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CHINA YEAR BOOK 2015

# China's Transition under Xi Jinping

Editor  
Jagannath P. Panda

CHINA'S TRANSITION  
UNDER XI JINPING



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Jagannath P. Panda

*Foreword by*

Jayant Prasad

Director General

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INSTITUTE FOR DEFENCE STUDIES & ANALYSES  
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**China's Transition under Xi Jinping**  
*Editor: Jagannath P. Panda*

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## Foreword

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The Institute for Defence Studies and Analyses has been publishing a comprehensive annual compendium consisting of a systematic survey of different aspects of China's internal evolution, its relations with the great powers, its stand on issues concerning global governance, and its regional and South Asian relationships.

The Institute has invested in tracking developments in China since these are likely to shape the future of Asia and the world. For India, China is, arguably, its most important bilateral relationship.

From this year, the Institute has decided to take the yearbook beyond a descriptive chronology of events, towards an analytical presentation on chosen themes related to China. The first such theme for the new-look publication is China's transition under President Xi Jinping. The short studies commence with a primer by the editor, Dr. Jagannath Panda. This is followed by showcasing and evaluating developments concerning Chinese domestic politics and security, and restructuring of its military, as also the state of its trade, industry, and legal reforms.

On China's foreign and security policy, the focus is on new developments, including China's 'Belt and Road' initiative, its quest to alter the rules of global economic governance, its relations with India, Japan, Russia, and the United States, and its regional interactions with South, Southeast, and Central Asia, the Korean Peninsula, Afghanistan, Iran, and the European Union.

Going by projections as recent as five years ago, when Arvind Subramanian wrote *Eclipse: Living in the Shadow of China's Economic Dominance*, by 2049, a hundred years after the Chinese Revolution, we could be living in a China-led world. China could then be the world's pre-eminent power, much like the United States is today.

It is too early to assess the impact of President Xi Jinping's charismatic leadership and his contribution to China's economic transition and diplomacy. His personal standing appears to be inversely proportional to the declining esteem for the Chinese Communist Party. He has taken good judgement calls in his campaign against corruption and steps to reorient China's economy from export-led manufacturing growth to services, consumption, and development of the

hinterland. Notwithstanding his vision, energy, and pragmatic statesmanship, the desirable outcomes might not materialise due to structural factors beyond his control.

China's extraordinary economic growth is beginning to falter. It had the slowest growth last year than in the preceding quarter century. While China's leadership is confident about the success of the economic transition, the global sentiment is uncertain.

A continued downturn in China could cause as much damage to the global economic environment as the unravelling of the Euro or a serious setback to recovery of other leading economies, including that of the United States. It could increase pressure on the Renminbi, leading to competitive devaluations to ward off cheaper Chinese imports. The entire world, India included, therefore, has a stake in China's continued stability and growth.

China's success in implementing its 'Belt and Road' initiative, especially the 21<sup>st</sup> Century Maritime Silk Road, will be predicated on an India-China entente, a cooperative framework built on culture and commerce, and their mutual understanding about a cooperative management of the Indo-Pacific region, in partnership with the States that straddle it.

I compliment all the contributors, particularly members of the East Asia Centre of the Institute, for their dedication in producing this volume.

**Jayant Prasad**  
Director General  
Institute for Defence Studies and Analyses

## Acknowledgement

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This volume is an outcome of the annual exercise of the Institute for Defence Studies and Analyses, New Delhi (IDSA) to understand and track China and its developmental course. As a flagship publication of the East Asia Centre in IDSA, the *China Year Book (CYB) 2015* is an undertaking to comprehensively analyse China's state transformation internally and externally. I had the privilege to edit this volume. Most of its chapters were presented in a seminar on 5 February 2016 and reviewed in IDSA forum. I owe much appreciation to a number of people who have supported me immensely in bringing out this volume.

First and foremost, I owe a special gratitude to Shri Jayant Prasad, Director General, IDSA, for his continuous interest and support for this exercise. Shri Prasad was candid in reading through most of the chapters and offering useful comments. I thank Brig. (Retd.) Rumel Dahiya, Deputy Director General of IDSA for his encouragement and support for this annual exercise.

I thank all my colleagues in the East Asia Centre for their support in reviewing some of the chapters in this volume. Their comments and suggestions have been beneficial. I specially thank Dr. Titli Basu for going through the entire manuscript and highlighting errors.

I thank all the contributors of this volume, some of whom are stationed outside Delhi. Their enthusiasm to present their papers was commendable. Most importantly, I thank them for meeting the deadlines and for promptly responding to my queries.

Last but not least, I thank Mr. Vivek Kaushik of IDSA and Ms. Kiran Sahani for their support in the editing process. I also thank Mr. Rajan Arya of Pentagon Press for bringing out the volume in time. My sincere appreciation to Mr. Virender Negi of Pentagon Press, who assisted in the production process.

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# 1

## China in 2015: A Primer

*Jagannath P. Panda*

---

*Is China emerging as a 'new power' under the leadership of President Xi Jinping?* Beijing's annual progression, particularly in 2015, points out that China is undergoing a continual transformation and preparing to emerge as a new power. The Chinese reforms and initiatives, both internal and external, suggest a new progressive trend where Beijing's intent is not only to strengthen its domestic conditions but also to prepare itself to emerge regionally and globally stronger than ever. This is noticed in the current leadership's vision. Addressing the Chinese people on New Year eve, President Xi expressed the view that '2016 marks the beginning of a decisive phase in China's national effort to build the country into a moderately prosperous society'.<sup>1</sup> Underlying these words are the big ideas that China's leadership holds for the country. It will be a continuous process, with its share of challenges and complications. This volume, covering developments of China's overall domestic and foreign policy behaviour in 2015, reveals that Beijing is on the swing to emerge as a new power, albeit cautiously. The volume is divided into five parts, with each part offering different segments of China's trajectory in the past year. Each chapter narrates that China is experiencing transition. The majority of these chapters indicate that this transition is enduring, and that for China, this is a path to power.

### **2015: A Transitional Year with a Difference?**

The overall progression that China has undergone in 2015 points to a range of new initiatives that are congruent with the Chinese leadership's short-and long-term national vision and objectives. These initiatives have been carefully introduced over the years and have the Communist Party of China's (CPC) interests at the core. Building 'socialism with distinctive Chinese characteristics',

the CPC's main goal, has been the incessant catch phrase behind most of these initiatives and reforms, which are observed on both the domestic and international fronts. On the domestic front, the emphasis is on how to execute the 'Chinese dream' (*zongguo meng*) and build a 'prosperous society' (*xiaokangshehui*). In 2015 China clarified these concepts to the outside world and unveiled plans how to execute it. President Xi promoted these as initiatives for the 'renewal of the Chinese nation'. Behind these concepts are 'two 100-year goals': to build 'moderately prosperous society' by 2021; and to establish a 'strong, affluent and modern country' as a developed nation by 2049. The year 2021 marks the centenary of the CPC and 2049 marks the centenary of the establishment of the PRC.<sup>2</sup> The year 2015 was a 'preparatory year' for the CPC to attain these objectives.

The concept of the 'Chinese dream' is linked to China's economic growth, which is vital to the CPC's survival and legitimacy in the country. Executing the initiatives associated with it allows the CPC to establish a direct contact with the Chinese people. Over the years, opposition to the CPC's style of functioning and the role of its leadership has been growing in China. One needs therefore to ask, in the context of recent developments, whether these are the real intended initiatives and reforms to push China as a 'moderately prosperous society' or are they steps to strengthen the CPC's legitimacy in the Chinese society. Besides, how much these reforms and initiatives will strengthen President Xi's authority in the country needs to be understood. A general assessment would be that in 2015 the CPC's control over the Chinese society along with President Xi's leadership authority has solidified and the country has adopted reforms to address the existing challenges. Going into specifics, *first*, centralised decision-making process has been deepened, with new mechanisms and reform initiatives; *second*, the securitisation process has been upgraded to control the societal intricacies or challenges that the CPC leadership faces; *third*, economic growth has emerged as a matter of serious concern; *fourth*, military modernisation seems to have become subordinate, where the restructuring of the People's Liberation Army (PLA) and improving its global role have become the principal attainment; and *fifth*, establishing the process of 'rule of law' has taken a backseat. Amongst all this, the highlight of 2015 was the 'new normal' debate concerning the slowdown in China's economic growth, securitising domestic conditions and military restructuring.

## **Behind the New Normal Debate**

The phrase 'new normal' first surfaced in 2014 during the Asia-Pacific Economic Cooperation (APEC) CEO summit, where President Xi articulated the 'new normal' in the Chinese economy, expressing optimism that the Chinese economy was experiencing structural reform and innovation, which would result in a slow

growth rate.<sup>3</sup> Economists and scholars in China still follow this line while debating internationally over the slowdown in the Chinese economic growth. But 2015 resumed the old concern that many China specialists and economists had long held over China's economic growth trajectory. Contrary to its decade-long impressive GDP growth pattern, the Chinese economy grew by 6.9 per cent in 2015, against the official target of 7 per cent;<sup>4</sup> the true figure could even be lower, since transparency has always been an issue where China is concerned. A figure below 7 per cent was the weakest in a quarter century, impelling alarm if China was moving towards an economic crisis. Noticeably, this growth figure affected the government's reputation for competent economic management. The slowed growth rate also raised an alarm for investors around the world whether China would remain the same attractive and competitive economy ever. The growth figure of 2015 also highlighted concerns that China's growth may cool for a few more years. A marked transition is noticed in the Chinese economy, as the second part of this volume implies, which has brought consumption and services to the front rather than exports and investment. This transition will certainly impel new challenges, the foremost of which would be how to maintain growth rate around 6.5 percent over the next few years. Also, how to put the economic growth pattern on track to keep the Chinese economy globally attractive and competitive? Creating employment and reforming inefficient industries would be some of the looming challenges. Amidst these challenges, the core concern for the Xi administration would be to increase confidence of the Chinese people in the CPC and maintain social stability, which has remained a bottleneck of China for years. The first part of this book raises some of these issues.

China's current state transformation is demonstrated in many aspects of its internal institutional adjustments and reforms. These include tightening security laws and regulations, limited liberalisation within an established socialist structure, and promotion of the party's developmental works in problematic areas. The year 2015 witnessed some of these issues being addressed by President Xi, placing China's reform and transformation on the front. In order to gain more confidence among the Chinese people, Xi's administration continued with the anti-corruption crusade where the initial focus was on top-ranking officials, which slowly extended to the industrial sectors, mainly the state-owned enterprises (SOEs). The intention to place SOEs under surveillance was seen in President Xi's public articulation at the beginning of 2015 where he stated that SOEs belong to the people of China, because of which they need to be managed better.<sup>5</sup> This was surely an attempt to regain the people's confidence and retain his popularity.

A set of other developments also helped President Xi and the CPC to enhance their authority and control over the Chinese system. The most remarkable initiative in this context was the enactment of the National Security Law and the Anti-

Terror Law in 2015. The National People's Congress (NPC) standing committee passed the former in order to 'protect the fundamental interest of the Chinese people' and to defend 'sovereignty, unification and territorial integration'. This law is quite contentious since it expands the arms of the security agencies to tighten control over people, arbitrarily implicating them as dissidents, suspects or violators. The Anti-Terror Law is intended to check the growing threats from the 'three evils' – separatism, extremism and terrorism. To what extent this law will bring social stability and offer Chinese people protection is yet to be seen, but both the laws will undoubtedly strengthen the government's arms in meeting the challenges emanating from the minority groups in Xinjiang and Tibet.

Another highlight of 2015 was the big restructuring that the PLA underwent. Five new theatre commands of the PLA were established – replacing the earlier existing seven military regions – to make the military more integrated and unified under the central leadership.<sup>6</sup> In brief, institutional reforms internally – be it military, security or political – have been one of the main pillars of China's transition in recent years. China is making a measured transition, which is noticed amidst cautious institutional reforms and preserving the CPC's status quo. Amidst this transition, one needs to note that the current socio-political conditions in China are not yet very stable and that is one reason why the current leadership introduces cautious reforms and new initiatives to strengthen its control over society.

## **Diplomacy Delicacy**

Foreign Minister Wang Yi expressed the view in a speech on 12 December 2015 at the opening ceremony of the Symposium of International Developments and China's Developments in 2015, that 'China has made much progress on the international front and the year 2015 is a notable year for China's pursuit of major-country diplomacy (*daguo waijiao*) with distinctive Chinese features'.<sup>7</sup> Since Xi Jinping's arrival in power, the Chinese leadership and foreign policy experts have increasingly been using the phraseology of 'major-country diplomacy' and 'great-power diplomacy' in promoting new initiatives in China's diplomacy and conducting their foreign relations practice. Nevertheless, the year 2015 was important in executing *daguo waijiao*. The policy was not country-specific, rather it was based on a multi-centric course that was institution-, and country- as well as continental-specific. The third, fourth and fifth parts of this volume refer to this aspect. Progress relating to the 'One Belt, One Road' (OBOR) initiative, the operation of the AIIB (Asian Infrastructure Investment Bank) and China's relations with neighbouring as well as remote countries explains the panache of Chinese diplomacy in 2015. The high point was the promotion campaign of OBOR.

No proposition in the current Chinese foreign policy explains better the outward transformation that is taking place in it than President Xi's OBOR initiative. After assuming power in 2013, he spoke about the 'Silk Road Economic Belt' (SREB) and the '21st Century Maritime Silk Road' (MSR) in September and October 2013 respectively. This was considered one of the most ambitious strategies by President Xi along with his 'Chinese dream' proposition, which is basically aimed at consolidating China's domestic conditions and global positioning. The year 2015 witnessed China slowly executing OBOR-related policies and projects. The execution of OBOR was a parallel exercise with the policies and progress related to the AIIB. AIIB was among the major developments of 2015, which narrated the success of Chinese diplomacy. In OBOR, the emphasis was on either executing bilateral agreements with neighbouring countries or outlining the details of OBOR to remote regions or countries that are significant to China's strategic interests. Beijing focused on the neighbourhood regions, primarily on South Asia and South-East Asia to execute its OBOR plans and projects. In South Asia, the focus was on connectivity and infrastructure-centric projects where Beijing nurtured further its relationship with Pakistan, Nepal and other South Asian countries. In South-East Asia, the emphasis was on economic cooperation thrusting on regional integration. Interestingly, even though China's approach towards South-East Asia was more economic centric, Beijing was ever vigilant over the maritime disputes. China was critical of the American presence around the South China Sea and was continuously upgrading its physical control through militarisation in the disputed South China Sea islands. China's leadership vision remains the core of its South-East Asian reach.

The most pressing aspect of 2015 was China's outreach towards Asia-Pacific and how it was managing its relations with the United States and its allies in the region. Chinese presence in Asia-Pacific was so resolved that there was a power transition demonstrated between China and the United States in the region. This was noticed in China's active diplomacy (*zhudongshi waijiao*) in the region. Beijing not only established greater contacts with its immediate neighbourhood and remote-region countries but also tried to establish a new configuration of power relationship with the United States. Most of the Chinese approach towards Asia-Pacific was based on project implementation, new initiatives and new power relations. In brief, a multi-centric approach in foreign policy, foreign relations and diplomacy was noticed in 2015.

This volume is an exercise to offer a view of China's undertaking and initiatives in 2015. To what extent China will smoothly transit to its power quest under Xi Jinping is still an open query. This volume is an exercise to bring this debate to the fore.



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# I. POLITICS AND SECURITY

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# 2

## China's Domestic Politics: Promises and Pitfalls

*Avinash Godbole*

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### Introduction

When Xi Jinping came to power in 2012-13, he was perceived to be a decisive leader, who would take China to the next level of advanced economic growth and international power and status. However, the slowing economic growth coupled with quick fix counter-strategies, falling share markets, and the rising voices against what appears to be a politically driven anti-corruption drive have raised serious doubts about the leadership of Xi Jinping as well as that of the Communist Party of China (CPC). In a year that was perhaps the most challenging one for the Xi, since assuming leadership, Xi's China took a hard line turn mainly to preserve the party.

It can be argued that in 2015, anti-corruption was the only core *political* issue in China as far as the party was concerned. The rest of domestic politics was structured around politics as everyday affair for ordinary Chinese citizens and their contact with the state. It was exemplified by a slowing economy with academic and media perception of the 'new normal' dropping below 6 percent, major incidents like the Tianjin blast, and yet another wave of Chinese nationalism propelled by China's remembrance and celebration of the 70th anniversary of the end of World War II. In 2015, China also passed the controversial anti-terrorism and national security laws, which have wide ranging implications. At the same time, there has been a huge clamp down on the media, academia, non-governmental organisations (NGOs) and criticism generally, which while indicative of Xi's power is also a testimony to his many insecurities and challenges domestically as the cracks in the *China Dream* become more and more visible. The Xi regime is unwilling to even listen to diverse opinions, let alone dissent. In the following sections, some of these issues are examined in more detail.

## Anti-Corruption Drive

China's anti-corruption campaign has led to arrest of at least one official of the rank of vice-minister or above from each of the country's 31 provinces. Recent reports suggest that in 2015, various Chinese courts concluded 34,000 graft trials, involving 49,000 people in which, a total of 2495 people were convicted.<sup>1</sup> In June 2015, Zhou Yongkang, the former security and energy tsar, was sentenced to life imprisonment for the various crimes for which he was under investigation and trial since 2014. While Zhou was convicted for accepting bribes worth \$118,000, his wife and son had also accumulated assets worth more than \$300 million because of his actions.<sup>2</sup> One party publication had called Zhou a traitor, which was interpreted to mean that he might face the gallows as a punishment.<sup>3</sup> However, such a step would have caused big ripples in the party hierarchy as well. The highest ranking party official arrested in 2015 was Ling Jihua, who during the second half of President Hu Jintao's tenure was the director of the CPC's Central Committee's General Office, a position comparable to the US President's chief of staff.<sup>4</sup> He was charged with "accepting huge bribes, stealing party and state secrets, as well as keeping mistresses and trading power for sex".<sup>5</sup>

Ling Jihua was tipped to be a member of the party's Politburo Standing Committee (PBSC).<sup>6</sup> However, he was swiftly overlooked and given a ceremonial post at the United Front Work Department after his son, Ling Gu, died in a Ferrari crash in Beijing in March 2012. The allegation that two of his son's female friends also lost their lives and the news that the three in the car were partially, or fully naked, at the time of the fatal accident had exposed the political corruption at the top. Ling Jihua's arrest in July 2015 also sparked a diplomatic confrontation between China and the United States as Ling's brother, Ling Wancheng, who defected to the US was accused of leaking Chinese state secrets to the US.<sup>7</sup>

It has been stated time and again that the anti-corruption campaign of Xi Jinping is politically motivated and like his predecessors, he is using it to wipe out his powerful political opponents. Willy Lam argues that the two major party groups that are being targeted are the Shanghai faction, which was patronised by the former President Jiang Zemin and the Communist Youth League faction that has the patronage of Hu Jintao.<sup>8</sup> However, the fact that none of those being investigated or jailed is princelings, or the sons of the former revolutionaries, also raises questions about the neutrality of this campaign.

