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GLOBAL CHINA'S AMBITIONS IN THE INDIAN OCEAN REGION

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PROCEEDINGS

FORD: Hi. I'm Lindsey Ford and you're listening to the Brookings Cafeteria, a podcast about ideas and the experts who have them. I'm a David Rubenstein fellow in the Foreign Policy Program here at Brookings. And I am happy to be back today for another special Global China episode of the Cafeteria.

I am really excited to have my colleagues Zach Vertin and Josh White joining me for today's discussion. Both are nonresident fellows here in the Foreign Policy Program. Zach is also a lecturer in public and international affairs at Princeton University. And Josh is an associate professor of practice in South Asia studies at the Johns Hopkins University School of Advanced International Studies. So, Josh, Zach, thanks so much for joining me today.

VERTIN: Thanks, Lindsey, glad to be with you.

FORD: We're going to talk about two really interesting papers that you guys wrote for the Global China series. Both of which focus on China's growing overseas presence in a region that we broadly refer to as the Indian Ocean region. Zach, your paper really looks at China's influence in the Horn of Africa, which is an important location because it's where China established its first overseas base in Djibouti. And, Josh, yours looks more broadly at Chinese military activities and potential objectives in the Indian Ocean region as a whole.

The topic of China's overseas military presence is obviously something that's of great interest at the moment. Partially, I think, because we've seen a much clearer effort for the Chinese military to shift from being just a regional military power to a military that has global reach over the last few years. And because as you guys talk about in the papers, there are a lot of questions about the strategic and military implications of the Belt and Road initiative and concerns about how China is snapping up critical infrastructure across Eurasia. But I also was

really excited to talk about this today because I think China's push to expand its global military footprint is coming at a really interesting moment when here in the United States, there's a pretty active debate about potentially reducing America's overseas military presence. So, it's an important juxtaposition to be talking about.

Let's jump right into your papers. And I want to start off with an issue that both of you address that's sort of been a major point of contention between the U.S. and China lately. And that's the issue of what is now commonly referred to as China's debt-trap diplomacy. Which basically refers to China's provision of loans to other countries which are often used to develop infrastructure like ports or railroads, and concerns that the U.S. and some other countries have that these loans are entrapping countries in unsustainable levels of debt.

The classic example is obviously the Sri Lanka case, which, Josh, you talk about in your paper. And if I can summarize the bottom line of your paper, as I read it, it seems to be that, yes, there are risks from these loans. The potential for debt-trap diplomacy is real, and there are potentially some serious policy ramifications. But the story is maybe more complicated than we sometimes talk about. And, specifically, that there are some real potential downsides for China from this strategy, that is doesn't necessarily translate into military advantages as neatly as you might think. And that U.S. policy makers sometimes need to talk a little bit more about how to address the pull factors, namely, local corruption and governance problems that make this kind of strategy work for China.

Zach, is that a fair summary? What would you say based on your read of the Djibouti case, are some of the key takeaways?

VERTIN: The issue of debt vulnerability, you're right, has really dominated most international discourse on Djibouti over the last two years. And there's a lot to unpack here.

Maybe let me start by saying one thing about the broader context and then one on a specific case.

Yes, I agree, I think corruption can make things worse. Djibouti itself did learn a lesson the hard way when corruption infected its first-ever port deal in a manner that ceded extraordinary authority at the time to an Emirati ports operator, DP World. But really, I think, what's especially notable here is a deeply asymmetric relationship with China. And it really doesn't get more asymmetric than this.

Just as a point of context, Djibouti's about the size of Vermont. It's home to about a million people and its GDP is about \$3 billion a year. Or as I note in the paper, a figure which is roughly equivalent to Chinese output every two hours. So, as a small country, it's keen to develop. Its debt exposure is understandably high. But also high enough that it warrants, I think, legitimate questions.

