeen years after it was first proposed, in August 2017 China and the members of ASEAN adopted a negotiating framework for a future COC to manage tensions related to overlapping territorial claims in the South China Sea.⁵⁴ Chinese Vice Foreign Minister Liu Zhenmin called the framework "comprehensive" and said it respected the concerns of all parties, but he warned against "outside interference" in the drafting process, which was widely interpreted to be a reference to the United States.⁵⁵ Nevertheless, a leaked version of the draft framework explicitly states the COC will not be "an instrument to settle territorial disputes or maritime delimitation issues."⁵⁶ Further, the draft framework lacks enforcement mechanisms, citing instead reliance on "mutual trust," a "duty to cooperate," and "self-restraint."⁵⁷ At the ministerial meeting of the Trilateral Strategic Dialogue in August 2017, Japan, Australia, and the United States "urged ASEAN member states and China to en-

sure that the COC be ... legally binding, meaningful, effective, and consistent with international law.”⁵⁸

U.S. Freedom of Navigation Operations (FONOPs)

FONOPs, which the U.S. government has used worldwide since 1983 to signal its opposition to excessive maritime territorial claims, have occurred three times in the South China Sea in 2017.⁵⁹ The United States conducted only one FONOP in the South China Sea in 2015 and three in 2016.⁶⁰ Three requests by the U.S. Navy in February and March 2017 to conduct FONOPs near Scarborough Reef were turned down by Pentagon officials, surprising analysts after initial indications that the Trump Administration might increase the tempo of FONOPs.⁶¹ Dr. Mira Rapp-Hooper, then senior fellow at the Center for a New American Security, and Dr. Charles Edel, associate professor at the U.S. Naval War College, argued in May that FONOPs send the legal message that the South China Sea “is an international waterway over which China is not entitled to make spurious maritime claims ... and failing to carry them out suggests to Beijing that it can expand its reach with impunity.”⁶²

In mid-May, a bipartisan group of seven senators wrote to President Trump urging him to conduct more FONOPs, calling freedom of navigation and overflight in the South China Sea “critical to U.S. national security interests and to peace and prosperity in the Asia-Pacific region.”⁶³ In late May, the U.S. Navy destroyer *Dewey* conducted a FONOP near Mischief Reef, a feature claimed by both the Philippines and China, the first such operation in 214 days.⁶⁴ Secretary Mattis testified during a Congressional hearing that he had initially rejected a request for a FONOP because he wanted the operations to be part of an overall strategy, not “as a stand-alone.”⁶⁵ Secretary Mattis said that he approved the *Dewey* FONOP once he was satisfied that it “support[ed] Secretary [of State Rex] Tillerson’s view of foreign policy, engaging in that part of the world.”⁶⁶ Following Secretary Mattis’ approval, the U.S. destroyer *Stethem* carried out a FONOP near Triton Island in the Paracel Islands in early July, and the destroyer *John S. McCain* sailed within 12 nm of Mischief Reef in the Spratlys in August.⁶⁷

In early June 2017 at the annual Shangri La Dialogue in Singapore, the defense ministers of Australia and Japan called for more U.S. FONOPs and expressed approval of actions taken by the United States to demonstrate its resolve in upholding international law.⁶⁸

China’s One Belt, One Road Initiative

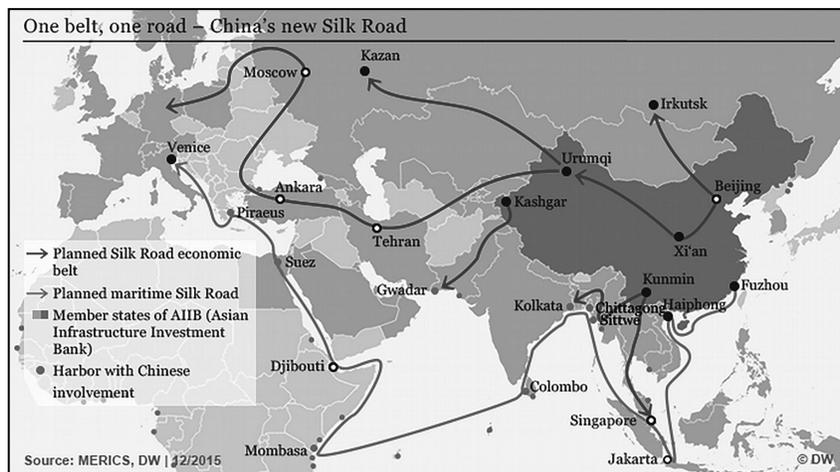
In 2017, China’s One Belt, One Road (OBOR) campaign continued to expand.† OBOR, initially launched by President Xi during a visit to Kazakhstan in 2013, is a top-priority economic and strategic program. OBOR loosely covers around 60 countries (see Figure 3)

*The United States does not single out China-held features as FONOP targets. Since 2015, U.S. FONOPs have targeted all of the claimants in the South China Sea territorial disputes. The United States also conducts FONOPs regularly all over the world. Ankit Panda, “For the United States, Freedom of Navigation in Asia Concerns More than Just China,” *Diplomat*, March 7, 2017.

†China rebranded OBOR in 2017 as the Belt and Road Initiative to reflect the initiative’s multiple infrastructure networks. This section continues to use the original OBOR designation. Angela Stanzel, “China’s Belt and Road—New Name, Same Doubts?” *European Council on Foreign Relations*, May 19, 2017.

and, according to analysis from Fitch, includes \$900 billion worth of projects (planned or already underway).⁶⁹ In May 2017, President Xi pledged an additional \$124 billion to OBOR.⁷⁰

Figure 3: China's One Belt, One Road Initiative



Source: Galina Petrovskaya, "Silk Road' in EU: Trans-Caspian Transit Bypassing Russia," Deutsche Welle, September 3, 2016. Translation.

China leverages financial institutions outside the established multilateral development bank framework to support OBOR projects (see Table 1). Chinese policy banks, namely the Export-Import Bank of China and China Development Bank, have been the most active investors in OBOR-affiliated projects. The latter promised to invest more than \$890 billion in OBOR countries,⁷¹ and at the end of 2016, the two banks' reported OBOR-related lending totaled \$101.8 billion.⁷² In addition, China set up the Silk Road Fund in 2014, with an original endowment of \$40 billion.⁷³ The Asian Infrastructure Investment Bank (AIIB), created in 2014, has lent around \$2 billion since it was established in 2016 (the bank is authorized to lend up to \$250 billion).⁷⁴ China retains 26 percent of AIIB's voting power, which gives it de facto veto power over the bank's decisions.* Another potential contributor to OBOR projects is the New Development Bank (the so-called "BRICS Bank"), established in July 2014 with \$100 billion in initial capital.⁷⁵

*AIIB's president has said as other members join, China is prepared to lose its veto power. James Kyngé, "AIIB Chief Unveils Aim to Rival Lenders such as ADB and World Bank," *Financial Times*, May 3, 2017.

Table 1: Select Government Funds Investing in Belt and Road Projects, 2017

 国家开发银行 CHINA DEVELOPMENT BANK	\$890 billion
 丝路基金 Silk Road Fund	\$40 billion
 ASIAN INFRASTRUCTURE INVESTMENT BANK	[\$250 billion]
 New Development Bank	[\$100 billion]

Note: The amounts for AIIB and the New Development Bank are their authorized lending caps, and do not represent amounts invested in OBOR projects. Because AIIB and the New Development Bank are multilateral institutions, their investments do not necessarily reflect the unilateral decisions of the Chinese government.

Source: Compiled by Commission staff.

Although Chinese officials generally only cite OBOR's economic objectives, it has several unspoken strategic objectives as well:⁷⁶

Establishing strategic access: As China's economic and geostrategic interests expand, Beijing seeks the ability to protect these interests wherever and whenever required. With so many economic interests outside China's borders, the imperative to protect these interests—using the Chinese Navy in particular—has grown. China's 2013 defense white paper codified this requirement, noting for the first time the necessity of protecting Chinese nationals and other interests abroad.⁷⁷ A few years later, China opened its first military base abroad, in Djibouti (discussed later in this section). As China's economic interests along the economically and geostrategically important Indian Ocean grow, China likely will look to establish more bases there.⁷⁸

Chinese investments in port infrastructure associated with OBOR potentially could pave the way for Chinese naval access to the region. Chinese companies are involved in 28 existing or planned port projects along the main OBOR route: Bangladesh (2), Burma (Myanmar) (2), Cambodia (1), Djibouti (1), Egypt (1), Eritrea (1), Georgia (1), Greece (1), Israel (2), Kenya (2), Malaysia (2), Maldives (1), Mozambique (2), Pakistan (2), Somalia (1), Sri Lanka (2), Tanzania (2), Turkey (1), and Yemen (1) have existing or planned regional ports with Chinese involvement. Chinese companies are involved in a further 16 port projects in West Africa and Western Europe.⁷⁹ According to an estimate from Grisons Peak, an investment bank, in the 12-month period from June 2015 to June 2016, Chinese companies

announced plans to purchase or invest in \$20 billion worth of port infrastructure around the world.⁸⁰

Enhancing China's energy security: China has shifted from energy self-sufficiency in the 1980s to dependence on external sources of oil for more than half of its oil consumption needs.* Eighty percent of China's energy imports arrive from the Middle East and West Africa by passing through the narrow Strait of Malacca. China's military strategists refer to this as the "Malacca Dilemma," noting that sea lanes such as the Strait of Malacca have become "life-lines" for China's economic development and that in the event of war or maritime crises these lines are likely to be cut off as China cannot control them.⁸¹ Chinese leaders therefore look to alternative (often overland) routes to diversify China's energy sources and bypass critical maritime chokepoints. Although no single source can replace oil from the Middle East, in combination, these new sources may partially alleviate this dependence. A report by one of China's major oil companies projects that by 2030, OBOR countries will become China's "national energy security supply base," accounting for about half of China's crude oil imports and one-third of its natural gas imports.⁸²

As the following examples demonstrate, China has pursued energy projects around the world. In countries that have access to the Indian Ocean, China's energy development projects tend to be linked to Chinese port infrastructure developments.