Another important feature of this year's anti-corruption campaign was the focus on state owned enterprises (SOEs). At the start of the year, Xi Jinping made it a mission to clean up the SOEs for various reasons.<sup>9</sup> The primary reasons being inefficiency, slower returns on investments, high levels of corruption at local levels, politics of cronyism, misuse of monopolies to sustain and enrich vested interests, unfair promotions and personnel policies and excessive spending

on lavish parties and gifts. There is also a perception that the reasons for their under performance are the corrupt practices that go unchecked.<sup>10</sup> While 70 SOE executives came under the scanner in 2014, 41 other corporations were being investigated by the Central Committee for Discipline Inspection (CCDI) in 2015. The most cited example of how the SOEs might be supporting corruption at the top was the misuse of power by Zhou Yongkang, his family and his supporters while he was part of the China National Petroleum Corporation (CNPC), prior to his joining the central government.<sup>11</sup> SOEs were also accused of corrupt practices, and trying to trap rival officials into accepting bribes and getting them caught.<sup>12</sup> Many SOEs that are global giants in their fields were also being investigated in 2015. These included, CNPC, Sinopec, Chinalco, China FAW Group, DongfengMotors, Wuhan Steel, China Southern Airlines and China Resources.<sup>13</sup> Many of China's top banks and bank executives found themselves on the wrong side of justice in 2015 as the anti-corruption campaign targeted banks as well. In November 2015, Zhang Yun, president of China's third largest bank, the Agriculture Bank of China was "taken away to assist with an investigation".<sup>14</sup> He subsequently resigned from his post. Another official of the same bank, Xu Tao, who headed the Shenzhen city branch, has been in detention since April 2015 on charges of accepting bribes and Zhang Yun's investigation might be a spinoff of that arrest.<sup>15</sup> It is widely reported that the stock market collapse has triggered the investigations into banks and other financial institutions.

There is also a perception that the anti-corruption drive has hurt the party as well as its image at home and abroad. At the start of 2015, the CCDI had said that the campaign would continue forward steadily and step by step. It also added that "positive energy" from the people and media would help the campaign move forward faster.<sup>16</sup> However, within six months, the CCDI that, "The consequences of punishing every cadre who violates discipline and law hurt the party far worse than the individuals".<sup>17</sup> This created a perception that the campaign might be scaled down in terms of the number of "tigers" attacked. This is exactly what seems to have happened in the second half of the year with the focus shifting to the SOEs and away from the "tigers". There is also a perception that the focus of the anti-corruption drive may be shifting towards investigating the process of appointments and promotions within the party.<sup>18</sup> There is also some speculation that the campaign may be ended, because the 13th Five Year Plan has to be approved and because the 19th Party Congress is set to take place in October/November 2017, less than two years from now.<sup>19</sup>

### **Crackdown on the Civil Society and End of Rule of Law?**

While 2014 was about the celebration of the rule of law, 2015 saw a substantial crackdown on three institutions, the academia, the media and NGOs that were

being seen as the possible harbingers of an emerging public sphere in China. That the Xi Jinping regime is uncomfortable with anything that deviates even slightly from the stated party line was well demonstrated in 2014 when the integrity of the Chinese Academy of Social Sciences (CASS) was brought into question. The CASS was accused of being “infiltrated by foreign forces”.<sup>20</sup> CASS subsequently announced that it would “treat political discipline as a criterion of the utmost importance in the assessment of the academics”.<sup>21</sup> In 2015, Liu Yunshan also gave a call to establish new type of think tanks with Chinese characteristics. He urged the think tanks to “maintain high-level orientation, strengthen capabilities in theoretical and policy innovations, and try to make original contributions”.<sup>22</sup> In 2015, academicians including university professors were warned to stop propagating “Western ideas” in university classrooms and to guard against their infiltration. On another occasion, the State Council General Office had opined that there was a need, “to further strengthen and improve propaganda and ideology work since higher education is a key “battlefield” in the struggle for ideology” (*sic.*).<sup>23</sup> An article on the website of the *Qiushi* magazine said that “some academics have been venting “negative energy” in their classes, frequently using China as a negative example when explaining concepts that crossed the “ideological bottom line,” and cited well known scholars He Weifang and Chen Danqing as particularly bad specimens. He Weifang promoted constitutionalism on his Weibo account, while Chen Danqing [painter and author] published articles which overly-praised the US, and have caused obvious impact on the public.”<sup>24</sup> It is noteworthy that He Weifang had signed Charter 08 after which he was punished by way of a two year posting to a provincial university in Xinjiang.<sup>25</sup>

In the middle of the year, many lawyers went missing after the clampdown on civil society, and nearly 250 others were questioned by the police during the process. Some of these lawyers had represented feminist groups and disabled rights activists.<sup>26</sup> Seven of these lawyers were charged with inciting subversion in January 2016, which could entail a jail term of at least 15 years.<sup>27</sup> It is estimated that nearly 280 lawyers were detained or questioned during the entire year.<sup>28</sup> While the details of the reasons behind the crackdown remain unclear, it is possible that some of the cases filed by these lawyers could have been pushing the boundaries for seeking a separation of powers in China, and they could have been motivated to do so by China’s celebration of the rule of law and constitution day, from 2014 onwards.<sup>29</sup>

Chinese authorities also initiated another phase of an Internet clampdown in 2015. The use of Virtual Private Networks (VPN) was an open secret in China and was the only way to access services like Gmail, Facebook or Twitter, in China. In 2015, the Chinese Internet watchdogs disrupted the services of many popular

VPN providers in order to intensify the online watch on the activities of netizens. This move especially hurt many Internet startups in China as their communication with rest of the world became grindingly slow, if it was not completely halted. In hushed voices people also began to complain that this move was contrary to the innovation drive initiated in the Chinese economy that was supported by those at the highest political level in China.<sup>30</sup>

Equally important is the case of the five Hong Kong booksellers who suddenly went missing in 2015. All of them were the associates of the Mighty Current Media and Causeway Bay Books based in Hong Kong and went missing in different cities like Shenzhen, Dongguan, Hong Kong, and as far as Thailand. The Mighty Current Media was popular among mainland tourists, and specialised in scandalous books on the private lives of the mainland political leaders.<sup>31</sup> All these booksellers however appeared on mainland television on February 29, 2016 and said that they had not gone *missing* and were assisting the mainland police in investigating certain matters. Hong Kong media has reported that the book they were being prosecuted for was on the life of Xi Jinping. What came as a surprise to many was that Lee Bo made a public announcement, that he was renouncing his British citizenship, because that was the reason for the big fuss over his disappearance. However, whether Lee Bo made this remark under duress is far from clear.<sup>32</sup>

The disappearance of the Hong Kong based publishers also sparked a new wave of mainland-Hong Kong dispute with many saying that this was another incident wherein the mainland was violating the spirit of the Basic Law that is supposed to be the guiding principle of Hong Kong-mainland relations. Coming close on the heels of the patriotic re-education programme and the 2014 Umbrella Movement for Hong Kong's right to elections, these disappearances sent another message that Hong Kong's autonomy may be trampled as the mainland begins to interpret the Basic Law to suit its interests. In Hong Kong too there is perception among various academics that Johannes Chan, a professor at the University of Hong Kong, was denied promotion as pro-vice-chancellor because of his ties with the Umbrella Movement and with Benny Tai, another liberal professor from the university who was considered the mentor of the Umbrella Movement.<sup>33</sup>

Moreover, in 2015 a group of feminist activists was detained for more than a month on suspicion of allegedly "picking quarrels and stirring up trouble", and they have remained under surveillance for nearly a year. The charges against them have not been dropped, travel restrictions have been imposed on them and communication even with their families is restricted.<sup>34</sup> The fact that 25 year old Li Tingting, an out of the closet lesbian, is also part of this group has complicated the matter further. Homosexuality in China remains generally taboo.

This form of repression stems from the Document 9 issued in China in August



2013. Document 9, an internal party communiqué, deemed that civil society, liberal constitutional democracy, deviation from the official narrative of history, questioning socialism with Chinese characteristics and reforms and opening up are core ideological challenges. It further stated that the strengthening of ideology, tightening of party control over media, strengthening the party's role in the ideological battlefield were ways to counter these core ideological challenges.<sup>35</sup> Gao Yu, a 71 year old journalist, was sentenced to seven years imprisonment for allegedly leaking Document 9 to the international media.<sup>36</sup> Gao Yu has been critical of the CPC leadership and been imprisoned more than once. She was released in November 2015 on medical grounds.

### *Rule of Law*

The above discussion on the various forms of rights and the status of these rights and of those who seek these rights is important because it contextualizes the rule of law debate which was one of the major developments of 2014. However, in China, the state's support for rule of law can coexist without a concomitant commitment towards individual rights, is a fact. Therefore, what may appear to be a contradiction is perfectly natural in China. The rule of law with Chinese characteristics means that it is to be followed in cases where the party's name may be maligned, as in cases of corruption. However it will not be applied to the extent that may expose the party, which results in the placing of restrictions on the media, NGOs or academics.

In 2014, *yifazhiguo*, or rule according to law was a catch phrase revived by the Xi-Li regime. 2014 was also the year when China began celebrating its constitution day, and began to promote it as being central to the rule of law debate. However, the fact remains that the anti-corruption drive is overseen by the CCDI, which is a party organ and not a state organ.<sup>37</sup> Secondly, the party and its top echelons are beyond the jurisdiction of any judicial overview. The Rule of law was the theme of the Fourth Plenum of the 18 Congress of the CPC held in November 2014. The draconian national security and anti-terrorism laws passed by China and the select witch-hunt in civil society lead one to the conclusion, that the spirit of the rule of has been killed in 2015.

It is important to note that Xi Jinping is not the first president to initiate a campaign for establishing the rule of law. The first rule of law campaign began in the last decade of the 20th century.<sup>38</sup> However, in the first decade of 21<sup>st</sup> century, there was a gradual backtracking. That phase ended gradually because the focus was on mediation rather than due process and trials, squeezing of space of public interest lawyers and litigation processes, anti-law propaganda that legal process are not friendly towards the citizens and populist judicial processes.<sup>39</sup> In particular, it has been observed that the rule of law discourse is silenced by the CPC when

the voices for civil rights start getting stronger and when litigations over issues such as individual rights, freedom of religion, and sexual rights start pushing the boundaries of the scope of judicial oversight.

## **Slowdown and Markets in China**

There is a perception that Xi does not know his economics as well as his politics, and this may well be true as seen in his handling of the economic situation in 2015. The looming major economic slowdown and major setbacks like the Tianjin blasts and the Shenzhen landslide, which together took nearly 300 lives, exposed the dark side of the Chinese growth story.

China's economic growth in 2015 was the slowest in 25 years, hovering between 6.5 and 7 percent across the four quarters of the year. At the same time, while infrastructure has been a key driver of the Chinese economy, iron & steel and cement, the two sectors that drive infrastructure growth, grew at less than 4 percent in 2015. However, there is also a view that a slowdown in the commodities growth rate may be a good sign as it signifies a transition to consumption led growth. China's economic predicament will have significant implications for the country's political fortunes as slowdown will impact the *China Dream* as well as the two centennial goals set by the CPC. China's economic objective for 2020 was to double the GDP and per-capita incomes for urban and rural residents from the base of 2010, and to build a moderately prosperous society in all respects. The second centenary goal is to turn China into a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious, by the middle of 21st century.<sup>40</sup> The economic slowdown will force a relook at these targets. Ensuring the people's faith in the leadership's ability to achieve these targets may be difficult, and especially with the recent announcements of layoffs, its social costs may be high.<sup>41</sup>

The stock market crashes and swings have wiped out nearly \$5 trillion from the Chinese stock markets.<sup>42</sup> In addition, despite the domestic debt being 280 percent of the GDP, China is determined to increase the stimulus to counter the slowdown and to kickstart the OBOR projects.<sup>43</sup> The fact that many retail investors who were relying on the growth story and betting in the markets, to cover for the lack of social security, have lost much of their savings is another important aspect of the stock markets story.<sup>44</sup> While not many invest in the stock markets and while the markets need not be a real indicator of the health of the economy, the practice of borrowing to benefit creates bubbles in stock markets. Why such a practice was encouraged needs to be investigated to confirm whether it was a case of insider trading.

The Tianjin blasts in August 2015, at the warehouse of the Rui Hai International Logistics in which 173 people, including 88 fire-fighters, lost their

lives exposed yet another dark side of China's economic miracle. Another 700 people were injured in these blasts and many others living within 500 metres of the storage facility have been left homeless. Many more have to face the long-term consequences of the contamination. Experts believe that the number of deaths and losses could have been much lower if the company had followed the storage and handling norms for dangerous chemicals.<sup>45</sup> Rui Hai owners are close to the centre of power and that is how they managed to flout the rules until the August 2015 blasts. Rui Hai exposed the dangerously criminal aspects of corruption to the people of China although the government restricted the Internet searches on Tianjin after the videos of the blasts went viral on Weibo.

The Shenzhen landslide in December 2015 destroyed or damaged a total of 33 buildings and led to 69 deaths.<sup>46</sup> This story is also of particular significance because even as the immediate cause of the landslide was rain, the 100-metre hill was full of debris, excavated soil, cement and other construction waste that was being dumped there unabated. It was an unintended as well as unchecked outcome of economic growth. This also shows that the environmental protection implementation apparatus in China has gone weaker or that it has been told to go slow, particularly as the economic slowdown looms large. China's slowdown has also contributed to lower global commodity prices in 2015, not the least that of crude oil that threatened to test the \$20 per barrel mark. It is adversely also affecting oil-exporting economies where oil exports account for a substantial share of national GDP.

## **Conclusion**

There were indications in 2015 that the charisma of Xi Jinping may be on the decline. However, at the same time the trend of greater centralisation of authority continues as Xi's power is on the rise. There is a perception that since Xi Jinping belongs to the generation that lost its youth in the chaos of Cultural Revolution, he may present a more benign face of the Chinese regime. However, Xi Jinping's China is domestically insecure and is implementing its rule of law in a very selective manner, only in a procedural pattern wherein the party interests are kept above the rule of law. The CPC is unsure about how to balance its push for rule of law and its implications for scope of judicial intervention and the demand for individual rights. Consequently, the state is willing to control the advance rule of law if demand for individual rights is seen to be contesting the party's sphere of influence.

By early 2015, Xi was already holding a total of 11 important posts in China, which is something unprecedented in its history.<sup>47</sup> This has also to do with the composition of the next PBSC because five of the seven current members, except for the President and the Premier, are due to retire. Xi's current powers give him

tremendous authority over who joins that elite body in the next national congress of the CPC.

2016 will be the year when mass media in China is investigated. Xi Jinping has already visited the big three of the Chinese media, *Xinhua*, *People's Daily* and *CCTV* and asked them to demonstrate loyalty to the party and the ideology.<sup>48</sup> Also, recently Hu Xijin, the editor of the *Global Times*, was made to refund nearly 6500 Yuan and write a public self-criticism for using office money for personal travel.<sup>49</sup>

The economic slowdown, negative rates of returns and falling demand will force the party to recalibrate its strategy. In addition, creating employment opportunities amidst the slowdown and anti-corruption drives will test the leadership in 2016. China's transitions have always been painfully memorable. 1911 was the first such year in the modern era; 1949 was the second, followed by the Cultural Revolution and the reforms and the opening up, the last one. The CPC will hope that it survives the present transition better than the previous ones, since this transition is also taking place in an era when the population is young, online and restless.

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# 3

## Chinese Society: The ‘Story’ Continues

*Gunjan Singh*

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Chinese society has undergone a rapid transformation in recent years. The year 2015 can be seen as one of revising the laws and regulations in accordance with the new realities. The decision to abolish the one-child policy and efforts to alter the notorious *hukuo* system represent this trend. Efforts to implement the Environmental Protection Law (EPL) can also be put in this category. 2015 was also the year when the Xi regime’s control fetish became more pronounced: China passed the National Security Law and the Anti-Terrorism Law and lawyers, media and NGOs saw the scope of their activism being greatly narrowed. The number of mass incidents and protests also highlighted the restive nature of Chinese society, especially when it came to corruption and environmental disasters.

This chapter argues that while the party is trying to respond to society’s demands, which have not been entirely new, it needs new means to achieve better success. It also raises questions over the clampdown in various social sectors that were given more democratic space in the past. In many ways, the social trends point to long-term consequences of unequal economic growth and to an insecure state that does not know how best to respond. The party’s skill at adaptability, which has helped it survive so far, may be facing its toughest challenge yet.

### **The Undying Ethnic Complexity**

Ethnic issues have been a major concern for the Chinese Communist Party (CCP) as they pose the biggest challenge to the discourse of harmonious development in China. While 2015 saw fewer incidents, the year also saw China’s celebration of anniversaries in Tibet and in Xinjiang. The government’s discourse on development and growth as freedom and democracy continued unabated. This was especially evident in the white papers released in 2015. The White Paper on



Xinjiang, *Historical Witness to Ethnic Equality, Unity and Development in Xinjiang*, was released in September 2015. There were two White Papers on Tibet. *Tibet's Path of Development Is Driven by an Irresistible Historical Tide* was issued in April 2015, and the *Successful Practice of Regional Ethnic Autonomy in Tibet* was issued in September 2015. However, the events of 2015 show that not much has changed on the ground with respect to the degree of discontent and anger felt by the ethnic minorities. There were a number of violent protests in Xinjiang and self-immolations continued in Tibet.

### *Developments in Xinjiang*

Xinjiang literally remains the final frontier for the CCP. While the state discourse on stability and development continued, the debate regarding terrorism and dissent also continued. A section of the Uyghur extremists have also joined the Islamic State, which was the biggest new development of 2015. Xinjiang remains important for China not only for itself but also for China's regional foreign policy in South and Central Asia.

The Year 2015 marked the 60th anniversary of the establishment of the Xinjiang Uyghur Autonomous Region (XUAR). Yu Zhengsheng, chairman of the National Committee of the Chinese People's Political Consultative Conference and a member of the Politburo Standing Committee, visited Xinjiang from 25 September to 1 October 2015 to commemorate the occasion. In his speech on 1 October, Yu said, 'The three forces (separatism, terrorism and extremism) are the biggest threats for Xinjiang and the common enemies for people of all ethnic groups.'<sup>1</sup> For the anniversary, the government ordered taxi drivers to fly the Chinese flag and there were banners with slogans like 'The Party's great policy is the root of our great life' and 'Hold high the great banner of national unity'.<sup>2</sup> These phraseologies indicate that China is still diffident in dealing with the Xinjiang issue.