So, as you rightly note, the word is Beijing amasses too great a share of the country's portfolio. The Djiboutians become too reliant on their new benefactors, and soon they'll be vulnerable. Now, if not to an outright debt for equity swap by one of its valuable ports, then at least to the kind of pressure that could result in strategic decisions that, to put it crudely, may be good for China and bad for the United States.

So, why do we care? I think, in this case we have our own military base there, which is just about six miles from the new Chinese military base in Djibouti. And that's our only enduring base on the continent, really, in this broader Red Sea region. And we're wholly reliant on Djiboutian ports. So, Josh can speak more to this, but concerns about possible Chinese assumption of control of one of those ports include interruption of material and fuel supply chains, counterintelligence exposure, reduced access for U.S. naval assets in what is this vital Red Sea choke point and one of the most heavily trafficked waterways in the world. But

conversely, potentially greater access arrangements and this question of whether or not that constitutes a military advantage for the PLA. I'll maybe defer to Josh and then I can go back to the specifics.

FORD: Sure. Josh, you really delve into what China's military objectives might be in the Indian Ocean region, how that would play out. And one of the arguments you make that I think was quite interesting is where you say we have reasons to be skeptical about the military advantages China will actually be able to get from some of these port deals. Can you explain why?

WHITE: Sure, thanks, Lindsey. I would just start with the obligatory COVID-19 disclaimer that there's a lot that is shifting right now, particularly with respect to China's ability to sustain its Belt and Road investments and its ability to fund the kind of military expansion into places like the Indian Ocean that we've been seeing in recent years. With that disclaimer as to how COVID will affect not only China's behavior, but the relative balance of influence in a place like the Indian Ocean, I really enjoyed in this paper delving into the question of to what extent China might actually be able to use its commercial investments for some kind of military advantage.

And I came away somewhat skeptical. I mean, on the one hand, it is clear that there are countries in the Indian Ocean region, broadly, that are risk to taking on unsustainable levels of Chinese debt. And finding themselves in a position where they can more easily be coerced by Beijing. And I give the Trump Administration, frankly, some credit simply for its rhetoric on this count. For making an effort over the last few years to essentially scare small countries across Asia about the risks of taking Chinese money. And I think that that's been important because it has been a message that goes not to leaders, necessarily, not exclusively to leaders, but to the

public. And encourages the public in places like Sri Lanka, Pakistan, the Maldives, and elsewhere to ask questions about the kind of debt that their leaders are taking on.

So, there is a reason to be skeptical. But when it comes to the ability of the Chinese to leverage these kinds of investments for military advantage, I grow a bit more skeptical. And that's because even if you play out the worst case version of this story, which I call the debt-for-equity for-access --

FORD: I liked your multi-hyphen --

WHITE: -- it's a sort of -- yeah -- there are a lot of hyphens. It makes the copy editors nervous. But you can imagine countries taking on substantial debt, not being able to service that debt, and being pushed into a debt-for-equity swap, and then trying to using that equity to coerce some kind of military access. Even contingent access, particularly if this is a port facility, that's a very troubling scenario for the United States.

But the more I looked into this, the more I came to a couple of conclusions. One, it seems to me that access arrangements that are grounded in coercive relationships are really not likely to be politically sustainable or strategically reliable for the Chinese military in any kind of continuancy beyond the most benign forms of humanitarian response. Which is to say that the second dimension of this is that what the Peoples Liberation Army, the PLA, would really want in any kind of high-end conflict in which they're dealing not with pirates, but with a state adversary, their requirements go way beyond what they could get from a commercial port, right? Commercial facilities are not resilient. In fact, in a real conflict, even something short of a shooting war, commercial investments could be considered liabilities rather than assets. And even though the PLA might be able to quietly preposition military grade supplies or communications infrastructure at commercial ports, that's really only helpful at the margin.

So, my takeaway, among others in the paper, was let's not focus on the bright shiny object of these commercial port investments, which clearly have important commercial dimensions. They clearly shape politics. There's a lot we need to pay attention to. But in terms of a military assessment, there are other things that we should really be looking for in terms of what China's doing in the region that would prefigure its increased ambitions. And I'm happy to talk about those as we go on.