- Central Asian oil and natural gas are transported to China via two existing pipeline networks: the Kazakhstan-China oil pipeline delivers Kazakh oil to China's westernmost Xinjiang Province, and the Central Asia-China natural gas pipeline delivers Turkmen (and to a lesser extent, Uzbek) natural gas to China by way of Turkmenistan, Uzbekistan, and Kazakhstan. Chinese companies are investing in building up additional capacity.†
- The \$54 billion China-Pakistan Economic Corridor has a significant energy component, though a great share of it is aimed at alleviating Pakistan's own energy shortfalls. This initiative aims to connect Kashgar, Xinjiang, with Gwadar, Pakistan, located at the edge of the Strait of Hormuz in the Arabian Sea, via 2,000 miles of rail, road, and oil and natural gas pipelines.‡
- In Southeast Asia, one key OBOR project will run across Burma, stretching from the Chinese city of Kunming to the Indian Ocean deepwater port at Kyaukphyu. Chinese firms have already constructed natural gas and oil pipelines along this corridor and are seeking an 85 percent share in the port at the pipeline's terminus.⁸³

Achieving regional and domestic stability through economic development: Chinese officials believe accelerating economic de-

* In 2015, 62 percent of all crude oil consumed in China was imported. China's National Bureau of Statistics via CEIC database.

† For an in-depth assessment of China's OBOR efforts in Central Asia, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "China and Central Asia," in *2015 Annual Report to Congress*, November 2015, 391–418.

‡ For China's OBOR projects in South Asia, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "China and South Asia," in *2016 Annual Report to Congress*, November 2016, 313–346.

velopment is “an important historic opportunity to safeguard social stability and lasting political order.”⁸⁴ Following the blueprint of previous domestic initiatives to promote domestic stability with economic development, Beijing believes trade and investment with its Central and South Asian neighbors will reduce poverty, thereby encouraging peace and stability and making the region more resistant to fundamentalism and terrorism.⁸⁵ By fostering economic linkages between Central Asian and South Asian countries and Xinjiang,* Beijing hopes to encourage economic development and stability domestically as well.

Chinese policymakers hope the opening of new markets for Chinese products will rejuvenate China’s infrastructure- and export-led development model. As domestic markets become saturated, encouraging companies to compete abroad will generate new returns—especially for inefficient state-owned companies—while enabling the government to postpone painful economic reforms (e.g., privatizing state companies). OBOR’s heavy emphasis on infrastructure creates an outlet for China’s tremendous excess capacity, especially in industries associated with construction, such as steel and glass, which are dominated by state-owned companies.⁸⁶

By promoting Chinese companies, services, and technologies, OBOR also serves as a vehicle for entrenching Chinese standards and practices in host markets. Chinese companies deploying Chinese power grids or Chinese rail gauges across vast parts of Europe and Asia will shape international standards.⁸⁷ More pressing, given Chinese government’s emphasis on “technonationalism,”† is the role Chinese information and communication technology companies will play in establishing standards for a new generation of technologies. Already, Chinese telecom companies ZTE and Huawei are among major developers of 5G mobile network standards.⁸⁸

Gaining influence and leverage over other countries, and countering U.S. influence: As Chinese investment becomes more and more important to other countries’ economic health, Beijing’s ability to use that dependence as leverage grows. According to Nadège Rolland, a scholar of OBOR and a senior fellow for political and security affairs at the National Bureau of Asian Research:

Economic cooperation is not just a way to boost development or to bring financial returns. It is also a tool to be used for political and strategic gain.... When Xi tells China’s neigh-

*Xinjiang Uyghur Autonomous Region, China’s westernmost province and home to China’s Muslim Uyghur ethnic group, has experienced varying degrees of unrest in the past several decades. As in Tibet, many residents of Xinjiang do not culturally or politically identify with China, and some Uyghur groups advocate for greater autonomy or full independence for Xinjiang. Beijing views the existence of these groups as a threat to China’s sovereignty and security and has sought to silence them while simultaneously integrating Xinjiang into the social, economic, and political fabric of greater China. U.S.-China Economic and Security Review Commission, *2015 Annual Report to Congress*, November 2015, 393.

†Technonationalism refers to the Chinese government’s goal of moving up the high-tech value-added chain and achieving dominance in key technologies by relying on domestic innovation. In pursuit of this goal, the Chinese government has relied on a full range of policy tools, including extensive subsidies to domestic companies, rules and regulations that marginalize foreign companies and demand transfers of technologies in exchange for accessing the Chinese market, financial and regulatory support for acquisition of foreign technologies and, in some cases, theft of intellectual property. The key tenet of Chinese technonationalism is that domestic—not foreign—companies should achieve dominant positions in China, and then start expanding to overseas markets. For a discussion of China’s industrial policy and technological development, see Chapter 4, Section 1, “China’s Pursuit of Dominance in Computing, Robotics, and Biotechnology.”

bors they should take advantage of the economic opportunities offered by development and by [OBOR], this is what he has in mind. Countries that are friendly to China, support its interests, or at a minimum do not challenge it on sensitive issues will receive economic and security benefits from Beijing; conversely, countries that oppose China, or infringe on its security and sovereignty, will be denied access to these rewards and might even be actively punished.⁸⁹

The westward-looking element of OBOR is beneficial to Beijing. To its east, China faces U.S. military might, U.S. allies, maritime disputes,* tensions with Taiwan, and a growing reputation for bullying and coercion against its maritime neighbors. By making OBOR the centerpiece of China's foreign policy, Beijing attempts to redirect the spotlight away from its adversarial approach to its eastern neighbors to its relatively uncontroversial and "win-win" diplomacy with its western neighbors. It is also easier for China to establish influence and leverage in these countries, where the United States already has fairly limited influence.⁹⁰ Recognizing that the United States is still viewed as the region's security guarantor, Beijing is leaning on its natural strength—its economic might—to compete with Washington for influence, particularly in developing countries.†⁹¹ This may partially explain the conspicuous absence of key maritime Asian U.S. allies—like Japan, South Korea, and Australia—from OBOR, although these countries' high level of economic development probably plays a larger role in their exclusion.

China's Border Disputes with Bhutan and India

As the Commission noted in its *2016 Annual Report to Congress*, the border dispute between China and India remains the most likely source of armed conflict between the two countries, although the probability of such a conflict is low.⁹² There have been no major border clashes since 1967, but diplomatic sparring, the buildup and occasional movement of troops, and regular complaints of border incursions from both sides are commonplace.⁹³ In mid-June 2017, a new challenge emerged at Doklam, near the "trijunction" of the China-India-Bhutan border (see Figure 4), complicating the border dispute and raising the stakes for all three countries.

The standoff began after Chinese road construction crews, escorted by Chinese border guards, began extending an existing dirt road

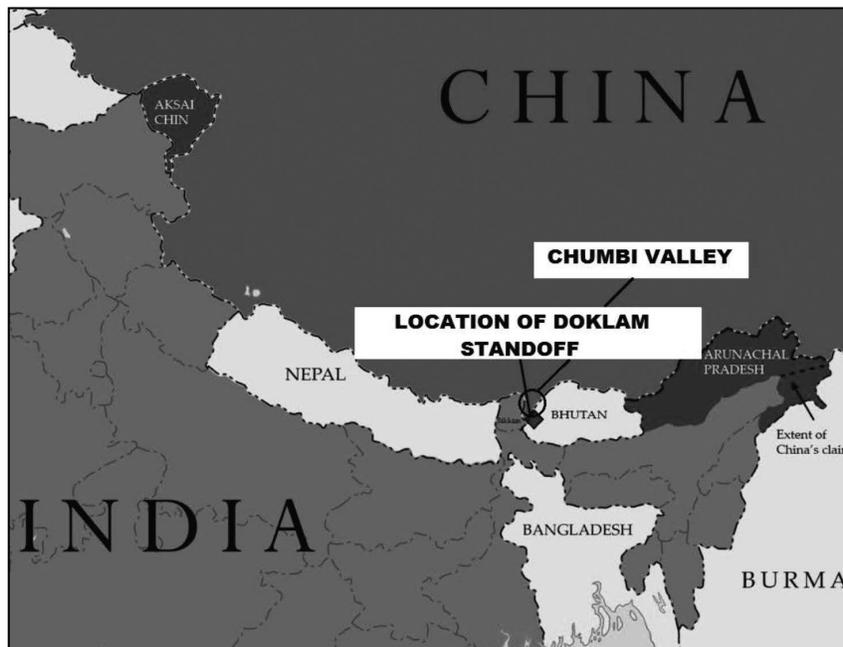
*China has competing maritime claims with Brunei, Indonesia, Japan, the Philippines, Malaysia, Taiwan, and Vietnam.