The government claims that it has been facing continuous problems in this oil-rich region from Islamist militants.<sup>3</sup> Barely a month before the anniversary in September 2015, more than 50 people were killed in a coalmine attack in Xinjiang. The government conducted a search and announced that it had successfully eliminated the gang responsible and had killed 28 terrorists.<sup>4</sup>

Earlier, on 1 July 2015, the National People's Congress (NPC) passed a comprehensive Draft Security Law. It covers almost every aspect of domestic policy and core interests. This law enables the Xi Jinping administration to successfully monitor and control any form of dissent and also leaves a great deal open to interpretation.<sup>5</sup>

White Papers have been CCP's instruments for telling the Chinese people and the world that its policies are in the right direction. The White Paper on

Xinjiang, mentioned earlier, aims to highlight the steps undertaken by the government for development of the region.<sup>6</sup> It notes, 'Suppressing religious extremism in accordance with the law is a just move that protects the fundamental interests of the state and the people, including Muslims.'<sup>7</sup> The government bars any official in Xinjiang from praying in a mosque. Children below the age of 18 are also not allowed to enter a mosque.<sup>8</sup>

China's Xinjiang policy has always been two-pronged, with economic development going alongside a hard state approach. Continuing with this tradition, even as China announced Xinjiang-centric one-belt-one-road (OBOR) measures, it also adopted a new anti-terror law in December 2015. This law came into effect in January 2016. With this law the government aims to 'create a new anti-terror agency and security forces with significant powers'.<sup>9</sup> In the view of An Weixing, head of the Counterterrorism Bureau of the Ministry of Public Security, this law comes at a time when the East Turkestan Islamic Movement (ETIM) is on the ascendant.<sup>10</sup> The law requires the telecommunication and Internet companies to help the government in 'decoding' information and data.<sup>11</sup> In addition, it allows the army and police to conduct anti-terrorism operations overseas.<sup>12</sup> This law has been heavily criticised by scholars because of its economic and business implications as well as its impact on minority rights.

Such laws coupled with curbing religious freedom highlight the extent to which the government is insecure about its position in Xinjiang. With the continued suppression of religious and cultural freedom in the name of assimilation, the government's hard stance is backfiring. There is a distinct arabisation of the Uyghur society. For example, hijab is more commonly seen in Urumqi and Kashgar today than a decade ago. State policies such as women covering their face not being allowed to enter hospitals while men are encouraged to not grow beards further push social segregation.<sup>13</sup> The government policy of settling the Han people in Xinjiang has further eroded the Uyghurs' trust in the CCP.

### *Developments in Tibet*

The situation in Tibet has continued to be difficult since 2008. As in Xinjiang, China's policies in Tibet have focused on eventual assimilation. Development, infrastructure, connectivity and tourism are the pillars of the Chinese strategy in Tibet.

As noted earlier, the government has issued two White Papers on Tibet, in April 2015<sup>14</sup> and in September 2015.<sup>15</sup> According to the first White Paper, 'The only sensible alternative is for the Dalai Lama and his supporters to accept that Tibet has been part of China since antiquity, to abandon their goals of dividing China and seeking independence for Tibet, and to begin to act in the interests of

Tibet and the country at large.<sup>16</sup> The second paper states that the assertion of the Dalai Lama for Tibetan independence will be opposed by the Chinese people and is doomed to fail.<sup>17</sup>

There were seven cases of self-immolation by Tibetans in 2015,<sup>18</sup> which the Chinese Internet sphere describes as an act of terror.<sup>19</sup> There have been attempts by the new leadership to calm the situation in Tibet. In January, Xi Jinping opined that 'One cannot serve the local people well if one cannot speak the local language', underlining the fact that non-Tibetans working in Tibet should try and learn the local and regional language.<sup>20</sup>

### **From One Child to Two Child Policy**

China's one-child policy has been the singularly conspicuous example of social engineering anywhere in the world. It is argued by various scholars that the policy prevented the birth of 400 million children, which in turn helped China's economic growth.<sup>21</sup> But due to its harsh implementation and the accompanying abuses and exploitation, it has been one of the most criticised policies of the CCP. It has had a number of negative impacts on society, such as unequal sex ratio, abandonment of the girl child, and skewed population pyramid. According to *Newsweek*, boys under the age of 20 outnumbered girls by 32 million in 2014.<sup>22</sup> The one-child generation is termed by the Chinese media as 'the loneliest generation'.<sup>23</sup> With the aim to counter some of these ill effects, in 2015 the CCP repealed the one-child policy, replacing it with a two-child policy. Premier Li Keqiang described it as 'a good deed that benefits people's livelihoods and the future'.<sup>24</sup> The CCP in its turn claims to attach 'great importance to population and family planning work, taking into consideration both demographic issues and development, and is constantly improving the family planning policy'.<sup>25</sup> The argument that the government still dictates the number of children the people can have, continues.<sup>26</sup> The two-child policy came into effect from 1 January 2016.

The rationale behind the one-child policy and its easing out remains the same. Economic compulsions and benefits of smaller families for qualitative growth led to the one-child policy. The strongest catalyst for the new decision is the ageing population and the dwindling work force. This move is primarily aimed at increasing domestic consumption to boost lagging growth rates.<sup>27</sup> However, the history of such relaxations has not been very positive and not everyone is optimistic. As per reports, this policy was applied in Henan in 2011 but only 600 extra babies were born the next year.<sup>28</sup> There is a perception that 'the change had come too late to make a big difference in the country's population trajectory'.<sup>29</sup>

Meanwhile, a debate is on about the implications of this new policy for the world at large. As per some estimates, 'the world would need 30 per cent more water, 40 per cent more energy and 50 per cent more food by 2030'.<sup>30</sup> Officials

from the National Health and Family Planning Commission in a briefing in November 2015 predicted that this change of policy would result in three million extra babies in the coming five years; and this will add 30 million people to the workforce by 2050.<sup>31</sup> The government is also working towards improving the medical facilities, primarily childcare and maternal healthcare. Most Chinese cities lack good childcare hospitals. The government has asked medical schools to train more paediatricians and midwives.<sup>32</sup>

This news has created a positive atmosphere among toy manufacturers at least. The Trade Development Council of Hong Kong has stated that this change will result in the birth of 2.4 million more babies and the total expense on babies and baby requirements will increase by 7.5 billion yuan.<sup>33</sup> It is also being argued that the two-child policy may help increase China's GDP by 0.5 per cent.<sup>34</sup> China needs more and sustained domestic consumption in order to continue its economic growth. The most logical way to ensure it was by easing the population policy. However, the increasing cost of education and childcare may prove to be a dampener and the results may not be as positive as the government expects.

### Change in Hukou Policy

The *Hukou* or household registration system has created a system of unequal benefits between urban and rural residents. It was adopted to prevent the migration of the rural population to urban areas. However, as rural migrants flocked to the cities for employment, in particular in Southwest China, the problem became alarming. The floating population that created China's economic miracle was kept out of the benefit structure. With the aim to address this problem, the government has begun work to abolish the *hukou* system.

In February 2015, the government announced that it would undertake reforms to replace temporary permits with permanent permits for migrant workers.<sup>35</sup> These reforms have been in process since 2014. With the new changes a person can apply for an urban residency if they have lived in the city for six months. In 2015, a number of cities adopted a points system which can enable people to acquire city household registration. However, the changes are not so simple and can deter people from applying for an urban *hukou*.<sup>36</sup>

In September 2015 Chongqing announced the introduction of such a policy. According to Zhang Zhikui, the spokesman for the Chongqing municipal government, 'Under the new system, all residents will be registered under the same residential permit and covered by the same basic benefits.'<sup>37</sup> Other cities which plan to introduce similar reforms include Beijing, Guangdong and Shanghai. Xu Shaoshi, chairman of the National Development and Reform Commission, has argued that the idea to allow more people to join the urban structure will boost China's urbanisation process.<sup>38</sup> The deadline for reforming

the *hukou* system was set for the end of 2015. However, a number of rural residents do not appear to be keen to acquire a city *hukou* as they fear losing their land rights.<sup>39</sup>

Coupled with the creation of new tier-two cities, *hukou* reforms are expected to increase domestic consumption and create demands for domestic industry. However, there is a need to simplify this process. The rising cost of city life may also discourage a large number of people from applying for a change.

## Media in 2015

The media in China have always been expected to be a mouthpiece of the CCP. Xi Jinping has consistently been tightening government control over the media and Internet. As per media reports, because of the increasing government control there has been a considerable decrease in the number of Weibo users, from 330 million in June 2013 to 204 million in 2015.<sup>40</sup>

An official of the State Administration of Press, Publication, Radio, Film and Television (SARFT) has declared that China has decided to strengthen its control over news reproduction on the Internet.<sup>41</sup> Around 18,930 websites, including Facebook, Twitter and Gmail are currently banned in China.<sup>42</sup> In 2015 China arrested 23 journalists and 84 bloggers<sup>43</sup> and was ranked 175 on the World Press Freedom Index.<sup>44</sup> The new anti-terror law states that Internet companies may have to help the government with decoding information the government deems necessary. The law also 'restricts the right of media to report on details of terror attacks, including a provision that media and social media cannot report on details of terror activities that might lead to imitation, nor show scenes that are "cruel and inhuman"'.<sup>45</sup>

China hosted the World Internet Conference in Wuzhen in Zhejiang Province from 16 to 18 December 2015. In his opening speech at the conference, President Xi asserted that 'Cyber surveillance, cyber-attacks and cyber terrorism have become a global scourge.'<sup>46</sup> During the closing ceremony, Jack Ma, chairman of the e-commerce giant Alibaba Group Holding Ltd, said that there is an urgent need for 'international systematic governance of the Internet'.<sup>47</sup> Chinese Internet czar Lu Wei, while talking about national cyberspace said, 'We are exploring an Internet management path with Chinese characteristics.'<sup>48</sup> China also organised the 14th China Internet Conference (CIC) in Beijing on 21 July 2015.<sup>49</sup>

The year 2015 also highlighted the degree to which the Chinese government is capable of controlling and influencing the global media. It has been very successful in barring the foreign media houses from reporting negative things about China. The most significant example of this trend was the barring of a Chinese-Canadian woman from participating in the Miss World contest held in China, because of her spiritual beliefs and human rights views.<sup>50</sup>

In 2015, the Propaganda Department forced the documentary *Under the Dome*, focusing on China's environmental challenges, off the Internet and media outlet websites.<sup>51</sup> This highlights the limitations of the 'Internet with Chinese characteristics' vis-à-vis the state apparatus. The government is still uncomfortable with the idea of free debate and plain speak. The idea is further enshrined in the proposals for the 13th Five Year Plan with aims to 'strengthen ideological and cultural initiatives online. Cultivate a positive culture on the internet and "cleanse" its environment.'<sup>52</sup>

Social media play a crucial role in the Chinese context because the official sources of information are 'not trustworthy'.<sup>53</sup> In 2015 the number of Internet users in China was around 674.3 million.<sup>54</sup> The government has been successful in banning large gatherings of people, but has had limited success in controlling the Internet. Chinese Internet users have found new ways and methods to bypass the governmental bans and controls. The state's controlling of searches and restrictions on the Virtual Private Networks (VPN) providers was another aspect of the media and Internet in 2015.

## **Pollution and Environmental Issues**

China's uncontrolled and massive economic growth has had a major toll on the environment. This issue is the leading factor behind the increasing protests and mass incidents in China. According to the Environmental Protection Law (EPL) adopted by the CCP on 1 January 2015, 'economic and social development should be coordinated with environmental protection'. It 'encourages studies on the impact environmental quality causes on public health, urging prevention and control of pollution-related diseases'.<sup>55</sup> This law is being regarded as the most 'progressive and stringent law' adopted by China till date.<sup>56</sup> The EPL gives Chinese NGOs the right to sue polluters.<sup>57</sup> However, nothing much has changed on the ground. In April 2015 around 50 people were detained or arrested by police in two separate incidents of protests in southern Guangdong (housing issue) and in Beijing (taxi drivers).<sup>58</sup> In the same month the police arrested 50 people who were protesting against a chemical plant in China's Inner Mongolia.<sup>59</sup> In November 2015, the government held around 24 sugarcane farmers who were protesting in Guangxi's Wuxuan County.<sup>60</sup>

Taking a cue from President Xi, the 13th Five Year Plan (2016-2020) appears to focus more on balanced growth and seeks to try and make a shift towards a greener approach.<sup>61</sup> The degree to which pollution is a major problem for the government was reflected in a speech made by Premier Li Keqiang at the National People's Congress on 5 March. Li said that 'environmental pollution is a blight on people's quality of life and a trouble that weighs on their hearts. We must fight it with all our might.'<sup>62</sup> Similar sentiments were expressed by President Xi

when he said on 6 March that the people who destroy ecology or environment will be punished with an iron hand, with no exceptions.<sup>63</sup> The major proposals in 13th Five Year Plan with respect to the environment are:

- Support green and clean production. Continue transforming traditional manufacturing. Develop green financing systems and create green development funds.
- Create a national real-time online system for monitoring the environment.
- Ban replanting of large natural trees in cities.
- Ban commercial logging in natural forests.
- Introduce a strict water resource management system under which the government will draw up reasonable water prices and monitor supplies of underground water.<sup>64</sup>

One of the major steps undertaken by China to show its commitment to environmental issues was by successfully managing to install solar capacity equal to France's entire output by the first quarter of 2015.<sup>65</sup> The reduction in coal-powered power plants also resulted in better air quality in Beijing, while plans were made to replace more coal power plants with cleaner energy sources.<sup>66</sup>

According to the Pew Survey of April-May 2015, environmental damage is a major concern for a third of the Chinese population.<sup>67</sup> Around 35 per cent of the population are concerned about air and water pollution largely. Besides, around 30 per cent of the population is worried about food safety and the growing gap in income.<sup>68</sup> Today 60 per cent of the groundwater in China is not fit for human use; around one-fifth of the land is not fit for cultivation and the degree of air pollution is very severe, thus making environmental issues the number one reason for public protests.<sup>69</sup> In the words of So and Chu:

If the Chinese authorities do not take decisive steps in the near future and continue the hyper-growth model for another two or three decades, the environmental destruction may reach a point of no return and it may become difficult for the country to repair its damaged environment, restore the ecological balance, and promote sustainable development.<sup>70</sup>

The reason why the government prioritises economic growth over environmental degradation is that 'while protests from environmentally conscious middle-class Chinese fed up with air pollution can chip away at the regime's stability, protests by millions of unemployed Chinese could directly threaten it.'<sup>71</sup> Nevertheless, the steps announced by the government in 2015 to tackle environmental issues, which include reducing coal consumption, removing heavily polluting vehicles and also closing polluting factories, indicate that it is serious about addressing this issue. However, as pointed out by Willy Lam, environmental degradation is rooted in almost all aspects of the Chinese industrial and agricultural

growth and thus it is a very tough challenge to counter.<sup>72</sup> Chen Jining, the Environment Minister, argues that the mass incidents occurring due to environmental issues have the potential to hurt the 'government's credibility, turning an environmental issue into a social or political issue'.<sup>73</sup>

### *Environmental Protests*

The most prominent protests of 2015 came in August, after the blasts at a chemical warehouse in the city of Tianjin, which killed 173 people.<sup>74</sup> Amongst the dead, 88 were fire fighters.<sup>75</sup> The blasts were so intense that they were visible from space.<sup>76</sup> Various norms had been flouted by this warehouse owned by Ruihai International Logistics. It was just 500 metres away from residential areas and was also storing quantities that were way more than the permissible limit.<sup>77</sup> This also raised the issue of negligence and corruption on the part of the officials. There are reports that the government is charging and investigating 11 officials and has also arrested 12 people.<sup>78</sup> Such incidents also lead to increasing pollution and contamination of air, land and water resources.

The 103-minutes-long documentary *Under the Dome* by Chai Jing, released in February 2015, shows the extent to which pollution and environmental degradation is affecting Chinese lives. Just two days after its release the Propaganda Department called the media outlets to prevent any online search for the documentary or Chai Jing.<sup>79</sup>

## **Conclusion**

Developments in 2015 indicate no major change with respect to the existing discontent in Chinese society. The steps undertaken by the government like the National Security Law, Anti-Terror Law and the move to repeal one-child policy only strengthen the notion that it is in a desperate hurry to safeguard its supreme position. Even though the idea expressed by a Beijing Professor that 'The Party is like God. He is everywhere. You just can't see him'<sup>80</sup> still holds true, the extent of the control exercised by the party appears to be diminishing.

Economic growth was the driver of most of the changes proposed by the government in 2015. Allowing citizens to have two children and allowing rural people to migrate to urban areas by making changes in the *hukou* system indicate that China wants to increase its domestic consumption. The government has realised that it cannot sustain its growth levels solely on the basis of exports. The recent financial crisis has also pushed the government to look for ways to increase consumption domestically.

The government was struggling with the same issues of environmental degradation, pollution, discontent, floating population, etc. in 2015. However, it did take several steps to try and solve some of these problems. But the basic



argument holds true that the CCP is doing things 'too little too late'. Another important drawback has been the lack of enforcement. Even though the top leadership formulates better and newer laws, they are hardly enforced at the ground level. As has been argued by Ma Jun, 'When you have a situation where the laws are there but the enforcement is not quite there, then you're basically rewarding those who cut corners and hurting those who try to be responsible.'<sup>81</sup>

The core theme of Chinese society with regard to its relation to the party in 2015 is the party's slow response to the rapid societal changes underway. Economic growth gives rise to problems and changes in society, which in turn raise questions about the legitimacy and stability of the CCP. Contemporary Chinese society is seeking autonomy and this is especially important when the party is less relevant in the daily life of citizens. The Tianjin blasts highlight the issue of lack of trust with respect to the local officials. Even though the top leadership is regarded as 'sacrosanct' today, it is a matter of time before the people start questioning the leadership's responsibility and credibility.

#### NOTES

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# 4

## China's Approach to Terrorism, Separatism and Extremism

*Neha Kohli*

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### Introduction

Towards the end of 2014, China began drafting a series of legislations at the regional and national levels, with the aim of increasing central control over state organisations and reaffirming the supremacy of the Chinese Communist Party (CPC) and its ideology in the minds of citizens. These laws seek to establish an even stronger hold of the CPC on the country's political, security and legal affairs and, at the same time, ensure the party's survival in the years to come. They are also a consolidation of Xi Jinping's vision for the country. Of the three new laws, the National Security Law, which was passed by the National People's Congress in July 2015, 'constitutes the most expansive articulation yet of President Xi Jinping's vision of national security, and the widest interpretation of threats to the Communist Party and the state since the Mao Era.'<sup>1</sup> This law, along with two other laws on counter-terrorism and for controlling activities of foreign non-governmental organisations (NGOs) 'provide a firmer legal framework for controlling civil society and Western organisations...'<sup>2</sup>

In order to analyse the Chinese state's approach towards terrorism, separatism and extremism, this chapter examines the major legislation(s) discussed and passed in China in 2015. It finds that the state apparatus' apprehensions regarding the rising discontent and violence in the Xinjiang Uighur Autonomous Region (XUAR) over the last few years have been the catalyst for establishing a stronger legal framework that ties in with the purpose of maintaining the control of the CPC on the state. In a sense, the Chinese apparatus' thinking conflates terrorism, separatism and extremism with the events in XUAR, its western most province.

At the same time, the laws are a clearer articulation of how China seeks to address the issues of terrorism and extremism in future, both internally and externally. The chapter also looks at events occurring within Xinjiang in 2015 as well as how the growing extremism in West Asia is affecting the region, and in turn impacting state policy.

## **A Comprehensive Approach to Change**

While the said legislations are examined in some detail later in the chapter, it would be pertinent to ask *why* these changes were deemed necessary. It is here that the 'Four Comprehensives', articulated by President Xi Jinping in December 2014 and endorsed by the Party in February 2015 come into play.<sup>3</sup> The Four Comprehensives include:

1. Comprehensively building a moderately prosperous society.
2. Comprehensively deepening reforms.
3. Comprehensively implementing the rule of law.
4. Comprehensively strictly governing the Party.