FORD: Yeah, maybe just go ahead on this topic for a minute and lay out what are some of the more important indicators that you think matter in the Indian Ocean.

WHITE: Sure. What I do in the paper is I lay out five different potential missions that the Chinese military could undertake in the region. You could have come up with a slightly different configuration, four or six. But I look at in some ways a graduated scale from those that are more benign to those that are more potentially threatening to the United States and our partners, like India.

So, I look at non-combat missions and then the second is counterterrorism activities. The third is intelligence collection against key adversaries. The fourth is military support to coercive diplomacy against small states. And then the third (sic) is the high end, effective operations in a conflict environment. So, this is terminating a blockade or holding U.S. or Indian military assets at risk. And China has done a lot to build its capabilities in the Indian Ocean. You look at the kinds of investments it's making in submarines, service combatants, its counterpiracy patrols, which for years had built up a number of important dual-use capabilities. But it still has incredibly fragile supply lines back to its home ports.

And so a lot of what I think we need to be looking at that would prefigure China moving from these lower order missions to higher order missions, first of all we should be looking for

capability over match. You do not need advanced submarines to undertake counterpiracy missions. And when we see that happen, which we occasionally do even today, it is clearly a sign that the Chinese military is collecting intelligence, building skills that would be useful for higher order missions.

And we should also be looking at things that often get overlooked by political scientists, which are the logistics infrastructure, hardening of facilities. Things that seem relatively mundane like oilers and prepositioned supplies and medical services and runways that can be quickly repaired. These are the sort of things that military planners look at that would suggest that China is preparing to undertake missions not just against pirates, but against state adversaries.

And the final one is that China has had a quite significant disadvantage in being able to see the maritime environment and it has significant limitations in maritime domain awareness. And is outmatched by India because these are India's home waters. That's a very difficult thing to do. You can fly maritime domain awareness sorties off of aircraft carriers or other vessels. You can use helicopters. But you really want some sort of ground based facility to do that. And even if China had that from Pakistan, for example, it would struggle to get that same sort of capability in the eastern Indian Ocean where it very much needs to have greater situational awareness in any significant conflict environment.

So, that's the suite of capabilities that I think is really important to be watching for, even as we keep our eye on what's happening in the commercial and political space with these port developments.

FORD: I really appreciated about your paper, Josh, that you tried to kind of lay out what are some of the indicators that actually matter that we need to pay attention to going forward

because so much of this is new. It's new to China to be operating this way. It's new to the United States to be watching for these kinds of things. And, Zach, you talk about this issue in your paper that, as well, when you're looking at the case of Djibouti and what's so, I think, fascinating about the Djibouti case is it's the first time and maybe a precursor of more of what's to come for the U.S. military where we don't have the luxury of having an overseas basing arrangement that we have all to ourselves.

And now, you have a situation where the U.S. military is having to figure out how to essentially share the location where it has its forces with China. Which poses a whole new range of challenges that you have to contend with. And it's important to pay attention to what those are because we may face more of these kinds of situations in the future as China increasingly goes abroad.

Can you layout from your observations of the Djibouti case, what some of the specific challenges China's presence in Djibouti alongside U.S. forces poses for the U.S. military? And then maybe also outline, you raise that there actually may be some opportunities here that we ought to be thinking about too.

VERTIN: Yeah, sure. If I might, let me just jump in on the last question. I agree with Josh. And while I outline the debate as it's unfolded in Djibouti, I want to be sure to note my own skepticism about an intentional strategy around debt diplomacy. I think the circumstances are such that we should be vigilant, yes. But the case in question in Djibouti to which I alluded and which received a great deal of attention on Capitol Hill in recent years, has often been mischaracterized and the narrative got legs of its own that sometimes outran the realities on the ground. And that's the idea that the Chinese have a specific strategy to entrap the Djiboutians or necessarily assume physical control of one of those ports. I have my doubts. And I think there

are several currents that run against such a play from public relations issues to a desire to maintain the good economic cooperation to have in the region.