†In an indication of China's growing influence with its westward neighbors, in 2017 China ordered Chinese exchange students from the largely Muslim Uyghur ethnic group who had been studying abroad in places like Turkey and Egypt to return to China. When many students failed to obey the orders, Beijing reportedly pressured Egyptian authorities to round up and detain at least 200 ethnic Uyghur and Kazakh Chinese students, a move international human rights groups called a violation of international law. Some of these students attempted to flee to Turkey, which historically has been welcoming to Uyghurs; however, amid warming China-Turkey ties, Ankara has been less hospitable to Chinese Uyghurs, and reportedly has turned several away at the border. Days after Egyptian authorities rounded up the Uyghur students, China and Turkey pledged to enhance defense cooperation, and Ankara pledged to limit domestic media reporting critical of China. Radio Free Asia, "Egyptian Authorities Forcibly Disappear 16 Uyghur Students from Notorious Prison," September 25, 2017; Gary Shih, "China and Turkey Pledge Security Cooperation as Ties Warm," Associated Press, August 3, 2017; Emily Feng, "China Targets Muslim Uyghurs Studying Abroad," *Financial Times*, August 1, 2017; Radio Free Asia, "Uyghurs Studying Abroad Ordered back to Xinjiang under Threat to Their Families," May 9, 2017.

into the Doklam region of the disputed China-Bhutan border. After Bhutanese border forces apparently failed to convince the Chinese crew to retreat,⁹⁴ Indian troops moved into the area to block the Chinese crew's path.⁹⁵ Several hundred Chinese and Indian border forces remained there in a tense standoff until late August, when China and India agreed to disengage and retreat to their respective pre-June positions on the same day, allowing the confrontation to deescalate without either side losing face.⁹⁶

This outcome was interpreted by many observers as a “win” for India and Bhutan and a model for countering Chinese territorial aggression because China retreated to its pre-standoff position.⁹⁷ Nevertheless, India's tactical victory is unlikely to deter China from advancing its claims at another time, or in another way. On the day the standoff ended, a Chinese Ministry of Foreign Affairs spokesperson said “the Chinese military has taken effective countermeasures to ensure the territorial sovereignty and legitimate rights and interests of the state.”⁹⁸ China may have agreed to retreat because it did not want to raise tensions ahead of important meetings like the September BRICS summit and the CCP's 19th Party Congress in October. It also may see its tactical “defeat” as justification to build up its infrastructure and military presence near the border.⁹⁹ As this Report went to print, unconfirmed Indian media reports claimed Chinese forces remain in the vicinity of the standoff location¹⁰⁰ and Chinese builders were expanding an existing road about six miles from the standoff location.¹⁰¹

Figure 4: Location of Doklam Standoff



Source: Adapted from Jeff Smith, “High Noon in the Himalayas: Behind the China-India Standoff at Doka La,” *War on the Rocks*, July 13, 2017.

Although Bhutan is an independent country, from 1949–2007, India managed its foreign and defense policies.¹⁰² Since 2007, Bhutan has had nominally more control over these matters, but India retains significant influence over its smaller neighbor.¹⁰³ Bhutan does not have formal diplomatic relations with China, and is the only country besides India with which China still has a land border dispute. Some observers see China's Doklam incursion as an effort to test India's commitment to Bhutan in the hopes that the latter will distance itself from the former and see value in cultivating better relations with China instead.¹⁰⁴

For its part, India views stopping China's move southward along the disputed China-Bhutan border near India's Sikkim State as a strategic imperative. According to Jeff Smith, then director of Asian Security Programs at the American Foreign Policy Council, "For all practical purposes, the standoff has become an extension of the China-India border dispute."¹⁰⁵ Mr. Smith explains:

*Chinese control over the Doklam plateau would represent a grave strategic threat. The Chinese-controlled Chumbi valley bisecting Sikkim and Bhutan cuts toward the Siliguri Corridor, a narrow, strategically-vulnerable strip of territory connecting the main mass of the Indian subcontinent to its more remote northeastern provinces. A Chinese offensive into this "Chicken's Neck" could sever India's connection to the northeast, where China still claims up to 90,000 square kilometers in Arunachal Pradesh. China's Global Times seemed to acknowledge as much, and further stoke Indian anxieties by arguing "northeast India might take the opportunity to become independent" if Delhi's fears were realized and China launched an operation to "quickly separate mainland India from the northeast."*¹⁰⁶

It remains to be seen how the Doklam standoff will impact China's ongoing efforts to grow its economic and geostrategic influence in South Asia, where it is betting that economic engagement with smaller South Asian countries will enable it to challenge India's longstanding regional influence.*

PLA Reform and Reorganization Efforts in 2017

In January 2016, China began executing a reform[†] and reorganization of the PLA intended to strengthen the CCP's control over the military and improve the PLA's capability to fight regional conflicts at greater distances from China through integrated joint operations.[‡]¹⁰⁷ The reforms call for restructuring the CMC, creating a Joint Staff Department, expanding the service headquarters sys-

*For a more in-depth examination of China's relations with South Asia, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "China and South Asia," in *2016 Annual Report to Congress*, November 2016, 313–355.

[†]This latest reform is the PLA's 11th since 1949. The largest previous structural reorganization occurred in 1985 when the PLA's 13 military regions were restructured and reduced to 7 (Shenyang, Beijing, Lanzhou, Jinan, Nanjing, Guangzhou, and Chengdu). For additional information on PLA troop reductions and reorganizations since 1949, see Kevin McCauley, "PLA Transformation: Difficult Military Reforms Begin," *China Brief*, September 18, 2015.

[‡]Integrated joint operations incorporate all services under a unified commander rather than having each service conduct sequential service-specific operations within a military campaign.

tem, transitioning from a military region to a theater joint command structure, and reducing the size of the PLA.¹⁰⁸

Force Reduction

In September 2015, President Xi announced 300,000 troops would be cut from the PLA by the end of 2017,¹⁰⁹ a process that is now underway. This reduction is focused largely on the PLA Army and reflects the growing importance of PLA Navy, Rocket Force, and Air Force missions in light of China's aggressive ambitions in the maritime and space domains.¹¹⁰

Force Reduction and Implications for Ground Force Structure

In January 2016, the CMC stated the PLA would reduce personnel and equipment to “accelerate the transformation of the military from a numbers-and-scale model to that of quality and efficiency.”¹¹¹ China's 18 group armies* were reduced to 13 and redesignated with the numbers 71 through 83.¹¹²

Although the full extent of this restructuring is unclear, some troops and newer equipment from disbanded group armies were transferred to renumbered group armies that remained in theater commands, while older equipment and other units may have been decommissioned or retired from the PLA.¹¹³ Furthermore, some group armies may have had units transferred out of the PLA Army to other services.† (See Addendum I, “New Group Army Structure in Theater Commands,” for a summary of the new group army structure.)

Reform and Theater Training

Changes underway within the PLA require adjustments in doctrine, plans, and training.¹¹⁴ To address these requirements, the PLA has conducted training to identify and address operational problems at the theater level.¹¹⁵ As the PLA continues to carry out reform efforts, exercises will refine operational processes at the theater level focused on conducting and sustaining integrated joint operations.

Integrated Joint Operations and Theater Training

The establishment of the five theater commands in 2016 has led to military training focused on theater joint operations in addition to annual transregional exercises. A number of these exercises were designed to test leadership within the new joint theater command structure in addition to their original purpose: enhancing transregional mobility and practicing joint operations.¹¹⁶ The Joint Staff Department has also dispatched observers to theater-level training

*PLA ground forces are organized into formations known as “group armies” comprising 45,000 to 60,000 personnel. Group armies contain divisions, brigades, regiments, battalions, companies, platoons, and squads. However, the 13 group armies are not identical. For example, two group armies—the 71st and 78th—do not have army aviation units, and four group armies—the 72nd, 74th, 81st, and 83rd—do not have special operations forces. Dennis J. Blasko, “Recent Developments in the Chinese Army's Helicopter Force,” *China Brief*, June 9, 2017; Dennis J. Blasko, *The Chinese Army Today: Tradition and Transformation for the 21st Century*, Routledge, 2006, 21; Dennis J. Blasko, “PLA Ground Forces: Moving toward a Smaller, More Rapidly Deployable, Modern Combined Arms Force,” in James C. Mulvenon and Andrew N. D. Yang, eds., *The People's Liberation Army as Organization*, RAND Corporation, 2002, 317.