The Four Comprehensives provide a clue to how the leadership and the state look at the issues of separatism, extremism and terrorism and formulate their approach to dealing with these issues. China's revision and updating of the security legislation in 2015 in particular, can be viewed in the context of the third Comprehensive, that of 'implementing the rule of law'. The first Comprehensive—'building a moderately prosperous society'—ties in with the Chinese approach towards a vexatious issue such as extremism, by addressing the economic and developmental causes of the issue. The One Belt One Road (OBOR) that China has been pushing for the last few years, passes through Xinjiang, a province which troubles Beijing the most. While connecting with Europe and the rest of the Asian landmass through its western provinces and borders makes economic sense, especially when it comes to diversifying trade routes and sources, it also seeks to create prosperity in a politically problematic region. The aim being that the political problem will be resolved, over time, via a largely economic solution. This also fits in well with how China approaches issues internationally: for example, when it comes to a conflict-ridden West Asia, China continues to advocate addressing the root [can be read as the economic and developmental] causes of the conflict in order to find a lasting and acceptable solution. As mentioned earlier, the focus of the establishment centres on Xinjiang and the recurring Uighur problem. The next section examines this in some detail.

## The Focus: Xinjiang

It is widely known that China's thrust towards tightening state control and centralising the security apparatus stems from enduring problems it faces in its westernmost province—the 'autonomous region' of Xinjiang. XUAR encompasses the entire stretch of China's western and south-western borders and a significant portion of its land territory, and adjoins Russia, Mongolia, the Central Asian republics of Kazakhstan, Kyrgyzstan, and Tajikistan, and Afghanistan. It is home to the Uighurs, an ethnically and culturally distinct people from the majority Han Chinese. For decades, the region has been the site of a state policy that systematically encourages Han migration to change the demographic balance in Beijing's favour and cut into the locals' demands for independence/greater autonomy.

Xinjiang remains paramount in the Chinese state's consciousness for two reasons: the first is the long-standing dissatisfaction of its Uighur inhabitants with the standardising, assimilationist policies of the People's Republic of China (PRC); and the second is its key location along the route of the OBOR initiative launched by President Xi Jinping. It also ties in with growing concerns in Beijing about the spread of Islamist terrorism to its borders, as the Uighurs are ethnically and religiously distinct from the majority Han Chinese—one of the many ethnic and religious minorities in the country, the Uighurs are of Turkic origin (like their Central Asian neighbours) and follow Islam.

In 2015, China celebrated the golden jubilee of the formation of XUAR: 'Xinjiang's population of 22 million from 47 ethnic groups...celebrate[d] its 60th anniversary....A system of ethnic regional autonomy was established in Xinjiang when it was founded on Oct[ober] 1, 1955.'<sup>4</sup> Xinjiang is home to some 10 million Uighurs who '...make up 46.4 [per cent] of the population [in the region]—the largest ethnic group.'<sup>5</sup> The Uighurs are a relatively small minority when viewed against the total population of the country; also, they are one of some 55 ethnic minorities that make up the PRC's population. Though formally incorporated into the People's Republic post 1949, Xinjiang '...has been intermittently independent and ruled by various Chinese empires...'<sup>6</sup> However, the region for many years now has been home to a separatist movement—the East Turkestan Islamic Movement (ETIM).<sup>7</sup> In December 2014, the 'Standing Committee of the Xinjiang regional parliament...passed a series of laws aimed at combating separatism and religious extremism in the country's [Uighur]-minority inhabited western province...'<sup>8</sup> which came into force on January 1, 2015. The '18 new laws clarify the nature of extremist religious activities and include regulations on activities or propaganda aimed at promoting religious extremism, inciting ethnic hatred or undermining national unity...'<sup>9</sup> The Chinese government published a White Paper on Xinjiang on September 24, 2015 which spoke of how the region's



‘...modernisation and development show successful implementation of China’s system of ethnic regional autonomy in the region...’<sup>10</sup>

### *Beijing’s Push to Regional Economic Development*

It is in Xinjiang, that China showcases, in particular, its method of economic development as a panacea to address political grievances. According to *Xinhua*, ‘[t]he region’s gross regional product (GRP) increased from 1.2 billion yuan (188.1 million U.S. dollars) in 1955 to 927.3 billion yuan in 2014, a 116-fold increase in real terms while its per-capita GRP rose to 40,648 yuan in 2014 from 241 yuan in 1955, a 23-fold increase in real terms, and a 5.6 percent annual growth.’<sup>11</sup> Often highlighted are the state-led efforts to improve living standards and education; ‘freedom of religious belief’ is another touted policy, which, according to the White Paper, ‘...has been implemented in Xinjiang’.<sup>12</sup> The paper highlights the following facts: ‘Xinjiang has 24,800 religious venues, including mosques, churches, Buddhist and Taoist temples with 29,300 clerical practitioners. Most of the 10 major ethnic groups are followers of Islam, and there are a total of 24,400 mosques with 28,600 clerical personnel in Xinjiang.’<sup>13</sup>

However, the Uighurs complain about the state’s policies, pointing out the encouragement given to the Han Chinese to migrate to and settle in the region. For example, rising incomes are seen as favouring the Han at the cost of the local Uighurs. The region also sees sporadic hostilities between the two communities and Uighur separatists and state authorities. One such incident occurred on September 18, 2015 in northwestern XUAR, at the ‘...Sogan colliery in Aksu (in Chinese, Akesu) prefecture’s Bay (Baicheng) county...’ and led to the death of at least 50 people and injured an equal number.<sup>14</sup> The attack was allegedly, carried out by ‘separatists’ and it was the colliery’s majority Han Chinese workers who suffered casualties.

Despite this, Beijing is looking at developing the cities of Kashgar and Khotan as the nodal points of its OBOR initiative, which would see its westernmost province become the connecting point to facilitate China’s connect with Central Asia, West Asia and Europe. According to *Xinhua*, ‘Expectations are high in Kashgar. Projects such as the China-Pakistan and China-Kyrgyzstan-Uzbekistan railways, though still in the discussion phase, have excited government officials and local people alike.’<sup>15</sup> ‘[T]here are plans for scheduled flights to Central Asia and Turkey’,<sup>16</sup> while the Sharjah-based low cost airline Air Arabia was planning flights from the United Arab Emirates to Urumqi in early 2015.

### *Concern over Extremism*

While Beijing pushes economic development in Xinjiang, the issues of separatism and extremism remain key concerns for it as well. According to *Xinhua*, ‘South Xinjiang’s Hotan, Kashgar and Aksu are areas overseas separatist forces have

penetrated, where the majority of the population are Muslim [Uighur]. More [Uighur] women have been observed wearing black Islamic robes instead of their traditional colourful [Uighur] costumes in recent years.<sup>17</sup>

Concerned about an increase in religious extremism in the region, the government has undertaken measures to address this issue. 'To fend off religious extremism, the regional government started a three-year program in March 2014 sending 200,000 cadres from urban government departments, public institutions and state-owned enterprises to live and work for a year in 12,000 villages, state farms and communities.'<sup>18</sup>

China has long claimed that Uighur separatists had links with the Al Qaeda and Taliban in the 1990s, and now, increasingly, with the Islamic State [IS] in Iraq and Syria. In 2001, China claimed that the East Turkestan Islamic Movement (ETIM) was a 'major component of the terrorist network headed by Osama bin Laden.'<sup>19</sup> Towards the end of 2014, the year IS overran large parts of Iraq and Syria, it was estimated that 'around 300 Chinese members of the [ETIM had] moved to Iraq and Syria to fight alongside the Islamic State.'<sup>20</sup> More recently, Nodirbek Soliev estimates that '...nearly 1,000 Uighur fighters and their family members from...Xinjiang...have joined both Al Qaeda's affiliate al-Nusra Front and its rival ISIS [IS] in the Middle East.'<sup>21</sup> Moreover, Soliev says, some 300-500 members of the 'Turkistan Islamic Party (TIP)/ETIM...are in Afghanistan.'<sup>22</sup> Many Uighurs fighting in West Asia are in Syria and a few have aligned with the Islamic State. In January 2015, China detained 10 Turkish citizens who allegedly assisted Chinese Uighurs in illegally entering Syria, Iraq and other West Asian countries, apart from cooperating with Turkey to track down escaped terror suspects from Xinjiang. In March of the same year, Turkey detained two Chinese Uighurs on suspicion of joining IS.

While the numbers of Chinese Uighurs who have joined IS and other affiliated radical jihadi groups might yet be small, and their inability to directly attack China may be limited, but as China increases its investments and reach into West Asia these investments also become viable targets for those dissatisfied with Beijing. A recent example was the 'August 2015 propaganda video issued by TIP featured Uighur militants ambushing vehicles carrying local security personnel of Chinese state-owned copper mine 'MesAyak' in Afghanistan's Logar province...'<sup>23</sup>

## **Legislating Security and Terrorism**

In February 2015, 'Chinese lawmakers began reviewing draft legislation for the country's first anti-terrorism law...to better counter terrorist activities while protecting citizen's rights.'<sup>24</sup> This was '...China's latest attempt to address terrorism at home and help maintain world security.'<sup>25</sup> A statement from the National

People's Congress (NPC) said that ‘...lawmakers agreed that China faces a “real and long-term” threat to the lives and property of the Chinese people, and that terrorist attacks had severely damaged national security and social order. A specialised counterterrorism law...is imperative in such circumstances.’<sup>26</sup> In March of the same year, the draft of a comprehensive new national security law was also circulated for discussion and feedback. Of the three draft laws that made the news in China and outside in 2015, the first and most important, is the national security law, which seeks to maintain ‘security in all aspects of society, from culture to education to technology “to realise the great rejuvenation of the Chinese nation.”’<sup>27</sup> Two co-related laws aim at countering terrorism and controlling the activities of foreign as well as Chinese NGOs.

### *National Security Law 2015*

China's first National Security Law dates to 1993, which was repealed by the 2014 Counter Espionage Act. The impetus for legislating a new law, in the leadership's view, appears to be the inability of this 22-year old law and the existing ‘...security apparatus...[to]...meet existing and non-traditional challenges brought about by rapid pace of globalisation and developments in information technology...’<sup>28</sup> The new law was adopted by 154 law makers at an NPC session on July 1, 2015 and ‘...covers a wide spectrum of topics including defence, finance, science and technology, culture and religion.’<sup>29</sup> The controversial law has been criticised as being too broad in definition and sweeping in scope, covering ‘...a wide range of state interests including its military action overseas, but [also] stokes fears of greater limits on citizens' freedom.’<sup>30</sup> The law effectively ‘...solidifies...Xi's authority over national security by placing a central organ [most likely] the National Security Commission [headed by Xi]—in charge of all security matters.’<sup>31</sup>

As per the Chinese viewpoint, such a law is ‘...crucial in the face of “ever-growing security challenges.”’<sup>32</sup> Zheng Shuma, Deputy Director of the Commission for Legislative Affairs of the NPC Standing Committee that adopted the law, articulated the Chinese position: ‘We face dual pressure. Externally, the country must defend national sovereignty as well as security and development interests. Internally, it must also maintain political security and social stability.’ Zheng further added that a comprehensive legislation that safeguards the country from ‘all kinds of security threats and risks’ is needed as they are “more complicated than any other times in history.”<sup>33</sup> According to legal firm Covington & Burling LLP: ‘...[the] newly enacted Law is not merely an updated version of the repealed original Law; rather, it creates an enabling legal infrastructure broadly covering China's modern security apparatus, in contrast to earlier legislative initiatives in this field, such as the draft Counter-terrorism Law, which focused specifically on the issue of terrorism.’<sup>34</sup>

Table 1: China's 2015 Security Law

<i>Chapters</i>	<i>Focus</i>
Chapter 1	Sets forth guiding principle for protecting national security
Chapter 2	Defines national security broadly and across multiple dimensions, for example, economic security, cultural security, etc.
Chapter 3	Describes the functions and responsibilities of the NPC and different branches of the government
Chapter 4	Articulates the key elements of the national security regime, such as intelligence collection, risk assessment, national security review, and responding to states of emergency
Chapter 5	Outlines the mechanism for allocating resources to national security work
Chapter 6	Defines the obligations of citizens and corporations to assist in protecting national security
Chapter 7	Supplementary provisions

*Source:* 'China Enacts New National Security Law', Covington, July 2, 2015, available at [https://www.cov.com/-/media/files/corporate/publications/2015/06/china\\_passes\\_new\\_national\\_security\\_law.pdf](https://www.cov.com/-/media/files/corporate/publications/2015/06/china_passes_new_national_security_law.pdf).

The law consists of 84 articles that are divided into seven chapters (see Table 1). 'The new law introduces the 'sweeping concept of national security into Chinese law for the first time',<sup>35</sup> saying that '...“security” must be maintained in all fields, from culture to education to technology.'<sup>36</sup> Article 2 of the law is significant in that it defines the concept of 'national security' in '...an incredibly broad way as "the relative absence of international or domestic threats to the state's power to govern, sovereignty, unity and territorial integrity, the welfare of the people, sustainable economic and social development, and other major national interests, and the ability to ensure a continued state of security."<sup>37</sup>

According to Eva Pils, the law '...imposes an obligation on all Chinese citizens to contribute to the protection of national security, and it purports to legalise the measures taken—both by the authorities of the state and by citizens and organisations "assisting" the authorities—to protect national security.'<sup>38</sup>

'The principal obligations are set forth in Article 80 and include, for example, reporting information on activities that may damage national security, protecting and providing (to the authorities) evidence on activities that may damage national security, protecting national secrets, and providing data, information, and technological support or assistance to security agencies, law enforcement agencies, and the military.'<sup>39</sup> The law extends legal protection to citizens who assist the state in this endeavour. Article 80 also covers the financial aspect... 'prohibit[ing] providing [of] financial assistance or other assistance to individuals and organisations that pose a threat to national security. Citizens and corporations

also have an obligation to cooperate with *security agencies when such agencies are carrying out national security work*.<sup>40</sup> A few important articles from Chapter II of the law are listed in Appendix A.

Pils, an expert on Chinese law at King's College, London, says that the '...definition of national security [in the law] meant that "practically any aspect of social or economic life can be regarded as a matter of national security and thus gives the institutions empowered by the law a mandate to intervene."<sup>41</sup> Most critics of the legislation have described this broad definition as problematic and one that furthers the state's authoritarian character.

### *Counter-terrorism Law*

The law was passed in December 2015 and came into force on January 1, 2016. It consists of 97 articles divided into 10 chapters. 'While the first and last chapters involve general and supplementary provisions, the other chapters deal with major issues on counter-terrorism such as terrorism designation (chapter 2), prevention (chapter 3), intelligence gathering (chapter 4), investigation (chapter 5), emergency response (chapter 6), international cooperation (chapter 7), safeguards (chapter 8), and legal liabilities (chapter 9).'<sup>42</sup>

The law defines terrorism as: 'Any advocacy or activity that, by means of violence, sabotage, or threat, aims to create social panic, undermine public safety, infringe on personal and property rights, or coerce a state organ or an international organization, in order to achieve political, ideological, or other objectives.'<sup>43</sup>

The draft, and the now enacted, law included certain provisions referred to as '..."backdoor provisions". These portions of the draft law would have required telecommunications operators and Internet service providers to allow the Chinese government "backdoor" access to their products, to handover encryption codes for review, and to store local user data on servers within China.'<sup>44</sup> This law '...calls for...foreign technology and financial companies to hand over encryption keys to Chinese agencies and install security back doors in technology'<sup>45</sup>, moves that have been widely criticised.

Activists have raised questions regarding the law's conformity with international legal standards and are concerned about its effect on movements within China. According to Human Rights Watch: 'As currently drafted, the law would legitimate ongoing human rights violations and facilitate future abuses, especially in an environment lacking basic legal protections for criminal suspects and a history of gross human rights abuses committed in the name of counterterrorism. Such violations are evident across the country and particularly in the Xinjiang Uyghur Autonomous Region, the region that has been most affected by acts of terrorism and political violence in recent years.'<sup>46</sup>

### *NGO Law*

The draft law proposed greater regulation of Chinese and foreign NGOs already operating in the country, as well as those that seek to commence operations there. The draft law proposed that non-governmental organisations '...be registered with and regulated by the Public Security Ministry...' <sup>47</sup> 'Before registering, foreign NGOs would have to find an official sponsor. To get official backing and to win the approval of the security ministry, the NGOs would have to drop or severely curtail activities that officials might consider politically suspect...' <sup>48</sup> According to *The Guardian*, '[v]iewed under the draft law less as partners of the government and more as a security risk, local advocates fear harassment and arrest; foreigners fear anything from restrictions on their activities to expulsion.' <sup>49</sup>

The Chinese viewpoint on the law differs from the above: '...[the] draft law on overseas NGOs...protects legitimate rights and interests of overseas NGOs in China, and will provide convenience and offer preferential tax treatment for their operations.' <sup>50</sup>

It would appear that this law, along with the two discussed above, is aimed at stifling dissent and sending a stern message to those preparing to oppose the state and its policies. Also, any activities deemed suspicious by the state apparatus can now attract a crackdown by the authorities. For example, in March 2015, 'Chinese police raided a high-profile nongovernmental organisation [the Beijing Yirenping Center], taking its computers and financial documents...' <sup>51</sup> The raid was apparently related to the Center's campaign against the arrest and detention of five women's rights activists who were arrested prior to International Women's Day on March 8. <sup>52</sup> China had rejected calls to free these activists.

### **Military Reforms**

Also relevant to the issue of separatism/extremism and XUAR (as well as the Tibet Autonomous Region [TAR]) are the series of military reforms being undertaken in China. The most telling of these reforms is the merger/regrouping of the current set of military commands from seven to five theatre commands in total and placing the Central Military Commission (CMC) more in command and control of the armed forces. The five new theatre commands are the Eastern Theatre Command, the Southern Theatre Command, the Western Theatre Command, the Northern Theatre Command, and the Central Theatre Command. According to Chinese Defense Ministry spokesman Yang Yujun, these commands have been 'set up according to China's security environment and the military's missions and tasks.... This adjustment is conducive to improving the joint operational commanding institutions, forming the joint operational system, better safeguarding national sovereignty, security and development interests, and maintaining regional stability and world peace.' <sup>53</sup> The Western Theatre command,

the largest of the five, straddles PRC's borders from Mongolia in the north to Myanmar in the south, as well as bordering Russia, the Central Asian Republics, Afghanistan, India, Nepal, and Bhutan. It encompasses the areas under the erstwhile Lanzhou and Chengdu military regions and thus covers Xinjiang as well as Tibet, among other provinces.