But on your second question. The interface between the U.S. and Chinese contingence, this has prompted some legitimate concerns regarding safety, deconfliction in the air and at sea, as well as counterintelligence risks as I mentioned. And this has resulted in pretty strict orders from the Pentagon limiting U.S. engagement on the ground there with the PLA. But there's a larger context here, which you note in your question. And I think this really does offer the U.S. military an opportunity as well and one, I think, is arguably unrealized at the moment to shape the PLA's sort of curriculum at this first overseas outpost. And by extension, the terms of U.S.-Chinese overseas relations going forward.

So, I argue in the report that Djibouti is really a testing ground, both for Beijing and for Washington. Imagine this to be the first of potentially one, five, ten, Chinese bases abroad. They are using this new outpost as a place where the PLA can gain experience in far seas operations and deploying new naval platforms. In learning from other militaries, not least from us. It's a place that they can service Chinese peacekeepers in the region, protect energy supply routes. But it's also one where they are gauging international reaction to the sort of flexing of Chinese and PLA muscle outside the western Pacific.

Now, given the concerns I mentioned about counterintelligence, we have a policy prescribing contact. And the narrative sort of goes, look anytime we engage, we have more to lose than to gain. So, for DOD, the potential to gain insight into U.S. operating procedures, into our sensitive capabilities outweighs any gains from interacting with the PLA. Especially when each interaction is believed to carry potentially global implications. And I'm curious as to Josh's thoughts on that as well.

So, I appreciate that risk. But I think the proximity arguably offers us a chance to observe the PLA as well and the relationships between Chinese state-driven commerce, diplomacy in the military. And in that sense, rather than denying the inevitability of China's strategic expansion or potentially assuming too conservative a posture in Djibouti, I do wonder if U.S. diplomats and military leaders might instead identify opportunities to more actively shape the terms of our engagement and to set advantageous precedence as I mentioned, for U.S.-Chinese overseas relations.

FORD: Josh, what's your take on that idea? I mean, especially as potentially we see more locations where the United States may have rotational access and China does as well?

WHITE: There are significant self-imposed limitations on how the United States military engages with the PLA. But I do think that these interactions when they happen, have the potential to be more than simply points of friction. As Zach said, Djibouti is a fascinating experiment. It's unique in many ways even if China decides to establish other bases. They're very unlikely to look like Djibouti. And so they have to be using this experiment to gain some tactical and operational skills. But also to try to shape larger operational concepts about how you use a facility like this. And I think that to some extent, the United States has a history of learning how to mitigate the counterintelligence risks and I think that there are potentially some positive interactions here.

FORD: So, I want to quickly bounce back to the questions that you guys raised. The issue you brought up earlier, Josh, in terms of how COVID potentially throws some of this stuff in the air and raises a lot of questions about what's next. When we're looking at Chinese commercial investments and the strategic implications of those, especially in the post-COVID environment, there were already concerns about countries being able to pay off these loans. Increasingly, that's

become more of a concern in the COVID environment. And whether debt default is something that could become an advantage for China or a drag for China or even a bit of a diplomatic coup as we've seen. They were getting some pressure over debt relief and have come out with a new statement saying that they are more willing to offer debt relief. Where do you see that conversation going should the debt sustainability question become more dire for countries in the Indian Ocean region whether that ends up as a net positive or net negative for China in the near term?

WHITE: That's a huge question. China's in a tough spot. It's a position of its own making. If it chooses to restructure or forgive debts, there's no question that it could take a fairly substantial economic loss on its BRI investments in the region. If it refuses to do so, there's no question that it would take a reputational loss. And this is where the sustained U.S. rhetoric about the risks of China's debt-trap diplomacy, I think, have raised the stakes for China. Even in countries like Pakistan that are close allies of China and actively suppress media dissent about China's role in the country, there is dissent and concern bubbling up there as well.