†For example, the 77th Motorized Infantry Brigade likely moved from the newly established 74th Group Army to the PLA Navy Marine Corps. Dennis J. Blasko, “What Is Known and Unknown about Changes to the PLA's Ground Combat Units,” *China Brief*, May 11, 2017; Dennis J. Blasko, “Walk, Don't Run: Chinese Military Reforms in 2017,” *War on the Rocks*, January 9, 2017.

events to identify new operational planning requirements.¹¹⁷ Over the next year, PLA theater exercises likely will continue focusing on identifying deficiencies in the joint theater structure to improve China's capability to fight a regional conflict.

Theater Service Training

In addition to integrated joint operational training, the services are conducting training at the theater level intended to integrate services into the new command structure.¹¹⁸ The Western Theater Command Air Force, for example, conducted training in 2016 to identify and resolve operational deficiencies before holding larger joint exercises to test the new theater command structure.¹¹⁹ Like the PLA Air Force, the PLA Navy also engaged in theater-level training intended to test its capability to address maritime threats faced in the Eastern, Southern, and Northern Theater Commands.¹²⁰

Establishment of Joint Logistics Support Force and Joint Training

In September 2016, as part of the reorganization, the PLA established the Joint Logistics Support Force to support theater operations as well as operations abroad.¹²¹ The Joint Logistics Support Force likely will support long-distance exercises and strengthen the PLA's capability to sustain theater operations as well as expeditionary operations and warfighting missions farther into the Western Pacific and beyond.

Leadership Changes and Joint Command

Although the reforms suggest senior leadership positions at the national and theater levels would be more reflective of a truly "joint" structure, these positions remain staffed mostly by army officers.¹²² Dennis Blasko, a former U.S. military attaché in China, asserts the PLA needs to "formalize and implement a PLA-wide program to develop joint-qualified officers through education, training, and assignments" to address this problem.¹²³ Despite experimentation with developing "joint officers"¹²⁴ the PLA still faces a shortage of officers with joint operational experience.¹²⁵ Leadership changes at the theater and national levels should start to address some of the ground force dominance that remains in the system at senior levels within the PLA. For example, PLA Navy Vice Admiral Yuan Yubai was selected to lead the Southern Theater Command,¹²⁶ marking the first instance of a non-PLA Army officer commanding a theater or military region before the theater structure and possibly indicating changes in other theaters as reforms continue through 2020. There also are likely to be national-level leadership changes within the CMC during the October 2017 19th Party Congress, which could rebalance the 11-member body and reduce the dominance of the ground forces.¹²⁷ Currently, only four of the ten uniformed members of the CMC are not ground force personnel.

China's Global Security Activities in 2017

PLA Overseas Activities

In 2017, China's global security engagement continued to grow, reflecting recently expanded mission requirements to "safeguard the security of [its] overseas interests," as stated in its 2015 defense

white paper.¹²⁸ These overseas interests include protecting Chinese citizens abroad, foreign investments, access to raw materials, and sea lines of communication.¹²⁹

Gulf of Aden Antipiracy Deployments and Related Operations

In August 2017, China's 27th consecutive naval task group deployed to the Gulf of Aden for antipiracy patrols.¹³⁰ Since China began its Gulf of Aden antipiracy operations in 2008, the PLA Navy has conducted more than 1,000 escort missions and rescued or assisted more than 60 ships.¹³¹ In April 2017, the 25th naval task group operated jointly with Indian and Pakistani ships to rescue a Tuvaluan commercial ship hijacked by Somali pirates, and delivered three suspected pirates back to Somalia.¹³²

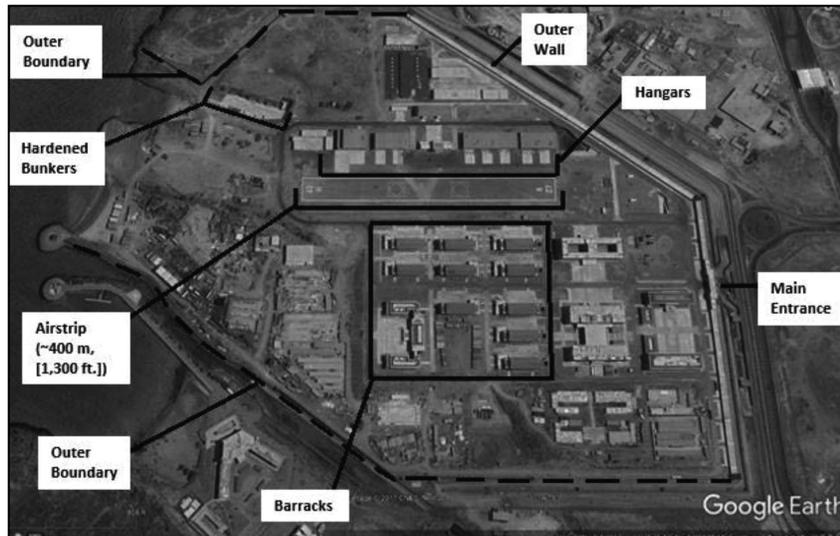
China has included nuclear submarines in its antipiracy task groups. According to DOD, this "demonstrat[e]s the PLA Navy's emerging capability both to protect China's sea lines of communication and to increase China's power projection into the Indian Ocean."¹³³ China's nuclear submarines' presence near India's coast has become constant, according to Indian Navy officials; the submarines regularly stop in Colombo, Sri Lanka, or Karachi, Pakistan.¹³⁴ In January 2017, a Chinese attack submarine made a stopover in Malaysia for the first time while returning from an antipiracy patrol in the Gulf of Aden.¹³⁵

PLA Unveils Djibouti Military Base

On August 1, 2017, the PLA officially opened its first permanent overseas military base in Djibouti, a small country on the Horn of Africa (see Figure 5).¹³⁶ Other countries, including the United States, have bases there. Stratfor, a geopolitical intelligence firm, reported the base is fortified with three layers of security at its perimeter and a 250,000-square-foot underground space "[allowing] for unobserved activity."¹³⁷ No docks had been constructed as this Report went to print, but Stratfor noted the PLA could use Djibouti's commercial port until it constructs its own dock at the base.¹³⁸ Analysts at CNA Corporation judged all PLA Navy ships would be capable of docking at the commercial port (assuming berths of equal length), except for its two largest platforms—the *Liaoning* aircraft carrier and the Type 071 amphibious transport dock.¹³⁹ September imagery of the base shows an airstrip with two helipads and eight hangars, which could accommodate helicopters but not fighter jets or other fixed-wing aircraft, according to Stratfor.¹⁴⁰ The base's location is particularly sensitive for the United States because it is located several miles away from Camp Lemonnier—one of the largest and most critical U.S. military installations abroad.*¹⁴¹ U.S. defense officials fear the PLA could use the base to surveil U.S. military activities out of Camp Lemonnier. In addition, some observers reportedly are concerned increased Chinese economic engagement with Djibouti could serve to weaken U.S.-Djibouti security ties over the long term.¹⁴²

*Approximately 4,000 U.S. personnel are stationed at Camp Lemonnier, which serves as the hub for U.S. counterterrorism operations in North Africa and the Arabian Peninsula. Commander, Navy Installations Command, *Camp Lemonnier, Djibouti*. https://cnic.navy.mil/regions/cnreura/swa/installations/camp_lemonnier_djibouti.html; Eric Schmitt, "U.S. Signs New Lease to Keep Strategic Military Installation in the Horn of Africa," *New York Times*, May 5, 2014.

Figure 5: China's Military Base in Djibouti (September 4, 2017)



Source: Adapted from Google Earth; Jeremy Binnie (@JeremyBinnie), "Our annotated satellite imagery of the Chinese base in Djibouti," August 4, 2017, 5:34 A.M. Tweet; Stratfor, "Looking over China's Latest Great Wall," July 26, 2017.

According to China's Ministry of National Defense, the "support facility will be mainly used to provide rest and rehabilitation for the Chinese troops taking part in escort missions in the Gulf of Aden and waters off Somalia, UN peacekeeping, and humanitarian rescue [operations]."¹⁴³ Notably, DOD's *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2017* changed its assessment of the Djibouti installation from a "military support facility" to a "base," which could imply a more substantial footprint for the facility.¹⁴⁴ In September 2017, troops from the base conducted their first live-fire exercise at a training range controlled by the Djibouti government.¹⁴⁵ The Djibouti location itself will serve as a strategic asset for China and help it increase power projection in the region.¹⁴⁶ Djibouti occupies a key chokepoint for sea lines of communications between the Red Sea and the Indian Ocean, through which travels a large portion of hundreds of billions of dollars in trade between China and the Middle East and Europe.¹⁴⁷

DOD judges "China most likely will 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 precedent for hosting foreign militaries."¹⁴⁸ In April 2017, the Pakistan government announced it granted a 40-year lease to Chinese state-owned firm China Overseas Port Holding Company to develop Gwadar's deepwater port.¹⁴⁹

UN Peacekeeping Operations

China's involvement in UN peacekeeping operations dates back to 1990 when it first contributed military observers.¹⁵⁰ Since then, China's participation has increased to more than 2,600 personnel

active in 10 countries*—the largest contribution among the permanent members of the UN Security Council.†¹⁵¹ In terms of contributions to the 2016 UN peacekeeping budget, China provided \$764.8 million (10.3 percent), second behind the United States' \$2.75 billion (28.6 percent).¹⁵² China's participation in these operations supports several objectives, including international prestige, operational experience for the PLA, and intelligence collection.¹⁵³