According to Jayadeva Ranade, '[the] reorganisation is intended to concentrate firepower and troops trained for a specific type of warfare within a single theatre or zone for ease of rapid deployment...[which] gives the PLA a definite "outward orientation" neatly meshing with its doctrine of "active defence".'<sup>54</sup> This assumes significance for India as the massive Western Theatre Command, the former Lanzhou and Chengdu Military Regions, now covers the India-China border stretch. However, it must also be understood that the military reforms are not just outward oriented, they also point clearly to management of situations and locations of internal dissent and dissatisfaction. Manoj Joshi opines that '[as] a nuclear-armed state with a powerful military, China faces no existential threat from any foreign enemy. What it appears to fear is "subversion", "sabotage" and "the enemy within"...manifest[ed]...through the problems that arise from displacement and retrenchment, as well as in the case of Tibet and Xinjiang, separatism, and resistance to heavy-handedness.'<sup>55</sup>

The merger of Lanzhou and Chengdu and the creation of a vast western theatre command, in effect, creates a massive centralised military command overseeing XUAR and TAR, which ties in with the legislative, politico-economic and demographic attempts to increase state control over these regions. Observers such as Joshi contend that the problems facing China now, and indeed in the future, would be more internal than external. It should thus be remembered that the Chinese military reforms are focussed as much internally as externally.

## **Conclusion**

On his visit to Kashgar to mark 50 years of XUAR, Yu Zhengsheng, chairman of the National Committee of the Chinese People's Political Consultative Conference and 'a member of the Politburo Standing Committee' said: 'The three forces (separatism, terrorism and extremism) are the biggest threats for Xinjiang and the common enemies for people of all ethnic groups. We must clench our fists tight and take the initiative to crack down on violence and terror activities strictly and lawfully and fight the three forces...'<sup>56</sup>

Beijing posits that it is a victim of terrorism and 'has repeatedly accused Western governments and media of upholding a double standard of terrorism that fails to acknowledge China's struggles with violent extremism in its far west.'<sup>57</sup> 'It is thus looking to 'deepen its fight against separatists, intensify "de-radicalization" efforts, and increase global cooperation to defend against

terrorism...<sup>58</sup> Yu's sentiment was echoed by Foreign Minister Wang Yi, when he stated at a G-20 summit meeting in Turkey that '[c]racking down on the separatist movement [in Xinjiang] "should become an important component of international counterterrorism..."<sup>59</sup> This ties in with Beijing's interest in seeing '...a UN-approved definition of terrorism—which would include China's own issues with Uyghur separatist groups, thus ending once and for all what China sees as the West's "double standard" toward terrorism.'<sup>60</sup>

China's approach to terrorism and extremism tilts more towards the internal dimension in Xinjiang rather than the external. Uighur restiveness and extremism in XUAR bothers Beijing considerably, more so as it is not isolated from occurrences beyond its borders. In 2015, three instances of Islamic terrorism impacted China: a Chinese citizen was injured in the Paris attacks; three Chinese were killed in a terror attack in Mali; and the Islamic State executed a Chinese hostage. Beijing, however, advocates addressing both the causes and symptoms of global terrorism and does not see merit in moving beyond its non-interventionist policy to involve itself militarily beyond its borders.

Both internally and externally, Beijing prefers to pursue economic engagement and growth as solutions to the issues that generate terrorism and extremism. In Xinjiang, however, the state does not walk the talk entirely: economic investment and growth are accompanied by repressive state actions and, as has been seen in 2015, these are now being institutionalised and legalised. Uighur discontent continues to persist, economic investment and growth are seen to benefit the Han Chinese and not the former. While the government has been publicly saying that the 'religious atmosphere in...violence-prone...Xinjiang has [become] markedly less radical and the government was broadly successful in maintaining stability...'<sup>61</sup> Its actions are more in apprehension of a resurgence of religious/ethnic violence, than not. The new security and counter-terrorism laws allow the state much more authority than before to clamp down on people's rights, although they are already limited in nature and scope. For the Uighurs in Xinjiang, this means greater repression and growing discontent with an already powerful regime. In December 2015, Simon Denyer of the *Washington Post* reported that: 'China...mounted an extraordinary set of attacks against Communist Party members in the troubled western regions of Xinjiang...with accusations of disloyalty, secret participation in religious activity...and even support for terrorism. The accusations reflect a hardening of the party's stance in...Muslim-majority Xinjiang...as well as President Xi Jinping's determination to push for ideological purity within the party nationwide, quashing debate and dissent.'<sup>62</sup>

The year 2015 thus saw legal and institutional consolidation of the CPC on the country's political, security and legal affairs as well as Xi Jinping's vision for the country, aided by military reforms. How 2016 will pan out with the laws



guaranteeing greater state control on the citizens and consolidation of Xi Jinping's power in the Party and State institutions remains to be seen.

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## Selected Articles from the New Security Law

**Article 3:** draws a direct link between national security and economic, cultural, and social security.

*Chapter II, which includes Articles 15 to 34, covers tasks in preserving national security.*

**Article 15:** The State persists in the leadership of the Chinese Communist Party, maintaining the socialist system with Chinese characteristics, developing socialist democratic politics, completing socialist rule of law, strengthening mechanisms for restraint and oversight of the operation of power, and ensuring all rights of the people as the masters of the nation, and strengthening restraint and oversight mechanisms on the operation of power.

The State guards against, stops, and lawfully punishes acts of treason, division of the nation, incitement of rebellion, subversion or instigation of subversion of the people's democratic dictatorship regime; guards against, stops, and lawfully punishes the theft or leaking of state secrets and other conduct endangering national security; and guards against, stops, and lawfully punishes acts of infiltration, destruction, subversion or separatism by foreign influences.

**Article 16:** The State maintains and develops the most extensive fundamental interests of the people, defending the people's security; creating positive conditions for survival and development and a positive environment for living and working; ensuring the safety of citizens' person and property and other lawful rights and interests.

**Article 18:** The State makes the armed forces more revolutionary, contemporary, regular; establishing and defending national security and developing the necessary related armed forces; implements an active military defense strategy directives, taking precautions against and withstanding invasion, stopping armed subversion and separatism; develops international military security cooperation, carrying out military actions in U.N. peacekeeping, international rescue, maritime escort, and protection of the State's overseas interests, and preserves State sovereignty, security, territorial integrity, development interests, and world peace.

**Article 23:** The State Persists in the orientation of the advanced socialist culture, carrying forward the excellent traditional culture of the Chinese people, cultivating and practicing the socialist core values, guarding against and resisting negative cultural influences, taking hold of dominance in the ideological, culture and enhancing the overall strength and competitiveness of the entire culture.

**Article 25:** The State establishes a national network and information security safeguard system, raising the capacity to protect network and information security; increasing innovative research, development and use of network and information technologies; to bring about security core techniques and key infrastructure for networks and information, information systems in important fields, as well as data; increasing network management,

preventing, stopping and lawfully punishing unlawful and criminal activity on networks such as network attacks, network intrusion, cyber theft, and dissemination of unlawful and harmful information; maintaining cyberspace sovereignty, security and development interests.

**Article 26:** The State adheres to and improves upon the ethnic autonomous region system, solidifying and developing unity and mutual aid, a harmonious socialist ethnic relationship. Uphold the equality of all ethnicities, strengthening interaction, communication, and mingling of ethnicities, and prevent, stop, prevent and lawfully punish activities dividing ethnicities, preserving social tranquility, and the unity of the motherland in ethnic regions, realizing ethnic harmony and a common unified struggle and a common prosperous development of all ethnicities.

**Article 27:** The State lawfully protects citizens' freedom of religious belief and normal religious activities, upholds the principle of religions managing themselves, preventing, stopping and lawfully punishing the exploitation of religion's name to conduct illegal and criminal activities that endanger national security, and opposes foreign influences interference with domestic religious affairs, maintaining normal order of religious activities.

The State shuts down cult organizations in accordance with law, preventing, stopping, lawfully punishing and correcting illegal and criminal cult activities.

**Article 28:** The State opposes all forms of terrorism and extremism, and increases the capacity to prevent and handle of terrorist activities, developing efforts in areas such as intelligence, investigation, prevention, handling and capital monitoring in accordance with law, lawfully putting an end to terrorist organizations and strictly punishing violent terrorist activities.

**Article 33:** The State takes necessary measures in accordance with law to protect the security and legitimate rights and interests of overseas Chinese citizens, organizations and institutions; and ensures the nation's overseas interests are not threatened or encroached upon.

**Article 34:** The State continuously improves the tasks of preserving national security based on the needs of economic and social development and national development interests.

*Source:* Excerpts from an unofficial translation of the 'National Security Law of the People's Republic of China', *Council for Foreign Relations*, July 1, 2015, available at <http://www.cfr.org/homeland-security/national-security-law-peoples-republic-china/p36775>; and 'China Enacts New National Security Law', *Covington*, July 2, 2015, available at [https://www.cov.com/-/media/files/corporate/publications/2015/06/china\\_passes\\_new\\_national\\_security\\_law.pdf](https://www.cov.com/-/media/files/corporate/publications/2015/06/china_passes_new_national_security_law.pdf).

# 5

## Reform and Restructuring: Chinese Military in Transition

*M.S. Prathibha*

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### Introduction

The Chinese leadership has initiated a variety of reforms and restructuring in the Chinese military in the recent years. The Chinese President Xi Jinping has often reiterated the need to build the People's Liberation Army (PLA) into a strong army. The Chinese dream<sup>1</sup> according to Xi needs a strong army for the rejuvenation of the Chinese nation after a century of humiliation. This would indicate return of China to a preeminent place in the world through a strong army. The realisation that there is: chronic corruption; organisational inefficiency; sub-standard training; a flawed promotion system; and an ineffective decision-making process in the army has led the leadership to initiate a wide range of reforms and restructuring. From the latter part of 2014 to early 2016, reforms were undertaken in organisation and administration; theatre and operational command; military education; military training; leadership; promotions and other personnel reforms. Hence, the drive to make the Chinese army more professional stems from the concern that the PLA will be unable to win wars if the structural constraints are not mitigated. The Chinese military transition is thus an exercise to evolve the PLA into a modern fighting force, in information dominated warfare conditions.

It is evident from these military reforms that Xi Jinping is particular about transforming the PLA into a fighting force that can win wars. The anti-corruption is also a significant part of reforms in the PLA. Contrary to popular assumption, corruption in the PLA is considered a structural impediment to personnel management and promotion, affecting the army's ability to win wars. Apart from

these measures, China has also committed to increase PLA's interactions with other militaries of the world and reforms to enable civil-military integration by allowing private enterprises to enter defence procurement. In addition, move towards transparency is gaining momentum for deterrence purposes as seen in its heightened presence in South China Sea.

### **Military Parades and Symbolism**

The year 2015 was marked by symbolism with China organising a military parade for commemorating the 70<sup>th</sup> Anniversary of the Victories of Anti-Japanese War of the Chinese People and the World Anti-Fascist War. This parade showcased the ways in which the Chinese military was transforming itself. By inviting other countries and introducing many new systems, it was evident that the Chinese military was now more willing to be transparent about its capabilities and military diplomacy with other countries. Seventeen different countries participated in the parade held on September 3, 2015, while the PLA contributed 12,000 troops. The formations in the parade hinted at a willingness to incorporate far reaching changes in the military organisation to acquire the capability to become an efficient fighting force. Further, various services debuted new armaments and equipment. Qu Rui, the deputy director of the Office of the Parade Leading Team and Deputy Chief of the Operations Department of the General Staff Headquarters, said that the parade had “ground combat, air defence and missile defence, maritime attacks, strategic strikes, communication support and logistics and armament support based on their actual combat role”.<sup>2</sup>

The main purpose of the parade seemed to display the advanced weaponry of the PLA and the strides made in the modernisation of the PLA. Considering that actual combat capabilities of the PLA have not been tested in combat for a long time, these parades were a way of showcasing these capabilities for deterrence purposes. The political implications however are much larger because China views itself as one of the victorious powers that stood against fascism.<sup>3</sup> China is thus once again identifying itself as a rising power that was on the right side of history unlike Japan, and is thus have the legitimacy of assuming the leadership in Asia and upholding peace in the region.

### **Expansion of Anti-Corruption Drive in the PLA**

The military parade on the one hand showed the desire of the Chinese leadership to will the international community to view the Chinese military as a modern army. But the continuous anti-corruption inspections of various military organs and investigations of high-level officers indicate the power transitions within the Chinese military. In 2015, the anti-corruption drive was extended to the PLA after its initial foray in the political establishment.<sup>4</sup> Whereas in the beginning, it

concentrated on the Party officials, by mid-2014, inspections were carried out in various military departments. As a result, Xu Caihou, the highest ranking PLA official, who was then the Vice-Chairman of the Central Military Commission (CMC), was charged with corruption. On June 30, 2014, it was announced that he had accepted payments for personnel promotions and granted businesses favours through his position. Xu Caihou, Lieutenant General Gu Junshan, the former deputy head of the PLA Logistics Department was also charged with corruption for misusing his position and appropriating large sums of money.

It was therefore not surprising that China announced that the anti-corruption drive would be expanded in 2015.<sup>5</sup> In the same year, the intensity of the campaign was evident when China once again reiterated its commitment to expand anti-corruption drive in the military. The Central Commission for Discipline Inspection (CCDI), headed by Wang Qishan is in charge of the anti-corruption campaign. The CCDI typically sends inspection teams to various provinces and offices to carry out inspections and audits of organisations and individuals. On January 15, 2015, a list of 16 PLA officers, who were being charged with corruption was released.<sup>6</sup> They were: Liu Zheng (deputy head of PLA Logistics Department); Yu Daqing (deputy political commissar of Second Artillery); Fan Changmi (deputy political commissar of Lanzhou Military Region (MR)); Wang Minggui (former political commissar of PLA Air Force Command School); Fang Weiping (former head of the Shanxi Military Command (MC)); Wei Jin (deputy political commissar of Tibet Military Command); Ye Wanyong (political commissar of Sichuan Military Command); Zhang Qibin (deputy chief of staff of Jinan Military Command); Fu Lingguo (deputy chief of staff of PLA General Logistics department); Dai Weimin (deputy President of PLA Nanjing Political College); Gao Xiaoyan (deputy political commissar of PLA Information Engineering College); Ma Xiangdong (head of Political Affairs Department of PLA Nanjing Political College); and Zhang Daixin.

As a sign of the expanding anti-corruption drive, more PLA officers were charged with graft. A second list was released on March 2, 2015. The highest ranking official to be brought under investigation was Guo Zhenggang, the deputy political commissar of Zhejiang Military Area Command and the son of former vice-Chairman of the CMC, Guo Boxiong. Others were: Chen Jianfeng (joint logistics deputy head of Guangzhou Military Area Command (MAC)); Zhu Heping (Joint Logistics Department of Chengdu Military Area Command); Wang Aiguo (director of joint logistics department of Shenyang MAC); Huang Xianjun, (former director of the political department of the Shanxi Provincial Military Command); Duan Tianjie (deputy director of the political department of the PLA National Defense University); Yuan Shijun (former commander of the Hubei PMC under the PLA Guangzhou MAC); Huang Xing (former director of the



research instruction department of the PLA Academy of Military Sciences); Zhang Dongshui (deputy political commissar of the PLA Second Artillery Force); Liu Hongjie (deputy director of the management and support department of the PLA General Staff Headquarters); Cheng Jie (deputy chief of staff of the North China Sea Fleet of the PLA Navy); Chen Jianfeng (former deputy director of the joint logistics department of the PLA Guangzhou MAC); Chen Hongyan (deputy director of the political department of the air force under the PLA Beijing MAC); Wang Sheng (director of the logistics department of the air force under the PLA Guangzhou MAC); Guo Zhenggang (deputy political commissar of the Zhejiang Provincial Military Command of Nanjing MAC); and Lan Weijie (former deputy commander of the Hubei PMC under the PLA Guangzhou MAC).<sup>7</sup>

On April 26, 2015, three more high-level officers were placed under investigation. These were: Zhan Guoqiao (former head of Joint Logistics Department of Lanzhou Military Region); Dong Mingxiang (former head of Joint Logistics Department of Beijing MR); and Zhan Jun (former deputy commander of the Hubei MC).<sup>8</sup> On May 29, 2015, two more senior officers, Zhou Mingji (deputy director of Nanjing command's political department) and Fu Yi (former commander Zhejiang military command) were charged.<sup>9</sup> In addition, anti-graft inspection teams were sent to the four general headquarters from September 28, to November 10, 2015. These inspection teams were crucial for uncovering misappropriations in various agencies. The Chinese defence ministry announced that China had zero tolerance for corruption, and that inspections teams would start "inspections of Party committees of the PLA Navy, the PLA Air Force, the PLA Second Artillery Force and the People's Armed Police Force... and more down-to-earth inspections will be conducted this year and cover all major military organs and units".<sup>10</sup> The investigation of many senior level officers across services indicate the seriousness of the campaign, as mentioned in the document issued by the CMC on January 30, 2015. It stated that it would step up its campaign against corruption in the military to "root out chronic diseases, seek both temporary and permanent solutions and fundamentally improve the work style".<sup>11</sup> In November 2015, two more officers – Wu Ruizhong (deputy political commissar of the Second Artillery Engineering University) and Qu Mutian (former deputy commander of the transport command for the paramilitary People's Armed Police) were placed under investigation.

It was also made clear that auditing has now been strengthened and that efforts were being made, "to expose problems, inspect the military, correct wrongdoings and punish corrupt officers, stepped up reforms on relevant systems and mechanisms".<sup>12</sup> A further indication of this was visible in December 2014, when Xi Jinping, on the occasion of the Political Work Conference in Fujian province said that Party should retain the absolute command of the army. He

further stated that the assessments and promotions of the military officers would be based on fighting capacity, as it will be on the ability of the soldiers to win and fight battles.<sup>13</sup> It showed that China was moving towards promoting their military officers on the basis of their proficiency rather than personal connections and bribes. The improved auditing on the other hand would prove more effective in prosecuting individuals for corruption as it would provide evidentiary support in case of any misappropriations in the organisation.

## **Defence Budget and Chinese Military Activities**

There are other indicators which, depicted China's attempt to engineer its military transition. One such is its defence budget of March 2015 which once again included plans for aiding the Chinese military. The defence budget was about 886.9 billion Yuan (\$141.45 billion) in 2015. This is an increase of 10.1 percent. Chen Zhou of the Academy of Military Sciences said that this is for military training, updating of weapons and equipment and improving the soldiers' living conditions. The focus is on boosting the army's combativeness.<sup>14</sup> The defence budget is not only needed to aid military transformation but in also to bolster China's military activities in the region. In presenting the work report to the National Congress, Li Keqiang, the Chinese Premier said that the budget was aimed towards "strengthening modern logistics, step up national defence research and development of new and high-technology weapons and equipment and develop defence related science and technology industries".<sup>15</sup> The Chinese defence white paper gives further clues as to the priorities of the PLA. The white paper states that preference would be given to the role of the open seas and cyber space.