That said, if you look at the debt profiles of countries in the region, and there have been some good reports on this in the last couple of years, there are not that many countries that are in dire circumstances. And those that are, usually have problems that are larger than simply their Chinese debt. The Maldives has real challenges with debt sustainability. Pakistan does, but that's a long-standing set of structural macroeconomic problems. A number of the other countries in the region tried to be quite careful. Countries like Bangladesh about diversifying their sources of investment and keeping their debt to GDP ratios relatively low.

So, I would say there are probably not a large number of countries that will be in really dire straits simply due to the Chinese investment that they have taken on. But China has a

significant public relations problem if nothing else, in trying to figure out how to keep BRI as a project that has some reputational buoyancy in this moment.

FORD: That's a great point. I'm glad that you raised this issue of talking about Bangladesh and sort of diversifying. Because this is where I want to come to you guys for the last question here, which is really that a lot of times when we talk about the idea of U.S.-China competition, that conversation happens in the bilateral context. But it's important to remember that there are other players who actually can shape that competition in really important directions. And when we're talking about the Indian Ocean region, the obvious big player that you have to talk about is India. And, Zach, in your paper, you discuss as well that in Djibouti, there are countries like Japan and France that also have military facilities and a role there. And on the African continent, you have Ethiopia, who's a major player in shaping sort of the overall strategic environment that China has to contend with because it's a major source of exports that are flowing out of Djiboutian ports.

So, I want to ask you guys about these other players and how they will shape this strategic environment for U.S. competition in the Indian Ocean region. Zach, why don't I come to you first on the Djibouti case.

VERTIN: Let me just give you a bit of color from the report because I think it details how we're starting in a hole. And that is the reality that Chinese investments far outweigh U.S. investments on either side of the Red Sea, both in the Gulf and in the Horn of Africa. And that's true in Djibouti.

We often complain about their debt exposure and about them getting too close, too cozy with the Chinese. But the Djiboutians will offer you a credible counterpoint about the history of this. And that does to the different prisms through which we and the Chinese have looked at

Djibouti so far. And that is look, you the United States, have been here for 20 years. We asked for your help. We asked for help with infrastructure, development, a railroad, et cetera, nothing. So, don't turn around and criticize us now for accepting China's help when they respond to our asks.

That's kind of the hole we're starting in. And I do think you're right to ask about cooperation with other partners, the French, the Japanese, others, both in the economic realm and in the security realm. I think there are examples. I detail a few in the report. One surrounding deconfliction on the ground where we participated in a consort with the French, the Japanese, the Italians, and the Djiboutians, which really paid dividends. And I think, indeed, there are ways to draw on our allies to achieve these operational ends. I think we can do more there.

When it comes to offsetting Chinese economic muscle, I think we have to have a realistic strategy. As I mentioned, we can't compete dollar for dollar in Djibouti or the Horn. And we shouldn't pretend that we can as that gap is due to widen. But I do think there's space to have smarter investments in high tech, in energy, in service sectors, areas downstream where U.S. companies and our allies can add unique value. And we should look to those partners both who may be readily more capable to deploy state-directed investment, but also where we're encouraging competition, raising standards, collectively preventing China from occupying too large a share of the market. It also means being responsive to Djiboutian asks. And that's something I think we can do better at demonstrating the value of a U.S. partnership on its own merits is sound diplomacy. But it itself, is a means to checking Chinese influence.

And one last political point on this, which I think is incredibly relevant. I think by contrast, we would be wise to limit as we go forward the sort of new cold war us versus them narrative. I think there are smarter strategies including the one you mentioned about working

with allies that may get us further. My conversations in Djibouti and across the Red Sea region suggests that it does us or has done us little good as most states have little interest in being drawn into another foreign rivalry. And see the benefits of cooperating with both Washington and Beijing. So, that doesn't mean we stop being tough, but I do think that's something we can balance more wisely.

FORD: Great, thanks. Josh, over to you. We would remiss in having a conversation about the Indian Ocean region without discussing India. So, talk to us a bit about how you see India responding to China's growing presence and how that might evolve or change in the coming years.