- In August 2017, at the UN's request, Beijing deployed its first PLA helicopter unit for peacekeeping purposes to the Darfur region of Sudan.¹⁵⁴ The unit consists of 140 soldiers and four Mi-171 helicopters. Its mission reportedly will involve air patrol and transportation of personnel and equipment.¹⁵⁵
- In February and March 2017, the UN awarded China's peacekeeping forces in Lebanon and Liberia with the UN Peace Medal of Honor, which "commend[s] those who have made prominent contributions to human peace."¹⁵⁶ Chinese peacekeeping forces have now received the award five times.¹⁵⁷

According to Mr. Blasko, "While [peacekeeping operations provide] some PLA units the still infrequent opportunity to operate beyond the borders of China and [enhance] the PLA's confidence in itself and its prestige both at home and abroad, [these missions] do not substitute for the kind of warfighting experience necessary for future mid- or high-intensity combined arms and joint operations."¹⁵⁸

Military-to-Military Engagement

China uses the PLA's engagement with foreign militaries to bolster its security relations with foreign countries, improve the PLA's image abroad, and address other countries' concerns about the PLA's growing capabilities and expanding missions.¹⁵⁹ This engagement involves contacts between the PLA and foreign military personnel, defense industrial cooperation, military exercises, and naval port calls.¹⁶⁰ In 2017, the PLA continued to expand its engagement with foreign militaries, participating in new types of exercises and deepening defense cooperation.

The PLA's Exercises with Foreign Militaries

Through bilateral and multilateral exercises, the PLA improves its defense ties with foreign countries, gains operational knowledge and experience,‡ and facilitates its military modernization goals. Exercises help the PLA practice battlefield tactics and combat methods; bolster its logistics capabilities operating in unfamiliar environments; and improve its capacity for nontraditional security operations, such as antipiracy, humanitarian assistance and disaster

*As of August 2017, Chinese personnel were active in the following countries: Afghanistan, Cyprus, Democratic Republic of the Congo, Israel, Lebanon, Liberia, Mali, South Sudan, Sudan, and the Western Sahara. United Nations, "Summary of Contributions to UN Peacekeeping by Country, Mission, and Post," August 31, 2017.

†As of August 2017, China ranks 11th among all contributors to UN Peacekeeping Operations missions, following Ethiopia (first), Bangladesh, India, Pakistan, Rwanda, Nepal, Senegal, Egypt, Ghana, and Indonesia (10th). The top five contributors all contribute more than double the number of China's personnel. United Nations, "Summary of Troop Contributing Countries by Ranking," August 31, 2017; Dennis Blasko, "China's Contribution to Peacekeeping Operations: Understanding the Numbers," *China Brief*, December 5, 2016.

‡The PLA lacks recent combat experience. Its most recent large-scale campaign was the 1979 Sino-Vietnamese War following Vietnam's invasion and occupation of Cambodia.

relief, and noncombatant evacuation operations. While conducting these exercises, the PLA gains intelligence on foreign militaries.¹⁶¹

Since October 2016, the PLA has been involved in at least 18 bilateral and multilateral exercises, focused primarily on counterterrorism, humanitarian assistance and disaster relief, and maritime operations; others have included missile defense, maritime, and air warfare training (see Addendum II, “Selected PLA Bilateral and Multilateral Military Exercises, October 2016–September 2017”). Several of these exercises were the first between the PLA and a particular country, including the April 2017 counterterrorism exercise with Nepal and the May 2017 naval exercise with Burma.¹⁶²

China-Russia Defense Relations

China and Russia continued to advance defense cooperation in 2017, extending the momentum of closer bilateral ties since 2014, when the United States and Europe imposed sanctions on Russia after its annexation of Crimea.* The PLA and Russian Armed Forces conducted a bilateral naval exercise, interacted through military competitions,† facilitated defense industrial cooperation, and promoted high-level contacts.

Joint Sea-2017

Beijing and Moscow decided to conduct their 2017 Joint Sea naval exercise (held annually since 2012) in two separate phases: the July phase was held in the Baltic Sea and the September phase was staged in the Sea of Japan and Sea of Okhotsk (north of the Japanese island of Hokkaido).¹⁶³ The decision to exercise in the Baltic Sea and the Sea of Okhotsk—where the two navies had never previously exercised together—reflects the expanding geographic scope of naval exercises in recent years and a willingness to operate together in sensitive waterways.‡¹⁶⁴ Further, extending the exercise into two phases marked the second time in the last three years the PLA Navy and Russian Navy had done so.¹⁶⁵

Notably, as the PLA Navy sailed to the Baltic Sea for the first phase, it conducted a live-fire exercise in the Mediterranean Sea, seemingly indicating its increased confidence operating outside China’s periphery.¹⁶⁶ Building on previous exercises, the first phase involved the formation of two mixed combat groups of three ships under a combined command structure. The two navies conducted maritime search and rescue drills as well as antiship,

*For more information on China-Russia military-to-military cooperation in recent years, see Ethan Meick, “China-Russia Military-to-Military Relations: Moving toward a Higher Level of Cooperation,” *U.S.-China Economic and Security Review Commission*, March 20, 2017.

†Since the Russian Defense Ministry hosted the first annual International Army Games—a series of military competitions—in 2015, the PLA has expanded its involvement each year. In the 2017 iteration, the PLA for the first time hosted competitions in China: four army and two air force events, out of the 28 total. PLA Navy, Air Force, and Army troops participated in the games with their Russian counterparts. These competitions serve as another valuable venue for the militaries to train together and build mutual trust. China’s Ministry of National Defense, *Defense Ministry’s Regular Press Conference on August 31*, August 31, 2017; China Military Online, “China Sends Troops to Participate in International Army Games 2017,” July 12, 2017; Liang Pengfei and Liu Yiwei, “Preparatory Work of International Army Games Advances Steadily,” China Military Online, June 1, 2017.

‡Previous China-Russia naval exercises have been staged in the South China Sea (2016), the Mediterranean Sea (2015), and the East China Sea (2014). Ethan Meick, “China-Russia Military-to-Military Relations: Moving toward a Higher Level of Cooperation,” *U.S.-China Economic and Security Review Commission*, March 20, 2017, 8–10.

China-Russia Defense Relations—Continued

anti-aircraft, and antisubmarine drills, among others.¹⁶⁷ One of China's most advanced destroyers, the Type 052D (LUYANG III-class), made its debut in a Joint Sea exercise, while the Russian Navy used its latest Project 20380 (STEREGUSHCHIY-class) corvettes.¹⁶⁸ The second phase, reportedly more complex, focused on antisubmarine warfare and submarine rescue operations.¹⁶⁹ According to China's state-run Xinhua News, it was the first time the two navies "conduct[ed] [these drills] involving multiple arms of [the navy] and multiple types of aircraft and ships."¹⁷⁰ Although both phases of the exercise were smaller in scale than previous Joint Sea iterations,¹⁷¹ the sensitive locations of the exercise, the use of each side's latest platforms, and the exercise's increased complexity represented an advancement from previous exercises.

Announced Missile Defense Exercise

The latest emerging area of the China-Russia military exercise portfolio is missile defense. This was driven in part by their joint opposition to the U.S.-South Korea deployment of a Terminal High Altitude Area Defense (THAAD) missile defense battery in South Korea and the expanding U.S.-led missile defense network in Northeast Asia.¹⁷² (For more on China's reaction to the THAAD deployment, see Chapter 3, Section 2, "China and Northeast Asia.") Following the first iteration of the bilateral computer-simulated missile defense exercise Aerospace Security-2016 in May 2016,¹⁷³ China and Russia jointly announced a follow-on exercise in 2017.¹⁷⁴ As this Report went to print, the exercise had not yet occurred.

Defense Industrial Cooperation

Given the rapid advancement of China's defense industry over the last several decades, the PLA no longer relies on imports of major platforms from Russia (notwithstanding sales of two advanced systems in 2015: the S-400 SAM system and the Su-35 fighter jet); however, cooperation across defense industries remains robust. China is due to receive 24 Su-35 fighters by the end of 2018 (China already received four Su-35s in late 2016).¹⁷⁵ Continuing the recent upward trend in Chinese and Russian defense science and technology cooperation, in January 2017 the China Aviation Research Institute—a subsidiary of state-owned Aviation Industry Corporation of China—signed a memorandum of understanding with Russian research and development center Central Institute of Aviation Motors to support potential collaboration in aero-engine technology development.¹⁷⁶ Further, several joint production projects remain in the pipeline over the medium to long term, including a next-generation heavy-lift helicopter¹⁷⁷ and a new advanced diesel attack submarine.¹⁷⁸ Collaboration on advanced systems and components could help China's defense industry accelerate the research and development process on next-generation defense technology.

China-Russia Defense Relations—Continued

High-Level Contacts

The increasing number of high-level military contacts in recent years between China and Russia provide opportunities for defense officials and officers to facilitate arms packages, prepare for military exercises, and discuss regional and global security concerns.¹⁷⁹ At a June 2017 meeting between Chinese Defense Minister Chang Wanquan and his Russian counterpart Sergei Shoigu, the two sides signed an agreement on a military cooperation roadmap through 2020.¹⁸⁰ This appears to reflect broad consensus on the development path for closer cooperation moving forward.