While the defence budget and military strategy provides hints about how China looks to transform its military, its military activities in the region reveal its immediate concerns. The most significant Chinese military activities and exercises have been in its immediate security environment. For instance, its activities in South China Sea have raised concerns in the region and among other major powers. Even before 2015, China was building an airstrip in one of islands in Paracel Islands, called Woody (Yongxing) Island. This airship is about 2800 metres length in the Woody (Yongxing) Island. This is an important development because in 2011, China had already built a harbour on Woody Island. The infrastructure development is even more significant because the Paracel Islands are under the jurisdiction of Sansha city on the South China Sea, and thus it gives China the necessary military capability to strengthen its claim. Obviously, any US role is seen as negative and characterised as impinging on the bilateral relationship itself. For instance, the US policy to send military aircraft or ships into the region is a thorn in China's side. In one of the press briefings, the spokesperson made it clear that it was detrimental to the bilateral relationship, and that "such actions

severely damaged the mutual trust of the two militaries and are also counter-productive to both sides' efforts to establish the new type of China-US military-to-military relationship".<sup>16</sup> In fact China had cautioned the US against getting involved in bilateral disputes, following the remarks made by US Defence Secretary Ashton Carter on April 2015 about the Senkaku Islands and its applicability within the US-Japan Alliance.<sup>17</sup> This could mean that the US could come to Japan's rescue if Japanese interests are threatened in Senkaku. It was not just the South China Sea that saw increased Chinese presence, its military exercises both inter-services and with other countries have also played a significant role in 2015. One such was Exercise Tropic Twilight, a New Zealand-headed military exercise in the Pacific that focused on humanitarian assistance and disaster relief.

### **Military Reform**

China's military reforms were announced during the Third Plenary Session of the 18th Chinese Communist Party Central Committee in November 2013. These reforms are underway because the leadership believes that China would have to keep in line with the global revolution in military affairs. Moreover, Party discipline has become an important issue for the Communist Party, especially Party loyalty. Not surprisingly, Xi has stated that military leaders should be politically intelligent about discerning the rights and wrongs in political matters. In other words, the influence of foreign ideologies as a threat, will be incorporated into political education and military officers will be trained to differentiate between Chinese Party ideologies and others. Xi stated that the military leaders should "frequently, actively and resolutely" align their direction with the CPC Central Committee and the CMC".<sup>18</sup> Moreover, discipline has emerged as an important factor for the PLA. The problem of discipline are generally characterised by excessive meetings, redundant paperwork, unnecessary appraisals and inspections.

The main focus of the structural reform of the Chinese military, as stressed by Xi Jinping, has mostly been on military administration and command.<sup>19</sup> Not only that, but reforms were seen as fundamental to the future of the PLA in the light of the military reforms being undertaken in other countries. These reforms also indicate the assessment of the Chinese leadership as to what they consider as the shortcomings of the PLA. For instance, China was planning to introduce management systems to ensure that military spending is done efficiently. Moreover, when Xi Jinping visited Kunming on his first domestic inspection tour, he again urged that the army should follow the Party's instructions, and identified four areas on which the army should focus. These are: the CPC committees in the military; heightening combat readiness; active role of officers and soldiers; and rule of law.<sup>20</sup> These were shortcomings according to the Chinese leadership. The

general goal of the military reforms seems to be a “strong army”, which is part of the Chinese Dream. Military reform is also crucial for the “systematic, structural and policy barriers”<sup>21</sup> that currently inhibit the Chinese army. In addition, the restructuring of the military is being undertaken keeping in mind the objectives of the Chinese leadership such as: a joint battle system in which where joint training, a joint command system and joint operations are emphasised.

### **Military Restructuring: Leadership and Organisation:**

The Chinese PLA went through military restructuring as part of Xi Jinping’s campaign to increase the Chinese army’s ability to win wars and to streamline the decision-making process. In particular, the focus is to win wars and the restructuring is being done, with the constraints that hamper this capability, in mind.<sup>22</sup> The first step in this direction is to determine the role of the CMC in the hierarchy. According to the leadership, after the restructuring, the CMC will assume the overall administrative charge of PLA, the Chinese People’s Armed Police, the militia and the reserve forces. This has been specifically designed to strengthen the CMC’s “centralised and unified” leadership “to ensure that supreme administration and command status belongs to the CMC and the CPC Central Committee”.<sup>23</sup>

For the CMC to assume absolute control of the various branches and services of the Chinese military, the four military headquarters, such as the General Staff, General Politics, General Logistics, and General Armament would be reorganised into 15 new agencies. According to *Xinhua*, the new agencies would include:

Six new departments: joint staff, political work, logistical support, equipment development, training, and national defence mobilisation. There are three commissions—discipline inspection, politics and law, and science and technology—as well as the general office and five more: administration, auditing, international cooperation, reform and organisational structure, and strategic planning.<sup>24</sup>

They are the CMC General Office; the CMC Joint Staff Department; the CMC Political Work Department; the CMC Logistic Support Department; the CMC Equipment Development Department; the CMC Training Management Department; the CMC National Defence Mobilisation Department; the CMC Discipline Inspection Commission; the CMC Political and Law Commission; the CMC Science and Technology Commission; the CMC Strategic Planning Office; the CMC Reform and Formation Office; the CMC International Military Cooperation Office; the CMC Audit Office and the CMC Agency for Offices Administration.<sup>25</sup> The CMC Joint Staff would carry out “combat planning, command control and combat command support, studying and formulating military strategy and requirements, organising combat capability assessment, organising and instructing joint training, construction of combat readiness and

routine war preparedness work”.<sup>26</sup> As part of its restructuring, the military administration structure and command system has been reorganised. This will especially impact joint operational command, policy systems, military structure, and civil-military integration. Moreover, the CMC also underwent changes as more departments were added for supervision and coordination, while some were diluted.

Apart from the reorganisation of the CMC, there would be a three-tier system, which links the CMC to the battle zone command, which in turn is linked to the troops' command system thereby linking the decision-making process from the CMC directly to the troops. Thus the regional military command system will be redesigned as battle zone command. This would obviously make decision making easier as there will be clear line of command, from the top to the bottom. Apart from these changes, a general command centre for land forces will be established separately. Previously, the command and control of the CMC was through the four general headquarters. Now with the elimination of these four headquarters, the CMC would have the direct control and supervision of the services and departments.

In further restructuring, the PLA's seven military regions will be reorganised into five theatre commands. They are: Eastern Theatre Command; Southern Theatre Command; Northern Theatre Command; Western Theatre Command; and the Central Theatre Command. On February 1, 2016, President Xi conferred military flags to these five theatre commands. The purpose of this reorganisation appears that it would now be possible for each theatre command to undertake development according to its needs. This could also mean that each theatre command would follow its own strategy according to its threat perceptions. Similarly, they would also combine strategies and strengthen joint command for common regional goals. Since the supervision is now directly under the control of the CMC, instead of the four headquarters, the decision-making process through these theatre commands, would be faster and efficient. Xi stated that the theatre commands will be responsible for:

...dealing with security threats in their respective strategic scopes, maintaining peace, containing wars and winning wars, noting their pivotal role in safeguarding the country's overall national security and military strategies... studying the mechanism of winning modern wars, grasp the law of employing military forces, speed up the development of a strategy for the theatre commands and enhance the training of joint operations and command in order to win the initiative in future wars.<sup>27</sup>

In order to strengthen joint command at the theatre level, the army, navy and the air force have been set up within the theatre command. The reorganisation of the theatre commands has been made so as to focus on combat readiness that will be conducive to “improving joint operational commanding institutions,

forming the joint operational system”. Each theatre command will deal with security threats unique to their periphery they are facing, called as “strategic direction”.<sup>28</sup>

In addition, the number of troops are to be reduced are about 300,000 mostly the administrative and non-combatant personnel in the military. After the reduction, the Chinese military would be down to two million a substantial reduction compared to the 6.27 million in 1949. These cuts would be achieved by the end of 2017. Other defence expenditure will be on upgrading the backward weaponry and equipment, salaries of military personnel and social insurance of soldiers.<sup>29</sup> Moreover, the auditing has been strengthened, especially after the audit office was shifted from the leadership of the PLA General Logistics Department to the direct control of the CMC. This office under the CMC would now have more independent authority.<sup>30</sup>

Other significant reforms, especially in civil-military integration have also gathered pace. For instance, the entry of the private sector into the military is encouraged in order to meet domestic demand and boost local industry and economy. In this regard, a major development was the 2015 Specific Action Plan on Civil-Military Integration released by the State Administration of Science, Technology and Industry for National Defence (SASTIND) on April 16, 2015. This action plan has given 27 tasks for the private sectors for opening up the defence sector to private companies. The PLA General Armaments Department also uploaded a procurement process in its website. When the contracts were announced for the PLA Ordinance Engineering College, the contract indicated that they needed 8 items such as maintenance equipment containers, chemical protective mask bags, portable kit bags, field explosion proof luminaires, with a total value of over 90 million Yuan”.<sup>31</sup> Civil-military integration has emerged as an important avenue for reform as Xi has stressed the “further integration of military and civilian undertakings that could cover multiple areas and generate high returns, and urged military and local authorities to advance work while taking into account the overall development of the entire Party and the country”.<sup>32</sup> Hence, government bodies released 200 procurement lists for private sector participation, and to enable them to transit from producing auxiliary products for the defence sector to complete equipment systems and weaponry in core military sectors.

## **Chinese Military Cooperation and Diplomacy**

The year 2015 saw China engaging in military diplomacy with other countries. The decision to expand military exchanges could have been taken keeping in mind the need to build confidence and expand its influence in the region as well as increase the PLA’s ability to absorb best practices from other militaries.

Xi Jinping stated that the leadership places significant emphasis on diplomacy through military exchanges and that international exchanges should be strengthened in accordance with overall diplomatic and security strategies.<sup>33</sup> Because, China wants to enhance military exchanges as part of its overall security strategy, by linking them with its strategic objectives in the security environment. In its neighbourhood, it has given importance to military cooperation with Russia. Further, in November 2014, when the Russian Defence Minister Sergei Shoigu visited Beijing, Xu Qiliang, the vice-Chairman of the CMC, said that advancing military ties with Russia was a priority.<sup>34</sup> In November 2015, the Sino-Russian Committee on Military Cooperation met in Russia, where technical cooperation between the two countries was discussed.<sup>35</sup>

Apart from Russia, in 2015, China's military cooperation with the US have been a priority given its current security competition with the US. Therefore, it was not surprising that when Chinese military and defence officials met their US counterparts on February 5, 2015 for "Defense Policy Coordination Talks exchange programmes and exercises were on the agenda. According to the *Xinhua* report, Admiral Li Ji, the deputy director of Foreign Affairs Office of the Ministry of National Defence and David Helvey, deputy Assistant Secretary of Defence for East Asia represented their respective countries. In 2016, the Pentagon spokesperson stated that these talks were aimed to "foster sustained and substantive dialogue, deepen practical cooperation in areas of mutual interest, and focus on enhancing risk reduction".<sup>36</sup> As a part of these confidence building measures (CBMs), the US and China signed the two annexes regarding the *Notification of Major Military Activities Mechanisms* on September 18, 2015.<sup>37</sup> These two annexes were *Annex of Notification of Military Crisis*, and the *Annexe of the Rules of Behaviour for Air-to-Air Encounters*. The Notification of Military Crisis, established a "Military Crisis Notification Mechanism For Use Of the Defence Telephone Link" to reduce risks and miscalculation.<sup>38</sup> The annexe document details the purpose, scope, goals and procedures of this crisis mechanism between the two countries. The other annexe details the rules of engagement for military aircraft between the two countries in an event of an encounter.<sup>39</sup>

As mentioned before, these steps have been taken in 2015, as China was keen to deepen military ties. When Fan Changlong, the Vice-Chairman of the CMC met Michael Vickers, the US Under Secretary for Defence for Intelligence, he stated that more exchanges and cooperation were planned for 2015. He also considered the two agreements signed in 2014, the Mutual Reporting Mechanism on Major Military Operations and Code of Safe Conduct for Naval and Air Encounters to be the highlights of US-China military relations.<sup>40</sup> Apart from these agreements, China's desire for closer military cooperation led it to sign army-to-army military dialogue that would facilitate both countries to collaborate for humanitarian assistance and disaster response practices.<sup>41</sup>

Not only were military relations with the US becoming stronger, but there is ample evidence that China is also increasing its military cooperation with Pakistan. This was evident when Fan Changlong met Pakistan Army Chief of Staff Raheel Sharif in Beijing on January 25, 2015. This was reiterated by Chinese Foreign Minister Wang Yi who said that consolidating and developing military relations will lead to peace and stability in the region.<sup>42</sup> Again on June 2015, Fan met Pakistan Air Force Chief Marshal Sohail Aman in Beijing and stated that China was willing to expand “practical cooperation in training, equipment and anti-terrorism,” with Sohail Aman expressing hope that the military cooperation will provide a secure environment for China-Pakistan Economic Corridor.<sup>43</sup> Moreover, military cooperation was also discussed when Xi Jinping visited Pakistan in April 2015. After his meeting with Pakistan Chairman Joint Chief of Staff Committee Rashad Mahmood, Xi Jinping emphasised the importance of anti-terror strategy of Pakistan and the need to fully utilise the security and defence mechanism of China and Pakistan.<sup>44</sup> In November 2014, Pakistan Chief of Air Staff Marshal Tahir Rafique met the Chinese Defence Minister Chang Wanquan for improving the ties between the air forces of the two countries. On November 12, 2015, Fan Changlong, the vice-Chairman of the CMC met Pakistan Prime Minister Nawaz Sharif. In this meeting, China stressed that it would strengthen the anti-terror cooperation with Pakistan. Anti-terror cooperation was also a major part of China’s military cooperation with Australia. During the 18th Defence Strategic Dialogue, it was decided that both countries would strengthen cooperation in anti-terrorism and peacekeeping. Chinese officials also met with Nepal’s Chief of Army Staff, General Shumsher J B Rana on December 21, 2015 when both reiterated their commitment to work closely with each other militaries. China has also strengthened its exchanges with Jordan, Indonesia, and the United Kingdom.

## **Conclusion**

The Chinese military transition is underway both structurally and systemically. The need to mitigate the corrosive effects of corruption and inefficiency has led the Chinese leadership to authoritatively compel reform through the tool of Party loyalty and leadership. Thus, any actions contrary to the Chinese leadership are viewed as an affront to the Party. The overriding concern is if dictatorial policies are indeed necessary to enable these structural reforms, then the cost of these anti-corruption campaigns and instability due to the relegation of power within the organisation have to be tolerated. There is no doubt that the Chinese military transformation has the potential to change the way PLA will be utilised in future conflicts. In fact, the concerted effort to back deterrence with formidable military force whether in the South China Sea conflict or the Senkaku conflict has given



ample ammunition to the forces of reform. At a time when the US is rebalancing and the regional powers are increasing strategic hedging, the need for a credible deterrent meant that the PLA had to be respected as a force that can win battles – which is precisely the Chinese leadership's strategy of active defence.

#### NOTES

1. The Chinese Dream is to build a moderately prosperous society and achieve national rejuvenation. It is to achieve the “two 100s”, i.e. to have a moderately well off society by 2021 (100th anniversary of the CPC) and a fully developed country by 2049 (100th anniversary of founding of the People's Republic of China).
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# 6

## China's Space Footprint: Tracking the Progress

*Ajey Lele*

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Over the years, China has emerged as one of the major space powers in the world. For China's political leadership, space has been an area of high priority and hence has always received adequate financial support. Presently, only the United States (US) and Russia are ahead of China in respect of capabilities and investments. China's aspirations in space are driven by technology development, economic and military modernisation. China does not have a visibly separate military and civilian space programme. Obviously, the various Chinese satellites also cater to the needs of the People's Liberation Army (PLA).<sup>1</sup>

China's resolute investments in the field of science and technology have been a part of its peaceful rise strategy. A major aspect of its technological quest is about making investments in space technologies. The Chinese space programme, that had its inception in the Maoist era, has emerged as a major political symbol of Chinese nationalism, an important economic booster, and an effective dual-use technology collaborator with the Chinese military.<sup>2</sup> Also, apart from being a part of the national strategy, the space programme has garnered greater international prestige<sup>3</sup> for China. The space programme, thus, has immense military, foreign policy and socio-economical relevance for China.

In the early 1990s, China took serious note of the assistance provided by satellites to the US and allied forces during the 1991 Gulf war. Subsequently, the various western military campaigns in Kosovo, Afghanistan and Iraq made them aware of the importance of space technologies in war. Also, the determination of the US to pursue ballistic and theatre missile defence systems and ability of their maritime forces to operate with ease on the high seas have brought to the fore the value of space assets for seizing the initiative in controlling modern warfare. It is

against this background that the Chinese interest in space technologies must be viewed.

China appreciates that, 'outer space has become a commanding height in international strategic competition. Countries concerned are developing their space forces and instruments, and the first signs of weaponisation of outer space have appeared'. Hence, China has decided to 'keep abreast of the dynamics of outer space, deal with security threats and challenges in that domain, and secure its space assets to serve its national economic and social development, and maintain outer space security'.<sup>4</sup> Also, according to China's roadmap for space science, applications and technology for 2050, more and more countries would be getting involved in the business of space exploration in the 21st century, and China needs to make appropriate financial, scientific and human investments to ensure its presence in this rapidly growing field. To achieve this China needs to be 'more competitive, particularly in science and technology, and accomplish the Great Rejuvenation'.<sup>5</sup>

The year 2015 was quite eventful for China's space programme. It launched several satellites, which could help China strengthen its overall space architecture. Experts estimate that China probably spends roughly \$2 billion on its space programme every year. This chapter explores the 'purpose' behind the various Chinese space launches during 2015. The chapter begins with an overview of the activities undertaken by China in outer space during 2015 and then analyses the various satellite launches undertaken during this year in the overall 'context' of their space programme.

It is important to note that details related to all the satellites are not easily available and Chinese agencies are also selective about the nature of the information to be made available to the outside world. Therefore there has been a significant dependence on the Internet for collecting information with regard various websites, blogs etc. There is a list of the important websites used for referencing at the end of the chapter, but this list is not exhaustive.

The following tables provide the details of the satellite launches undertaken by China during 2015. It may be noted that a single rocket (or a launch vehicle) can be used to launch one satellite or multiple satellites, hence the number of satellites launched far exceeds the number of launches. Globally during 2015, Russia topped the list for maximum rocket launches, with a total of 29, while the United States and China were in second position with 19 rocket launches each. Table 1 presents a bird's eye view of the overall activity during the year. Some of the satellites launched by China are known to have military utility, however, China has not officially declared that any of its launches were military launches.

Table 1<sup>6</sup>: Details of various satellites launched during 2015

Launch No.	Launcher	Launch Date	Satellite (Alternative Names)	Purpose	Mass (kg)	Type	Orbit	Notes	Resolution
1	Long March 4C/YZ-1	30-03-2015	Beidou-3I 1-S	Navigation	800 kg	Medium Sat	inclined GEO	Nav-Sat	
2	Long March 4B	26-06-2015	Gao Fen 8 (GF 8)	Remote sensing	N/A	N/A	LEO sun synchronous	Earth observation and Military Sat	<1m
3	Long March 3B/YZ-1	25-07-2015	Beidou-3 M1-S	Navigation	1014	Large Sat	MEO	Nav-Sat	
			Beidou-3 M2-S	Navigation	1014	Large Sat	MEO	Nav-Sat	
4	Long March 4C	27-08-2015	Yaogan Weixing 27	Remote sensing - earth observation	1040	Large Sat	LEO	Military Maritime Optical surveillance Sat	
5	Long March 3B/G2	12-09-2015	TXJSSY 1	Communication	N/A	N/A	GEO	Communications Technology Sat	
6	Long March 2D	14-09-2015	Gao Fen 9 (GF 9)	Remote sensing	N/A	N/A	LEO sun synchronous	Earth observation and Military Sat	N/A
7	Long March 6	19-09-2015	XY 2 (Kainuo 1A)	Experimental	130 kg	Mini-Sat	LEO	Mini-Sat for testing of electric propulsion system	
			Kongjian Shiyuan 1 (KJSY 1)	Experimental, Technology	0.173 kg	Pico-Sat	LEO	Deployed from NS 2	
			Luliang 1 (LT 3)	Remote sensing	N/A	Micro-Sat	LEO		
			NS 2	Experimental, Technology	20 kg	Micro-Sat	LEO	for testing of new components and deploy two smaller satellites (KJSY 1, ZJ 1)	
			Xingchen 1 (XC 1), Xingchen 2 (XC 2), Xingchen 3 (XC 3) & Xingchen 4 (XC 4)	Experimental, Technology	N/A	Pico-Sat	LEO	4 Pico-Sats which will investigate formation flying	

(Contd.)