WHITE: Sure. As you know, Lindsey, I've been a big supporter of the U.S.-India security partnership. I was part of the team at the White House that inaugurated the major defense partner designation for India. And like many in the U.S. strategic community, have subscribed to the premise that a strong India is valuable for the United States because it can help to establish favorable balance of power in Asia. And I think that premise still holds.

If we look at what India has been doing to try to complicate the PLA's ability to move up this mission ladder that I described, non-combat missions to more troubling missions. They are doing some things. They are slowly investing in their strategic assets, their facilities at Andaman and Nicobar, which are at the mouth of the Malacca Strait, which has been an underutilized asset for decades. They are slowly building out their maritime domain awareness capabilities with platforms that the United States has provided like the P-8s. And the, hopefully, forthcoming geospatial information sharing agreement that we hope to sign soon. And they're slowly building out their submarine and surface fleets.

Now, if you sense a theme here, the theme is slowly. They have also been trying to at the

political level, reengage with countries in their own neighborhood that might be susceptible to Chinese influence. Some of this they've done reasonably well in recent years with Sri Lanka and Bangladesh. In other cases, it hasn't been so successful. Right now there's a tiff with Nepal and there have been in recent years. So, slowly they are trying to grapple with this challenge.

That said, there are very significant concerns right now about whether India is willing to make the fiscal investments required in defense. The kind of investments it would have to make to meaningfully slow China's ingress into the Indian Ocean and its influence in the region. And even before COVID-19, there were really serious concerns about stagnating defense budgets, about the investment in the defense space being very heavily weighted toward the army and toward personnel costs, rather than toward next generation capital expenditures in key platforms.

Then you layer on to that what we're seeing with the impacts of COVID-19. We're hearing talk about significant cuts to the defense budget. And we're also hearing more and more rhetoric and the beginnings of policy movement from the very top to push the Indian defense system toward indigenization and self-reliance. In theory, this sounds wise for the Indians. And over the long term, it may, indeed, bare some fruit. But apart from missiles, India has a pretty lousy track record of developing indigenous defense technologies. And so there's real concern that they could fall even further behind in filling the very significant gaps that they have. Particularly in sort of the air and maritime domains over the coming decade, and that COVID-19 really pushes that even further back.

These are all big concerns. And I think it's important for us to recognize here the Indian Ocean region is not really a priority defense theatre for the United States. But it is one of the most important and interesting new domains of competition between China and U.S. partners and allies. And I think this is a region where China is likely to try to gain a foothold where its

capabilities are beginning to overmatch what it says it wants to do.

And that's why I think these conversations about Djibouti and about Chinese activities in the Indian Ocean are important because it's a conversation that we need to be having with our partners about what exactly should we be watching for. Let's make sure that we're watching for the right things. And let's make sure that we're using our comparative advantages in defense, U.S. private sector, our ability to leverage partners and allies to ensure that China doesn't build disproportionate or coercive influence in this new domain of competition.

FORD: Yeah, it's really well-said, Josh. This is a regional where I think maybe five, six years ago, people would have pointed to the Indian Ocean region as one that was perhaps more cooperative than competitive. But where we are seeing more competitive dynamics and as you both have laid out very well, it's complex because they are military, economic, geostrategic. And that's why I think the papers that you two have written are so important because they help us think about what some of the drivers of this competition are, but also what some of the indicators are that we need to be looking at going forward.

So, Josh, Zach, I just want to thank you both for a fantastic conversation and the really rich analysis that you guys have put into your new papers. I would highly encourage everyone to go check them out, along with the rest of the new round of papers that we have coming out that look at China's influence in different regions including the Middle East, Latin America. They're on the global China page on the Brookings website.

Thank you to everyone who has been joining us for these Global China podcasts. We're going to have another one coming out next month, so please stay tuned. I am Lindsey Ford and this has been another episode of Brookings Cafeteria.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

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