China-Iran Relations

The steady expansion of China-Iran security ties could have broad implications for U.S. interests in the Middle East, including in the nonproliferation and geostrategic realms. China has served as a key contributor to Iran's military modernization, particularly in the 1980s and 1990s, when it assisted in the development of Tehran's missile and nuclear programs.¹⁸¹ Chinese entities and individuals over the last decade have continued to proliferate missile technology to Iran and regularly face U.S. sanctions.*¹⁸²

China and Iran bolstered cooperation in the aftermath of the 2015 Iran nuclear deal (the Joint Comprehensive Plan of Action).[†] In January 2016, President Xi and Iranian President Hassan Rouhani agreed to establish a "comprehensive strategic partnership," signaling the intention of both sides to improve relations.¹⁸³ In the defense realm, the two sides signed an agreement in late 2016 to expand cooperation in bilateral military exercises and counterterrorism efforts.¹⁸⁴ Building on regular naval port calls in recent years and a 2014 naval exercise,¹⁸⁵ the PLA Navy in June 2017 visited Iran for four days and held a combined drill in the Strait of Hormuz focusing on formation movement and communication.¹⁸⁶ Among the 17 economic and environmental agreements also signed at the meeting, one included Chinese financial assistance to build a high-speed rail system in Iran as part of OBOR.¹⁸⁷ Since then, Chinese Foreign Minister Wang Yi has noted Iran's "important" role in OBOR, and both sides have expressed interest in expanding cooperation under the initiative.¹⁸⁸

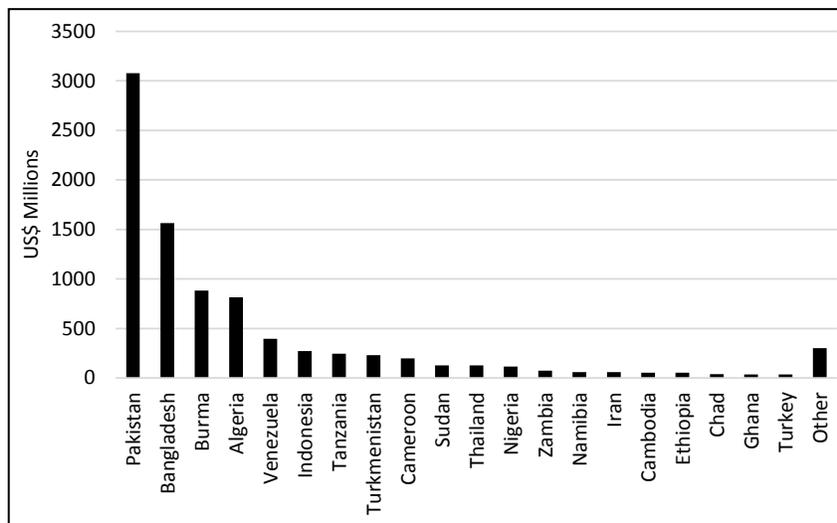
*In March 2017, the United States sanctioned six Chinese firms and three individuals for transfers to Iran's missile program in violation of the Iran, North Korea, and Syria Nonproliferation Act. U.S. Department of State, *Iran, North Korea, and Syria Nonproliferation Act Sanctions*, March 24, 2017.

†The nuclear deal was reached between the five permanent members of the UN Security Council (the United States, United Kingdom, France, China, and Russia), Germany, the European Union, and Iran. Under the agreement, Iran agreed to reduce its uranium enrichment, allow for international inspections of its nuclear facilities, and other changes to its nuclear program in exchange for ending sanctions. The deal went into effect on January 16, 2016, one week before President Xi's visit to Tehran to upgrade bilateral ties. BBC, "Iran Nuclear Deal: Key Details," January 16, 2016; David E. Sanger, "Iran Complies with Nuclear Deal; Sanctions Are Lifted," *New York Times*, January 16, 2016.

Military Sales

China was the third-largest arms exporter worldwide in aggregate terms during the 2012–2016 period with \$8.8 billion in exports, following the United States with \$47.2 billion and Russia with \$33.2 billion.¹⁸⁹ Comparing five-year periods, China’s exports of major arms rose 74 percent from \$4.5 billion between 2007–2011 and 2012–2016 while U.S. and Russian exports rose 21 and 4.7 percent, respectively,* meaning China’s share of global arms sales rose from 3.8 to 6.2 percent.¹⁹⁰ During the past five years China has sold arms to 44 countries, with Pakistan (35 percent), Bangladesh (18 percent), and Burma (10 percent) as top recipients.¹⁹¹ China’s customer base has also expanded across Africa, Asia, and South America, with its exports to countries in Africa rising 122 percent over the previous five-year period, and exports to former Soviet countries (Kazakhstan and Turkmenistan) for the first time in 2016.¹⁹² All recipients of China’s arms exports to date have been low- and middle-income countries (see Figure 6).¹⁹³

Figure 6: China’s Arms Sales by Recipient, 2012–2016 (constant 1990 dollars)



Source: Stockholm International Peace Research Institute, “SIPRI Arms Transfers Database.”

Major Chinese arms exports agreed upon or reported in 2017 include the following:

- Thailand signed a contract in May 2017 to purchase a YUAN class diesel-electric submarine from China. This represents China’s second submarine export contract, alongside a contract to sell eight submarines to Pakistan signed in 2015.¹⁹⁴ As the Commission noted in 2016, the purchase is indicative of Thailand’s efforts to pursue closer relations with China, as relations with the United States, a treaty ally, have soured following

*This represents a decline from the Commission’s 2016 comparison of back-to-back five year periods (2006–2010 and 2011–2015), which showed an 88 percent increase. U.S.-China Economic and Security Review Commission, *2016 Annual Report to Congress*, November 2016, 226.

Thailand's 2014 military coup and the suspension of U.S. military assistance programs as required by U.S. law.¹⁹⁵

- Malaysia signed a contract for the purchase of four littoral mission ships from China in April 2017, pursuant to an agreement in November 2016. Two vessels are scheduled for construction in China and two in Malaysia, with delivery scheduled in a sequence from 2019 to 2021.¹⁹⁶
- Burma entered negotiations with Pakistan to license-build the JF-17, an inexpensive multirole fighter jointly produced by China and Pakistan,¹⁹⁷ according to a February 2017 report. Burma reportedly ordered 16 JF-17 aircraft in 2015, and may begin taking delivery of these aircraft in late 2017.¹⁹⁸ Burma would be the first export customer for this aircraft; prospective customers have withdrawn from negotiations in several previous cases.*¹⁹⁹ (For an in-depth examination of China's relations with both Thailand and Burma, see Chapter 3, Section 1, "China and Continental Southeast Asia.")
- Nigeria's government has appropriated funds to purchase three JF-17s, although it has not yet signed an official contract, according to unofficial reports.²⁰⁰
- Media reporting in 2017 noted China has sold armed UAVs to Jordan, Kazakhstan, and Turkmenistan.²⁰¹ As of 2016, sales had already been reported to Egypt, Iraq, Burma, Nigeria, Pakistan, Saudi Arabia, and the United Arab Emirates.²⁰² China also announced plans to build UAVs in the Middle East for the first time, signing an agreement with Saudi Arabia in March 2017 to jointly produce as many as 100 UAVs in Saudi Arabia.²⁰³

Following the maiden flight of its armed Wing Loong II UAV, China reportedly secured an international contract for the platform with an unnamed buyer, said by Xinhua News to be the "biggest overseas purchase order in the history of Chinese [UAV] foreign military sales."²⁰⁴ The Wing Loong II is an integrated reconnaissance and strike, medium-altitude, long-endurance platform²⁰⁵ close in size to the U.S. MQ-1 Predator.²⁰⁶ Chinese media also reported in July 2017 that the latest version of the Caihong or Rainbow series, the medium-altitude long-endurance CH-5, seen as a close competitor to the U.S. MQ-9 Reaper, is ready for mass production and sale to international buyers, although no buyers have yet been publicly disclosed.²⁰⁷ Both models improve upon previous versions, but lag behind U.S. counterparts in areas such as speed and service ceiling † due to weaker engines.²⁰⁸

*In February 2015, Argentina announced it would explore fighter aircraft purchases from China, potentially involving the JF-17, but did not sign a contract and no longer appears to be interested. Malaysia reportedly was discussing a JF-17 purchase, but its defense minister denied this report in December 2015. Sri Lanka was reported to have signed an agreement to buy JF-17s, but denied this in January 2016; India had lobbied against the purchase. At least 11 other countries have been named as potential buyers in past media reports, but none have signed agreements to date. Richard D. Fisher Jr., "DSA 2016: Pakistan Bullish on JF-17 Sales," *IHS Jane's Defense Weekly*, April 21, 2016; Ankit Panda, "Revealed: Why Sri Lanka Backed off the Sino-Pakistani JF-17 Thunder," *Diplomat*, January 11, 2016; MercoPress, "Argentina's Purchase of Israeli Fighter Jets Will Be Left to Next Government," November 12, 2015; Franz-Stefan Gady, "Is This Country the Sino-Pak JF-17 Fighter's First Customer?" *Diplomat*, June 24, 2015.