<i>Launch No.</i>	<i>Launcher</i>	<i>Launch Date</i>	<i>Satellite (Alternative Names)</i>	<i>Purpose</i>	<i>Mass (kg)</i>	<i>Type</i>	<i>Orbit</i>	<i>Notes</i>	<i>Resolution</i>
			XW 2A (CAS 3A)	Communication	20 kg	Micro-Sat	LEO	For atmospheric physics experiments and deploy two smaller satellites (XW 2E, 2F)	
			XW 2B (CAS 3B), XW 2C (CAS 3C) & XW 2D (CAS 3D)	Communication	9 kg	Nano-Sat	LEO	atmospheric physics experiments	
			XW 2E (CAS 3E) & XW 2F (CAS 3F)	Communication	1.5 kg	Nano-Satellite	LEO	Amateur Radio and deployed from XW 2A	
			DCBB (CAS 3G)	Communication	2.5 kg approx	Nano-Satellite	LEO	Educational Cube Sat* (2U) with amateur radio repeater	
			LilacSat 2 (CAS 3H)	Communication, education	11 kg	Nano-Satellite	LEO	Student built Technology	
			NUDT-Phone Sat (CAS 3I, Kaituo 1B)	Communication technology	1 kg	Nano-Satellite	LEO	based on Smartphone technology	
			ZDPS 2A & ZDPS 2B	Experimental, Technology	12 kg, 1.5 kg fuel	Micro-Sat	LEO		
			ZJ 1	Experimental, Space communication	0.234 kg	Pico-Satellite	LEO	Deployed from NS 2	
8	Long March 11	25-09-2015	Pujian 1	Experimental, Space communication	N/A	Nano-Satellite	LEO	For testing of new components	
			NJFA 1 (Tianwang 1C, TW 1C)	Communication, Experimental	4 kg approx, 3U subsat	Nano-Satellite	LEO	Cube Sat (2U) which will investigate inter-satellite communications and networking	

(Contd.)

<i>Launch No.</i>	<i>Launcher</i>	<i>Launch Date</i>	<i>Satellite (Alternative Names)</i>	<i>Purpose</i>	<i>Mass (kg)</i>	<i>Type</i>	<i>Orbit</i>	<i>Notes</i>	<i>Resolution</i>
			NJUST 2 (Tianwang 1B, TW 1B)	Communication, Experimental	2.5 kg approx 2U-Cubesat	Nano-Satellite	LEO	Cube Sat (2U) which will investigate inter-satellite communications and net-working	
			Shankeda 2 (Tianwang 1A, TW 1A)	Communication, Experimental	2.5 kg approx 2U-Cubesat	Nano-Satellite	LEO	Cube Sat (2U) which will investigate inter-satellite communications and networking	
9	Long March 3B	29-09-2015	Beidou-3 I2-S	Navigation	1000 kg approx		Large Satellite	GEO	
10	Long March 2D	07-10-2015	Ji Lin 1	Remote sensing	420 kg	Mini-Satellites	LEO sun synchronous	Earth observation Sat	0.72m
			Lingqiao A & Lingqiao B	Remote sensing	95 kg each	Micro-Satellite	LEO sun synchronous	2 earth observation satellites providing high quality video	1.2 m
			LQSat	Remote sensing	54 kg	Micro-Satellite	LEO sun synchronous	Earth observation Sat	
11	Long March 3B/G2	16-10-2015	Apstar 9	Communication	5200 kg	Large Satellite	GEO	Commercial communication Sat	
12	Long March 2D	26-10-2015	TianHui 1C (TH 1C)	Remote sensing - SAR	N/A		LEO sun synchronous	Earth observation Sat	
13	Long March 3B/G3	03-11-2015	Shen Tong 2C (ST 2C, ZX 2C, Chinasat 2C)	Communication	5000 kg	Large Satellite	GEO	Military Communication Sat	
14	Long March 4B	08-11-2015	Yaogan Weixing 28	Remote Sensing	1000 kg approx	Medium-Sized Satellite	LEO	Remote sensing	

*(Contd.)*



<i>Launch No.</i>	<i>Launcher</i>	<i>Launch Date</i>	<i>Satellite (Alternative Names)</i>	<i>Purpose</i>	<i>Mass (kg)</i>	<i>Type</i>	<i>Orbit</i>	<i>Notes</i>	<i>Resolution</i>
15	Long March 3B/G2	21-11-2015	Laosat 1	Communication	5200 kg	Large Satellite	GEO	Commercial communication Sat	
16	Long March 4C	26-11-2015	Yaogan Weixing 29 (Jianbing-5 4, JB-5 4)	Remote Sensing, Military	2700 kg	Large Satellite	LEO	SAR sat dual-use	0.5 m
17	Long March 3B/E or 3B/G2	09-12-2015	Chinasat 1C/ Zhongxing 1C	Commercial Communication	N/A	Large Satellite	GTO		
18	Long March 2D	17-12-2015	DAMPE (Wukong)	Experimental, Scientific Research	1900 kg	Large Satellite	LEO Sun-Synchronous	Dark Matter Particle Satellite	Explore
19	Long March 3B/G2	28-12-2015	Gao Fen 4 (GF 4)	Remote sensing	4600 kg	Large Satellite	GTO	High Definition Earth Observation Satellite	50 m
<b>Total 45 satellites launched during 19 missions.</b>									

## Utility Evaluation

### *Remote Sensing*

The table 2 indicates that China has launched ten remote sensing satellites. Satellite technology is dual-use in nature. However, it is not always necessary that the intent behind every satellite launch is military. During this year China launched a mixed array of remote sensing satellites, some of these were very small and experimental in nature and some that are a known type of satellite with significant military utility.

The Yaogan Weixing series consists of a series of “Remote/Reconnaissance Sensing Satellites” which have been launched by Chinese agencies for nearly one decade. They label these satellites as systems for conducting land surveys, crop yield assessments, and disaster assessment. However, many experts perceive them as military purpose satellites. The first satellite in this series, Yaogan-1 was launched on April 27, 2006. The first eight satellites were launched during first three years. Since, 2010 there has been a significant increase in the number of satellites launched in this series, and till date 31 satellites have been launched in addition to the satellites launched till 2009. The three satellites launched in this series during 2015, have more advanced sensors and are meant for the ongoing process of data-gathering.

In order to improve the comprehensive capabilities of China's earth observation system, in 2010, the Chinese government decided to develop the CHEOS (China High-Resolution Earth Observation System). The CHEOS is expected to be completely activated by 2020. A Gaofen series being developed for this purpose will provide near real-time observation for mapping, agriculture support, climate monitoring and disaster prevention and relief. For this purpose they have announced plans for launching the Gaofen-1 to Gaofen-7 series of satellites. The Gaofen-1, was launched in 2013 and Gaofen-2 in 2014 (both these satellites are in low orbits, 600-700 km). However, all of a sudden China undertook the “surprise” launch of Gaofen-8 in June 2015 and of the Gaofen-9 in September 2015. Interestingly, no advanced warning for these launches were issued. The resolution of these satellites has been much higher (sub metre) than the previous two satellites.

At the end of the year China launched the Gaofen-4, its first geosynchronous orbit (36,000 km above the earth's surface, much further away from typical remote sensing satellite LEO orbit) HD optical imaging satellite, which could be probably the world's most sophisticated satellite in this category. Such high resolution satellites in geo orbit would have greater utility in disaster management.

Table 2: Remote Sensing Satellites Launched during 2015

Launch No.	Launcher	Launch Date	Satellite or Alternative Names	Type [mass (kg)]	Orbit	Notes	Resolution
1	Long March 4B	26-06-2015	Gao Fen 8 (GF 8)	N/A[N/A]	LEO sun synchronous	Earth observation satellite. Dual use. An optical satellite with a high resolution imaging payload.	<1m
2	Long March 2D	14-09-2015	Gao Fen 9 (GF 9)	N/A[N/A]	LEO sun synchronous	Earth observation satellite. Dual use.	<1m
3	Long March 3B/G2	28-12-2015	Gao Fen 4 (GF 4)	Large Satellite [4600 Kg]	GTO	Imaging area of 7000 km x 7000 K. with individual scene covering an area of 400 km x 400 km. Also capable of high temporal resolution remote sensing monitor at multi-level.	50m (optical) 400m (infrared)
4	Long March 2D	26-10-2015	Tian Hui 1C (TH 1C)	N/A[N/A]	LEO sun synchronous	Earth observation. Dual use. Has a three-dimensional survey camera and a CCD <sup>9</sup> camera offers better colour separation at high efficiency.	5 m
5	Long March 4C	27-08-2015	Yaogan Weixing 27	Large Satellite [1040 Kg]	LEO	Military Maritime electro-optical surveillance satellite. Has SAR which helps all-weather imaging. Payloads capable of tracking activities over their area of interest.	
6	Long March 4B	08-11-2015	Yaogan Weixing 28	Medium-Sized Satellite [1000 Kg]	LEO	Military surveillance satellite. High resolution observation and also carries an IR	
7	Long March 4C	26-11-2015	Yaogan Weixing 29	Large Satellite [2700 Kg]	LEO	Military earth observation satellite used for remote sensing and surveillance. Has SAR and electronic motor-powered solar panel	0.5 m

(Contd.)

<i>Launch No.</i>	<i>Launcher</i>	<i>Launch Date</i>	<i>Satellite or Alternative Names</i>	<i>Type [mass (kg)]</i>	<i>Orbit</i>	<i>Notes</i>	<i>Resolution</i>
<b>Mini and Micro Satellites</b>							
8	Long March 6	19-09-2015	Luliang 1 (TT 3)	Micro-Satellite [N/A]		Earth Observation and Military	
9	Long March 2D	07-10-2015	Ji Lin 1  Lingqiao A & Lingqiao B LQ Sat	Mini-Satellites [420 Kg] Micro-Satellite [95 kg each] Micro-Satellite [54 kg]	LEO sun synchronous LEO sun synchronous LEO sun synchronous	Earth observation Sat  These are Earth observation satellites providing high quality video. Earth observation Sat. Life is about 1 year	0.72m  1.2 m
<b>Total 12 satellites launched</b>							

### *Navigation*

China's interest in satellite based navigation technology dates back many decades. For more than a decade China has been systematically developing an indigenous space based navigational architecture, in a phased manner. In fact the official governmental approval for this system was given during early 1990s. They have a three phased programme for this development. Following is the three-step strategy for the development of this programme, called BeiDou (COMPASS).

1. Phase I (BeiDou-1, 2003-2010) consists of three GEO (plus one additional) satellites for providing RDSS (Radio Determination Satellite Service). This system was developed essentially to lay the foundations for a more ambitious project. The BeiDou-1 is capable of providing all-weather, two-dimensional positioning data for both military and civilian purposes. It can also undertake communication functions. The first two satellites for this system were launched during 2000, and the system began providing navigational support in late 2001. The third satellite (backup) was launched during 2003 and a fourth during 2007. This network has been made available to civilian users since April 2004 and works with 20 meter accuracy.
2. Phase II is known as BeiDou-2. In December 2011, the BeiDou system was officially announced to provide Initial Operational Service for providing initial passive positioning navigation and timing services for the whole Asia-Pacific region, with a constellation of 10 satellites (five GEO satellites and five IGSO satellites). During 2012, five additional satellites (one GEO satellite and four MEO satellites) were launched, increasing the number of satellites in the constellation to 14. The system transmits three frequencies and five singles.
3. Phase III is known as the BeiDou Satellite Navigation System (Global), and consists of 35 satellites (30 MEO satellites and five GEO), and transmits three frequencies, and more signals for accuracy. The system provides ten meter accuracy for civilian users and expected to provide sub metre accuracy for military users. As of December 2015, a total of 24 Beidou satellites have been launched (including all phases). Currently 18 of these are operational (six in geostationary orbit, six in geosynchronous orbits with an inclination of 55 degrees, and six are in medium earth orbits). Presently, a total of six satellites including three of the first Phase are not in use.

The year 2015 witnessed China beginning its third phase with the launch of four satellites. These satellites are less than half the weight of the previous generation and are at par with the best in the world. These satellites are sending

Table 3: Navigation satellites launched during 2015

<i>Launch No.</i>	<i>Launcher</i>	<i>Launch Date</i>	<i>Satellite or Alternative Names</i>	<i>Type [mass (kg)]</i>	<i>Orbit</i>	<i>Notes</i>
1	Long March 4C/YZ 1	30-03-2015	Beidou-3I 1-S	Medium-Sized Satellite [800 kg]	inclined GEO	1 <sup>st</sup> in the Phase III of Beidou
2	Long March 3B/YZ-1	25-07-2015	Beidou-3 M1-S	Large Satellite [1014 kg]	MEO	First two satellites put into MEO out of proposed 30 MEO satellites in phase III
			Beidou-3 M2-S	Large Satellite [1014 kg]	MEO	
3	Long March 3B	29-09-2015	Beidou-3 I2-S	Large Satellite [1000 kg]	GEO	With precise hydrogen atomic clock, Satellite positioned in an inclined orbit.

twice as many signals as their predecessors. Also, China is establishing a ground data centre to enhance the quality of their navigational signals. They are offering location-based services (LBS) and the project is located in central China's Henan Province. This centre features 63 data stations that are able to increase the resolution of images downloaded from the Beidou Navigation Satellite System from 10 metres to mere millimetres. It is expected that this project would benefit traffic, water resources, and agriculture and police services.

China is also cooperating with Russia in the arena of satellite navigation. In mid-December 2015, both the parties signed agreements on navigation technologies and the use of the Russian satellite navigation system GLONASS. They have also started a project to create a global international navigation system based on BeiDou and GLONASS for the member states of BRICS group and the Shanghai Cooperation Organisation (SCO).

Earlier on May 8, they signed the BeiDou-GLONASS system compatibility and interoperability cooperation agreement. They are also jointly developing new satellite navigation devices that would receive signals from three major navigation systems, the BeiDou, GLONASS and the US Global Positioning System (GPS). They expect to acquire a major market share (will operate under the "BG-Star" brand) in this arena and feel their efforts would have many takers in the Central Asian states and other countries like Brazil, India, South Africa and Pakistan.

### *Experimental*

China has also launched various experimental satellites to conduct tests in outer space. The main focus of these experiments in space has been to test new technologies or components which could have utility for future space missions. Most of these satellites belong to the pico/nano/micro/mini categories. One group of pico satellites has been launched to study formation flying aspects. Presently, advanced space-faring states are examining the possibilities of developing swarms of autonomous of space vehicles which could have relevance for scientific experimentation and strategic utility.

In order to learn more about the universe, China in 2015, launched a 1900 kg dark matter probe satellite (China's first telescope) into sun-synchronous orbit, 500 kilometers above the earth's surface. This DarkMatter Particle Explorer (DAMPE, also known as "Wukong" after the Monkey King from a 16<sup>th</sup> century Chinese classic) with a three year life is engaged in observing the direction, energy and electric charge of high-energy particles in space, in search of dark matter. China is proposing to launch four more satellites in the near future as a part of this experimentation.

### *Communication*

The table 5 indicates that China has made mixed investments in the area of

Table 4: Experimental Satellites Launched during 2015

Launch No.	Launcher	Launch Date	Satellite or Alternative Names	Type [Mass (Kg)]	Orbit	Notes
1	Long March 2D	17-12-2015	DAMPE (Wukong)	Large Satellite [1900 Kg]	LEO	Dark Matter Particle Explore
<b>Mini satellites and other types</b>						
2	Long March 6	19-09-2015	XY 2 (Xinyan-2/ New Tech-2)	Mini-Satellites [130 kg]	LEO	For testing of electric propulsion system
			NS 2	Micro-Satellite [20 Kg]	LEO	For evaluating new components; It deployed two smaller satellites (KJSY 1 and ZJ1)
			ZJ 1	Pico-Satellite [0.234 Kg]	LEO	Deployed from NS 2 and developed by Tsinghua University; Evaluate micro CMOS cameras and MEMS magnetometers.
			Kongjian Shiyuan 1 (KJSY 1)	Pico-Satellite [0.173 Kg]	LEO	Deployed from NS 2 and developed by Tsinghua University and Xidian University. Powered by Solar Cells and Batteries
			Xingchen 1 (XC 1), Xingchen 2 (XC 2), Xingchen 3 (XC 3) & Xingchen 4 (XC 4)	Pico-Satellite [N/A]	LEO	Miniature tech demonstration satellites for investigating formation flying
			Zhieda Pixing ZDPS 2A & ZDPS2B	Micro-Satellite [12 kg]	LEO	Provide a management platform for command execution, inter-satellite communication. Would test technologies for inter-space rendezvous and proximity operations
3	Long March 11	25-09-2015	Pujian 1	Nano-Satellite [N/A]	LEO	For evaluating new components Satellite has components like heat transfer pumps and temperature sensors on board that uses WiFi to transmit data within the satellite, a commendable achievement for Chinese scientists. Build by 3D-printed Titanium antenna structure.
<b>Total 12 satellites launched</b>						



Table 5: Communication Satellites Launched during 2015

Launch No.	Launcher	Launch Date	Satellite or Alternative Names	Type [Mass (kg)]	Orbit	Notes
1	Long March 3B/G2	12-09-2015	TXJSSY 1	N/A[N/A]	GEO	Belongs to YG-8/15/19/22 series. An electro-optical satellite equipped with a high-resolution wide-angle observation system.
2	Long March 3B/G2	16-10-2015	Apstar 9	Large Satellite [5200 Kg]	GEO	Equipped with 32 C-band and 14 Ku-band transponders. For TV, VSAT, mobility services such as maritime and in-flight connectivity. First communication satellite based on the DFH-4 <sup>10</sup> platform
3	Long March 3B/G3	03-11-2015	Shen Tong 2C (ST 2C, ZX 2C, Chinasat 2C)	Large Satellite [5000 kg]	GEO	Based on the DFH-4 satellite platform, It is designed to deliver secure voice and data communications to ground terminals operating at the Ku-Band frequency.
4	Long March 3B/G2	21-11-2015	Laosat 1	Large Satellite [5200 Kg]	GEO	14 C-band and 8 Ku-band transponders. Provide communication links for government agencies and TV
5	Long March 3B/E or 3B/G2	09-12-2015	Chinasat 1C/ Zhongxing 1C	Large Satellite [N/A]	GTO	Tactical military communication satellites.
<b>Mini satellites and other types</b>						
6	Long March 6	19-09-2015	XW 2A (CAS 3A)	Micro-Satellite [25 Kg]	LEO	Deployed two smaller satellites (XW 2E/2F). Also known as Chinese Armature Radio-satellite (CAS 3E & 3F)
			XW 2B(CAS 3B), XW 2C(CAS 3C) & XW 2D(CAS 3D)	Nano-Satellite [9 Kg]	LEO	This three satellite constellation studies upper atmospheric phenomenon.
			XW 2E(CAS 3E) & XW 2F (CAS 3F)	Nano-Satellite [1.5 Kg]	LEO	2 satellites deployed for Amateur Radio missions
			DCBB (CAS 3G)	Nano-Satellite [2.5 kg]	LEO	2U Cube Sat with Amateur Radio Repeater for University educational purposes

(Contd.)