†An aircraft's service ceiling is the maximum height at which it can sustain a specified rate of climb, dependent on engine type.

U.S.-China Security Relations in 2017

Despite efforts by the Trump and Xi administrations to set a positive tone for the bilateral relationship in early 2017, U.S.-China relations suffered from tensions over longstanding disagreements such as the South China Sea, Taiwan, and especially North Korea.

Areas of Cooperation

Presidential Summit

President Trump and President Xi held their first face-to-face meeting at a summit in April 2017 and established a new framework for bilateral security relations. The two sides agreed to initiate a new “U.S.-China Comprehensive Dialogue.” This features four “pillars” of dialogue on diplomatic and security, economic, law enforcement and cybersecurity, and social and cultural issues. This framework replaces the U.S.-China Strategic and Economic Dialogue begun under the Obama Administration. According to U.S. officials, the two sides additionally “had candid discussions on regional and maritime security” and “reaffirmed their commitment to a denuclearized Korean peninsula,” without discussing specific arrangements.²⁰⁹ Although the U.S. side affirmed it is prepared to take action on the Korean Peninsula without China, the Chinese side argued military actions should be stopped in exchange for North Korea halting its nuclear program. President Trump reportedly emphasized U.S. support for international norms in the East and South China seas and opposition to militarization of disputed areas, and President Xi emphasized his desire for U.S. participation in China’s OBOR initiative and for U.S. cooperation in returning Chinese fugitives to China.²¹⁰ (For the economic outcomes of the summit, and outcomes from the ensuing Economic Dialogue, see Chapter 1, Section 1, “Year in Review: Economics and Trade.”)

Since the summit, China’s Foreign Ministry spokesperson has referred to “the consensus achieved” there, later criticizing a U.S. arms sale to Taiwan and U.S. sanctions on North Korea that target a Chinese bank as going against this “consensus,”²¹¹ but U.S. officials have not referred to this supposed “consensus.”

2017 U.S.-China Diplomatic and Security Dialogue

The United States and China held the first “pillar” dialogue, the U.S.-China Diplomatic and Security Dialogue, in Washington, DC, in June 2017. Statements from the U.S. side following the meeting noted discussion on areas of agreement such as the need to achieve a denuclearized North Korea, as well as frank exchanges on China’s responsibility to exert greater pressure on North Korea, China’s actions in the South China Sea, and China’s human rights record.²¹² Statements by China also cited a “constructive and fruitful” dialogue, but stressed the need for U.S. respect of China’s political systems, development path, sovereignty, and territorial integrity; its opposition to U.S. missile defense deployments in South Korea; and its desire for strengthened exchanges and cooperation in counter-terrorism.²¹³

2017 U.S.-China Social and Cultural Dialogue

U.S. Secretary of State Rex Tillerson and Chinese Vice Premier Liu Yandong held the first U.S.-China Social and Cultural Dialogue—the fourth “pillar” of the U.S.-China Comprehensive Dialogue—in September 2017 in Washington, DC. Both sides expressed support for a range of cooperative efforts in areas including education, science and technology, and health. According to the U.S. side, “China committed that its Foreign Non-Government Organization (NGO) Management Law* would not impede the activities of American NGOs in China”; a new consultation on China’s Foreign NGO Management Law is to be held before the end of 2017. The U.S. side also stated both parties acknowledged the importance of intellectual property protections for researchers cooperating under the U.S.-China Science and Technology Agreement.† Vice Premier Liu stated he hoped both sides would “make full use of the unique role of people-to-people exchanges, so as to constantly reinforce social and public support for China-U.S. relations.”²¹⁴

Other Exchanges

The outcomes of another “pillar” dialogue, the Law Enforcement and Cybersecurity Dialogue held in early October, had not been reported as this Report went to print. Although the Trump Administration has expressed concern about China’s cyber policies,²¹⁵ it has not publicized concrete efforts to address the persistent challenge of Chinese cyber espionage, and there have been no new bilateral agreements related to cyber issues since the 2015 memorandum of understanding between the Xi government and the Obama Administration that “neither country’s government will conduct or knowingly support cyber-enabled theft of intellectual property, including trade secrets or other confidential business information, with the intent of providing competitive advantages to companies or commercial sectors.”²¹⁶

President Trump and President Xi met on the sidelines of the G20 summit in Hamburg, Germany, in July 2017, where they discussed North Korea’s nuclear and ballistic missile programs as well as economic issues.²¹⁷ They also directed their respective governments to “make progress in upcoming dialogues.”²¹⁸ President Trump accepted an invitation from President Xi in April 2017 for a future state visit to Beijing²¹⁹ and the White House later announced this visit would occur during President Trump’s first trip to Asia, planned for November.²²⁰

*China’s government approved the Law on the Management of Foreign NGO Activities in Mainland China in April 2016. The Law increases state oversight on more than 7,000 foreign NGOs in China and gives the government broad powers to inspect NGO offices and operations. For more information on the law, see U.S.-China Economic and Security Review Commission, *2016 Annual Report to Congress*, November 2016, 60–61.

†The United States and China signed the U.S.-China Agreement on Cooperation in Science and Technology in 1979; it was most recently extended in 2011. The agreement promotes bilateral science and technology exchanges and has fostered cooperative research across a range of fields. White House, *U.S., China Extend Science and Technology Agreement*, January 19, 2011. U.S. Department of State Office of Science and Technology Cooperation, *United States-China Science and Technology Cooperation (Biennial Report to the U.S.-China Economic and Security Review Commission)*, December 2006.

Select U.S.-China Security-Related Visits and Exchanges in 2017

Shangri-La Dialogue: In his address at the 16th Shangri-La Dialogue,* held in Singapore in June 2017, Secretary Mattis stated the Asia Pacific is a priority region for the United States, and that the United States remains committed to reinforcing the rules-based international order.²²¹ He noted U.S. opposition to actions taken by China to undermine this order, and specifically criticized China's unilateral actions in the South China Sea:

*We oppose countries militarizing artificial islands and enforcing excessive maritime claims unsupported by international law. We cannot and will not accept unilateral coercive changes to the status quo. We will continue to fly, sail and operate wherever international law allows, and demonstrate resolve through operational presence in the South China Sea and beyond.*²²²

China sent a smaller than usual delegation to the dialogue,²²³ and state-run Chinese language media made few references to the event. China officially expressed opposition to Secretary Mattis' "irresponsible remarks" on the South China Sea,²²⁴ and English reporting by state-run media outlets denounced the critical statements regarding China's actions made at the dialogue and blamed other countries for threatening regional security.²²⁵

Port visits: In June 2017, U.S. Navy destroyer *Sterett* visited Zhanjiang, China, headquarters of the PLA Navy's South Sea Fleet, where U.S. Navy personnel conducted low-level interactions with the PLA Navy.²²⁶ The U.S. Navy aircraft carrier *Ronald Reagan* made a port visit to Hong Kong in October 2017,²²⁷ the first such visit since China denied entry to Hong Kong for U.S. aircraft carrier *John C. Stennis* in April 2016.²²⁸

High-level official visits: U.S. Chairman of the Joint Chiefs of Staff General Joseph Dunford visited China in August 2017, meeting with counterpart General Fang Fanhui, chief of the PLA Joint Staff Department, and signing an agreement to create a "Joint Staff Dialogue Mechanism" between the two militaries.²²⁹ According to U.S. officials, the trip was in support of U.S. diplomatic and economic efforts to deter North Korea,²³⁰ and the agreement is intended for crisis mitigation and is hoped to lead to communication that reduces the risk of miscalculation.²³¹ General Dunford also made a rare visit to China's Northern Theater Command headquarters, which would be responsible for a North Korea contingency operation.²³²

Other exchanges: In July 2017, President Xi announced China's Navy would participate in the biennial U.S.-led Rim of the Pacific (RIMPAC) exercises in 2018,²³³ as it did in 2014 and 2016.²³⁴

*The Shangri-La Dialogue, or Asia Security Summit, is hosted annually by the International Institute for Strategic Studies. It is attended by defense ministers and their civilian and military chiefs of staff from over 50 Asia Pacific countries. International Institute for Strategic Studies, "About the IISS Shangri-La Dialogue."

Areas of Tension

As discussed earlier, China continued its series of coercive actions in regional territorial disputes in the South China Sea in 2017, sparking additional tension in U.S.-China security relations. China's dispute with Japan over the Senkaku Islands in the East China Sea was a central driver of China-Japan frictions in 2017 as well. (See Chapter 2, Section 3, "Hotspots along China's Maritime Periphery," for an examination of how China's territorial disputes in the South China Sea could escalate into armed conflict, and how the United States would be impacted. For an in-depth exploration of the East China Sea dispute and other facets of the China-Japan relationship, see Chapter 3, Section 2, "China and Northeast Asia.")

Taiwan remains a central area of disagreement between the United States and China. In June 2017 the United States announced an arms sale to Taiwan in the amount of \$1.4 billion,²³⁵ the first such sale since 2015.²³⁶ In response, China's foreign ministry spokesperson demanded that the United States halt the sale, claiming it would hurt China's sovereignty and violate the United States' commitment to the "One China" policy.*²³⁷ As this Report went to print, China had not retaliated against the United States. By comparison, Beijing threatened sanctions against the U.S. companies involved after a U.S. arms sale in 2015 and suspended military exchanges with the United States after a sale in 2010.²³⁸ (For a detailed discussion on developments in cross-Strait relations in 2017, see Chapter 3, Section 3, "China and Taiwan.")

Of the challenges facing the U.S.-China relationship in 2017, the Korean Peninsula is the most urgent and dangerous. Beijing's long-standing support for Pyongyang, combined with its hostility toward Seoul's decision to deploy the U.S. THAAD missile defense system to defend against the North Korean threat, puts it fundamentally at odds with U.S. interests and values. (For more on China's relations with North Korea and South Korea, see Chapter 3, Section 2, "China and Northeast Asia.")

*The United States' "One China" policy is the acknowledgement of China's position that "there is but one China and Taiwan is part of China." It is not an endorsement of China's position. Richard C. Bush, "A One-China Policy Primer," *Brookings*, March 2017, iii-iv; U.S. Department of State, *U.S. Relations with Taiwan*, September 13, 2016.

Addendum I: New Group Army Structure in Theater Commands

The new operational PLA Army structure at the theater level encompasses the following:²³⁹

- *Eastern Theater Command:* The Eastern Theater Command was the only command to transition with its force structure largely intact and a name change to the group army designator. The 12th, 1st, and 31st Group Armies have become the 71st, 72nd, and 73rd, respectively.
- *Southern Theater Command:* In the Southern Theater Command, the 14th Group Army was eliminated and the 41st Group Army became the 74th, while the 42nd became the 75th Group Army.
- *Western Theater Command:* The Western Theater Command's group army structure was reduced by one, the 47th Group Army. The remaining two group armies, the 21st and 13th, were re-designated the 76th and 77th Group Armies, respectively.
- *Northern Theater Command:* Of the four group armies that were assigned to the Northern Theater Command, only the 40th was eliminated. The 16th, 39th, and 26th Group Armies became the 78th, 79th, and 80th Group Armies.
- *Central Theater Command:* The only theater command to lose multiple group armies was the Central Theater with the elimination of the 20th and 27th Group Armies. The 65th, 38th, and 54th became the 81st, 82nd, and 83rd Group Armies.

**Addendum II: Selected PLA Bilateral and Multilateral Military Exercises,
October 2016–September 2017**

Date (Duration)	Exercise Name or Type (Location)	Other Participants (Number)	Type of Exercise	Details
October–December 2016 (Not reported)	Warrior-4 ²⁴⁰ (Pabbi, Pakistan)	Pakistan (Special operations forces; total not reported)	Counterterrorism	The annual counterterrorism exercise focused on operations in urban and rural environments.
October 2016 (15 days)	Exploration-2016 ²⁴¹ (Chengdu, China)	Saudi Arabia (50 total; 25 each, mixed groups)	Counterterrorism	The two sides conducted their first counterterrorism exercise together with special forces. It involved hostage rescue and sharing best practices.
October 2016 (15 days)	Friendship-2016 ²⁴² (Pabbi, Pakistan)	Pakistan (240 total; 120 each [PLA: special operations brigade 21st Group Army])	Counterterrorism	In the annual exercise between Chinese and Pakistani special operations troops, the two sides worked on counterterrorism combat and shared skills, tactics, and experiences.
October 2016 (5 days)	Combined Aid-2016 ²⁴³ (Chongqing, China)	Germany (Total participants not reported)	Humanitarian assistance/disaster relief (HA/DR)	In the first medical military exercise between the PLA and a European military, both sides conducted a joint humanitarian response to an earthquake under simulated real-world conditions.
October 2016 (1 day)	Sino-India Cooperation-2016A ²⁴⁴ (Ladakh, Jammu, and Kashmir, India)	India (Total participants not reported)	HA/DR	In the first exercise between China and India in Jammu and Kashmir, close to the India-China border, the two sides simulated a joint HA/DR operation following an earthquake.
October 2016 (4 days)	Combined counterterrorism exercise ²⁴⁵ (Tajikistan, near the Afghanistan border)	Tajikistan (more than 10,000 total troops; the PLA brought “one mobile company”)	Counterterrorism	The exercise marked the first bilateral counterterrorism exercise between the two countries. It focused on coordinating counterterrorism operations in mountainous terrain.
November 2016 (3 days)	ASEAN Defense Ministers’ Meeting (ADMM)-Plus Maritime Security Exercise, Exercise Mahi Tangaroa ²⁴⁶ (Hauraki Gulf, Auckland, New Zealand)	Australia, Brunei, Indonesia, Japan, New Zealand, Singapore, United States (eight ships and special operations troops)	Maritime	In the second ADMM-Plus maritime security exercise, the navies of eight countries focused on interoperability and combating maritime security threats. On the Chinese side, a guided-missile frigate and special operations troops participated.

Addendum II: Selected PLA Bilateral and Multilateral Military Exercises, October 2016–September 2017—Continued

Date (Duration)	Exercise Name or Type (Location)	Other Participants (Number)	Type of Exercise	Details
November 2016 (11 days)	Hand in Hand-2016 ²⁴⁷ (Pune, India)	India (about 280 total; two companies each)	Counterterrorism	The annual exercise involved counterterrorism reconnaissance, removing improvised explosives, and combating terrorists. Both sides focused on improving confidence and trust through combined operations with mixed companies.
November 2016 (4 days)	Peace and Friendship-2016 ²⁴⁸ (Selangor, Malaysia)	Malaysia (300 total; 195 from PLA)	HA/DR	The exercise focused on various HA/DR elements, including hostage rescue and survival skills. Notably, Joint Staff Department Chief and Central Military Commission member Fang Fenghui spoke at the opening ceremony and the PLA Hong Kong Garrison participated in its first exercise with a foreign military.
December 2016 (8 days)	Golden Dragon 2016 ²⁴⁹ (Kampong Speu Province, Cambodia)	Cambodia (377 total; 97 from PLA)	HA/DR	Reportedly the first exercise of its kind in Cambodia, the focus of the exercise was on natural disaster medical treatment, landmine detection, and flood relief. The exercise underlined the deepening defense relations between the two countries.
February 2017 (5 days)	Aman-17 ²⁵⁰ (waters near Karachi, Pakistan)	36 other countries, including the United States (15 ships; three Chinese ships: a frigate, destroyer, and supply ship)	Maritime	The exercise involved three mixed naval taskforces, which conducted ship formation maneuvers, replenishment at sea, and maritime blockade drills.
April 2017 (10 days)	Sagarmatha Friendship-2016 ²⁵¹ (Kathmandu, Nepal)	Nepal (Total participants not reported)	Counterterrorism	In the first exercise of its kind between the PLA and the Nepal Army, the two sides' special forces units focused on counterterrorism and counterinsurgency tactics. The exercise also was designed to promote closer cooperation and enhance mutual trust.

Addendum II: Selected PLA Bilateral and Multilateral Military Exercises, October 2016–September 2017—Continued

Date (Duration)	Exercise Name or Type (Location)	Other Participants (Number)	Type of Exercise	Details
May 2017 (1 day)	Maritime exercise ²⁵² (Gulf of Martaban, Burma)	Burma (five ships; three Chinese ships: a frigate, destroyer, and supply ship)	Maritime	In the first exercise between the two navies, they focused on formation maneuvers and search and rescue operations. The two navies worked to deepen mutual trust.
July 2017 (7 days)	Joint Sea-2017 (I) ²⁵³ (Baltic Sea, waters off the coast of Baltiysk, Russia)	Russia (about 10 ships, more than 10 fixed-wing aircraft, and helicopters; 3 Chinese ships [a destroyer, frigate, and supply ship] and helicopters)	Maritime	The first exercise between the two navies in the Baltic Sea focused on maritime search and rescue as well as antiship, anti-aircraft, and antisubmarine warfare.
August–September 2017 (19 days)	Eagle Strike-2017 ²⁵⁴ (Thailand)	Thailand (total not reported; China sent six aircraft)	Air	In the second iteration of the training exercise, the two air forces reportedly promoted cooperation, exchanged combat tactics, deepened equipment development, and improved realistic combat training.
September 2017 (21 days)	Shaheen-6 ²⁵⁵ (Xinjiang, China)	Pakistan (fighters, early-warning aircraft [China sent fighters, early-warning aircraft, and air force, surface-to-air missile, and naval aviation troops])	Air	The sixth exercise of its kind between the two air forces reportedly was more complex, involving more drills and aircraft than previous exercises. It also focused on practical combat training, such as night operations and counterterrorism elements, and operated under more realistic combat conditions.
September 2017 (8 days)	Joint Sea-2017 (II) ²⁵⁶ (Sea of Japan, Sea of Okhotsk)	Russia (11 ships, 2 submarines, 4 antisubmarine warfare aircraft, helicopters [China sent a destroyer, frigate, supply ship, rescue ship, and helicopters])	Maritime	In the second phase of this naval exercise, the two sides focused on anti-submarine warfare and submarine rescue operations.
TBA	Announced missile defense exercise	Russia	Missile defense	N/A

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