<i>Launch No.</i>	<i>Launcher</i>	<i>Launch Date</i>	<i>Satellite or Alternative Names</i>	<i>Type [Mass (Kg)]</i>	<i>Orbit</i>	<i>Notes</i>
			Lilac Sat 2 (CAS 3H)	Nano-Satellite [11 Kg]	LEO	Built on technology developed by student and meant for Amateur radio communication. It has number of payloads to provide students with hands-on experience in conduct of space missions.
			NUDT-Phone Sat (CAS 3I, Kaituo 1B)	Pico-Satellite [1 Kg]	LEO	Based on Smartphone technology
7	Long March 11	25-09-2015	NJFA 1 (Tianwang 1C, TW 1C)	Nano-Satellite [4 Kg]	LEO	2U Cube Sat for investigating inter-satellite communications and networking
			NJUST 2 (Tianwang 1B, TW 1B)	Nano-Satellite [2.5 Kg]	LEO	2U Cube Sat for investigating inter-satellite communications and networking
			Shankeda 2 (Tianwang 1A, TW 1A)	Nano-Satellite [2.5 Kg]	LEO	2U Cube Sat for investigating inter-satellite communications and networking
<b>Total seventeen satellites launched</b>						

communication with some large satellites put in space essentially for conventional communication purposes. These are the satellites in the geostationary orbit with multiple transponders with a life expectancy of 10 to 15 years. The major achievement of China in the space arena (from technology perspective) in 2015, involved the commissioning of two launch vehicles for the launching of small satellites. Various small satellites launched for communication purposes are essentially experimental in nature. There is some involvement of the student community too, in the development and operating of smaller satellites. Amateur radio communication is also one major agenda behind launching of such satellites.

## **Launch Vehicles**

Presently, only less than a dozen nations in the world have the distinction of being space-faring nations essentially because it is difficult to develop satellite launching technologies. China has been one of the early entrants in this field and achieved the distinction of becoming a space-faring nation in 1970. Over the years China has developed various satellite launch vehicles. The year 2015, could be viewed as one of the significant years in China's quest for developing new launch systems. Two launch vehicles, called the Long March 6 (LM 6) and Long March 11 (LM 11) were successfully launched by China during this year.

The Long March-6/Chang Zheng-6 is designed for small-load (1080 kg) launch missions to a sun-synchronous orbit (700 km, SSO). With the launch of LM 6, China has introduced a new family of launch vehicles, with an eye on the budding market for launching of small satellites. On September 19, 2015, LM 6 took its first flight and successfully launched a multi-payload cargo of 20 small satellites (remote sensing, experimental and communication birds).

The exact performance of the LM 11 is unknown but some reports indicate that it can deliver up to 1,000 kg to a sun-synchronous orbit. However, during its first launch (September 2015) it carried a very limited payload and only Cube Sats were launched during this mission. Officially, the development of LM 6 began during 2009 and it has taken a minimum of six years to develop this system. However, the development of LM 11 was announced only during 2013 and it has hardly taken two years to develop this vehicle. The induction of LM 6 and LM 11 signifies an important transition in rocket technology. They are expected to be more environment friendly vehicles, owing to the changes made in the propellant combination.

During this year China has also undertaken a significant amount of ground testing activities for the launcher system under development called the Long March 5, a rocket which will have the largest payload carrying capacity. It is being developed to carry a payload of 14 tonnes into geostationary orbit. The immediate

purpose behind the development of this system is for carrying China's lunar probe the Change'e-5.

### *Joint Collaborations*

Over the years China has been engaging with various states in the space arena for multiple purposes, from technology transfer, to joint development, to providing launch facilities, (commercial or otherwise) to ground infrastructure development. Activities undertaken during 2015, also demonstrate the strong bonding of China with other states, in the outer space arena.

In the Tianwang-1 mission launched by LM 11 in September 2015, three small satellites are working together to demonstrate formation flying and inter satellite communication capabilities. The inter satellite communication is carried out by using the GAMALINK technology developed by the Portuguese company Tekever. The collaboration between Tekever and the Shanghai Engineering Centre for Microsatellite (SECM) began with an agreement signed in Lisbon on April 22, 2014. This agreement involves the development of satellite technology for integration inside the microsatellite platform being developed by SECM. The Tianwang-1 is designed and built by a consortium led by the SECM, along with GomSpace of Denmark, Tekever Space of Portugal and NanoSpace of Sweden.

In November 2015, China launched a satellite called Laosat 1, the first satellite for Laos, a mountainous and heavily forested country, to fulfil its requirement for a reliable communication infrastructure. This South East Asian state, had signed the contract for Laosat-1 in 2010, with the China Great Wall Industry Corporation, which deals with China's international space industry customers. This satellite designed for a lifetime of 15 years, is meant to provide communication links for television transmission and various other societal applications.

There is a proposal to develop a joint Earth Observation programme with Belgium. In June 2015, a Memorandum of Understanding (MoU) was signed between the Belgian Federal Science Policy Office (BELSPO) and China National Space Administration (CNSA) in the field of space sciences, technologies and applications. Belgium is proposing to develop its space industry and China is seeking more opportunities for various collaborative projects.

A bilateral agreement between Argentina and China was signed in April 2014 to establish a first Chinese satellite tracking station outside China. A bill to this effect, was passed by the Argentine National Congress, in 2015. It is expected that this station would assist in Chinese lunar exploration also. It has been reported that Beijing has promised to provide strategic information relating to satellite tracking to Argentina. However, the Argentine government has claimed that this station is meant for scientific and civilian purposes only.

As in various other fields, the US and Chinese relationship in the space arena is also one of concern<sup>11</sup> and collaboration. There is a certain amount of suspicion essentially owing to China's 'counter-space capabilities' track record. The test of a Dong Neng-3 exo-atmospheric vehicle carried out by China on October 30, 2015, is viewed as the test flight of a new missile capable of knocking out the US satellites. However, 2015 did witness some US-China collaborative efforts in space arena.

The seventh round of the US-China Strategic and Economic Dialogue (S&ED) took place in Washington DC, from June 22-24, 2015 and was attended by Chinese officials and Secretary of State John Kerry. During this dialogue both states agreed to hold regular bilateral government-to-government consultation on civil space cooperation. The two sides also decided to have regular exchanges on space security matters under the framework of the US-China Security Dialogue.

Another meeting between the China Meteorological Administrator (CMA), and assistant administrator for Satellite and Information Services of National Oceanic and Atmospheric Administration (NOAA) took place on August 31, 2015 in Maryland, as part of the second China-US high-level meeting on satellite matters. In this meeting, it was decided that both US and China should act as more contributing players in international organisations such as the World Meteorological Organisation (WMO) and the Coordination Group for Meteorological Satellites (CGMS). This is important because, data-sharing at bilateral level would not serve any purpose and there is a need to have this data available at global level for weather forecasting.

The first meeting of the US-China Space Dialogue took place on September 28, 2015 in Beijing. In this meeting US and Chinese officials exchanged information about their respective space policies. They also discussed further collaboration on space debris and the long-term sustainability of outer space activities. The meeting also discussed issues related to satellite collision avoidance and ways to cooperate further on civil earth observation activities, space sciences, space weather, and civil Global Navigation Satellite Systems (GNSS). The second meeting will be held in Washington, D.C., in 2016.<sup>12</sup>

Russia is a long-term friend of China and they have a long standing bilateral collaboration in space arena. As mentioned earlier they have come to an agreement in the navigational area also. They are also working together to identify joint projects of mutual benefit, as well as to formulate structures to synchronise mutual hardware platforms and technological interfaces. They are working towards establishing an aerospace alliance to conduct joint manned space missions, including one to the moon in the near future.<sup>13</sup>

The China-Arab States Expo 2015 was held from September 10 to 13, 2015 at Yinchuan. The Expo's theme was "Spreading the Silk Road spirit, increasing

Sino-Arab cooperation” The China-Arab States Expo Online Silk Road Forum has three main parts: The China-Arab Expo Online Silk Road Forum; E-commerce and Satellite Application Development; and New-generation Cloud Computing Technology. The Yinchuan Economic and Technical Development Zone and China Alliance of Satellite Application Service have signed a cooperation agreement for the establishment and operation of the New Silk Road Satellite Service Industry Demonstration Area, in Yinchuan. The demonstration area will become the one and only base for China to provide Arabic countries with satellite communication and navigation services. The demonstration area is expected to start business in 2016.

China has undertaken few launches on a commercial basis for domestic industry too. It launched a group of four satellites on October 7, 2015, for commercial remote-sensing services. The “Jilin-1” satellites are developed and produced by Chang Guang Satellite Technology Co. Ltd. This company trades in remote-sensing data and relevant products, both for domestic and overseas clients. China has also put a new communication satellite APSTAR-9 into orbit on a commercial mission through the Long March-3B carrier rocket for the Hong Kong-based APT Satellite Company Limited.

#### *Other Important Projects*

The Tianwang-1 mission consisting of three small satellites was launched by LM 11 during in September 2015. It has been reported that these three CubeSats in a mission coded STU-2 are equipped with polar region observation cameras as well as automatic identification system (AIS) receivers for information from ships; and automatic dependent surveillance-broadcast (ADS-B) receivers for messages sent from civil flights. The ADS-B system is installed on many civil aircraft and transmits readings of the flight's position, height, speed, direction and other information automatically every second to receivers on the ground or in the air. Currently, more than 70 per cent of aircraft have such systems. With a larger network of such satellites covering a wider region, agencies will be able to track (in real time) the paths and traffic flow of civil flights. Such a system could help avoid tragedies like missing flight MH370.

One important facility established launched by China in June 2015, was the centre for monitoring space debris. This space junk monitoring centre, will protect spacecraft in orbit by tracking and monitoring near-earth objects and space debris. It has been stated that the centre will be utilising existing observatory facilities in China and the surveillance data would globally made available for their prediction of the movements of debris in space.

There was no direct activity in 2015 with regard to China's building of a space station or deep space missions, like missions to Moon and/or Mars. In the

middle of the year there was a report that Chinese space experts had developed the world's most sensitive "eye" that would enable the autonomous rendezvous and docking of two spacecraft more efficiently and safely. It is expected that this device could be of much use for China's second orbiting space lab, Tiangong-2 mission. This system is much better than the CCD optical imaging sensor used in the docking of Tiangong-1 and the Shenzhou spacecraft (since 2011).

On July 1, 2015 China's top legislature adopted a new national security law on cyber security and highlighted the need for establishment of a coordinated, efficient crisis management system. This law covers a wide spectrum of areas including defence, finance, science and technology, culture and religion. Outer space activities and assets have also been brought under the national security umbrella.

Space is becoming increasingly relevant in China's military architecture. The PLA set up a brand new branch known as the PLA Strategic Support Force (PLASSF) on the last day of 2015.<sup>14</sup> Their main mission is to ensure that the military can "maintain local advantages in the aerospace, space, cyber, and electromagnetic battlefields." Specifically, from the space perspective this includes, "target tracking and reconnaissance, daily operation of satellite navigation, operating Beidou satellites, managing space-based reconnaissance assets, and attack and defence in the cyber and electromagnetic spaces," which will be the "deciding factors in [the PLA's] ability to attain victory in future wars."<sup>15</sup>

## **Assessment**

Since the early 1990s 'space' has emerged as an important driver for China's socio-economic growth. But for China, space is equally important for strategic reasons. During last few years, China is also steadily increasing its international engagement in the space field. Overall, China is using its expertise in space to project both hard and soft power, and 2015 was no exception to this. In comparison with the erstwhile USSR/Russia and the US, China is a late starter in the space arena, however it is making very rapid progress. Its activities in space particularly, in terms of the number of rocket launches in 2015, place it on par with the US.

In the overall context a recent US study finds that, "China has made much progress, particularly in serving its national security interests, but that its goals of using space to advance its economic and diplomatic interests remain underdeveloped. As a result, China is a "partial space power"; i.e., it is, a global actor that has yet to translate its power into comprehensive influence.<sup>16</sup> The year witnessed China making significant progress in areas like navigation, communication and remote sensing. China also made an entry into uncharted territory with the launch of a probe to study dark matter (DAMPE). The key

focus for this year was on launching small satellites—more than half of the total satellites launched by China in 2015, belonged to the small satellite category. The main focus has been to test and validate various technologies which could be used for the subsequent designing of new satellites (both, large and small).

China has made significant progress in its endeavours to establish a global navigational system and the development of the Beidou Navigation Satellite System is on track. This system has already been made operational for the Asia-Pacific region. They are expected to have a fully operational global system ready by 2020 and the progress made so far indicates that they should be able to meet this deadline, or even beat the deadline.

From the military perspective, the space assets added by China this year definitely have a covert military bias as well. The remote sensing satellites in the Yaogan series (three launched this year) are known to have defence surveillance capability. Also, the unplanned launch of two additional satellites in the Gaofen series, and that too almost secretly, indicates that they are keen to acquire high-resolution imaging payloads for military surveillance purposes. Also, a few of the communication satellites launched (like Chinasat 1C) are known to have tactical military communication utility. Investments in nano/pico type of satellites and the testing of swarm technologies, clearly highlights the military dimension. The development of LM 6 and 11 for the launching of small satellites also indirectly indicates that China may be close to acquiring 'launch on demand' capability. In 2015 barring one missile test no other attempts were made to test anti-satellite (ASAT) technologies. There are some unconfirmed reports that China has created a fifth branch of the People's Liberation Army devoted to space operations.

Two interesting developments during 2015, if viewed together give an indication that China is keen to establish Space Situational Awareness (SSA) facility on its own. The development of a suitable SSA 'architecture', involves possessing (or having access to) a global network of ground stations/radars, telescopes, satellites etc. China is establishing its first satellite tracking station outside China, in Argentina. This year China has also established a centre for monitoring space debris. There is a possibility that over a period of time, China would be able to establish an independent network for SSA and this would have wide-ranging strategic implications.

It was expected that China's heavy lift Long March 5 rocket, which it needs to develop for launching its space station, would be tested during 2015, but the test did not take place probably owing to the challenges of building its structure. Also, Tiangong-2, the proposed Chinese space laboratory was originally slated for a 2015 launch, but it has now been rescheduled for a 2016 launch. Overall, there has been a long period of inactivity with regard to China's human space



missions and it is expected the China would attract global attention if it succeeds in launching the Tiangong-2 during 2016.

Along with Long March 5, China is also developing the Long March 7, a medium-heavy launch vehicle. China has already established the Wenchang Satellite Launch Centre in the southern island province of Hainan but has not able to operationalise it owing to the delay in Long March 5 development. The Wenchang centre is much closer to the equator (hence launches from here would save fuel and allow greater payload carrying capacity) compared to other Chinese launch pads. The other advantage is that during the launch, various rockets stages would fall into the ocean rather than on land. In August 2015, the debris from a rocket carrying a Chinese satellite into orbit had crashed into a villager's home, minutes after the launch. In the past also there have been a few such cases when homes have been damaged. Overall, in 2015 the Chinese space programme progressed as per their plans, barring a few exceptions.

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6. The author is thankful to Mr Tushar Shrivastav, Research Intern at IDSA for data collection.
7. Large Satellite >1000 Kg Medium Satellite 500-1000 Kg Mini-Satellite 100-500 Micro Satellite 10-100 Kg Nano-Satellites 1-10 Kg Pico-Satellites 0.1-1 Kg Femto-Satellite <0.1 Kg.
8. 1U or a single CubeSat is a type of miniature satellite with dimensions of 10×10×11.35 cm and mass not more than 1.33 Kg per unit. CubeSat can be made of multiple units.
9. CCD is charge couple device
10. DFH-4 is the 3rd generation communication satellite bus with high power, stronger payload capacity and extended service life. It consists of a propulsion module, service modules and solar arrays.
11. In 2011, Congress banned NASA from working bilaterally with anyone from the Chinese space program on national security concerns.
12. See <http://www.state.gov/r/pa/prs/ps/2015/09/247394.htm>, (Accessed on February 14, 2016)
13. See "Russia to Launch Large-Scale Space Projects With China", [http://www.spacedaily.com/reports/Russia\\_to\\_Launch\\_Large\\_Scale\\_Space\\_Projects\\_With\\_China\\_999.html](http://www.spacedaily.com/reports/Russia_to_Launch_Large_Scale_Space_Projects_With_China_999.html), 05 July 05 2016 (Accessed on February 13, 2016)
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# 7

## Tibet: Perplexing Paradoxes and Shifting Paradigms

*Antara Ghosal Singh*

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At the end of 2015, the United Kingdom took the world by surprise, by publicly “turning the page on” Tibet and rolling out the red carpet for China. By so doing, Britain once the epitome of democracy and freedom, decisively put the issue of human rights on the backburner to forge closer commercial ties with a cash-rich China. It is indeed a grave paradox that a few years ago it was the 14th Dalai Lama and Prince Charles who declared themselves to be each other’s “best friends” and now David Cameron’s Britain says it is the “best partner” of the People’s Republic of China. However, Britain is not the only country to have shunned the Buddhist spiritual leader to re-establish ties with the world’s second largest economy. In recent years global leaders from all over – Germany, France, Australia, the Netherlands, and New Zealand, Denmark, Vatican, South Africa and even Norway that conferred the Nobel Prize on the Dalai Lama 26 years ago—have chosen to abandon the octogenarian Buddhist monk, so as not to invite the wrath of Beijing. As a result from the dozens of state visits in 2001,<sup>1</sup> there was hardly any head of state who received the 14th Dalai Lama in 2015.<sup>2</sup> Indeed the 14th Dalai Lama met the US president in 2014, and attended the annual National Prayer Breakfast in Washington DC, in 2015, but certainly the warmth of olden days has been visibly missing.

Scholars<sup>3</sup> term this the ‘Dalai Lama effect’. It means that Beijing, which considers the 14th Dalai Lama to be a “splittist” plotting China’s break-up, ensures that countries whose heads of government attempt to meet the spiritual leader face serious economic consequences, which dissuades the international community from meddling in Tibetan affairs. The strategy has worked well for Beijing and the global economic downturn has further come to its aid. No wonder, from a

hotly debated topic in international discourse, the Tibet issue today has been reduced to almost a non-issue.

However, it is not just at the international level, that the existing paradigms of Tibet politics have been visibly shaken up. With the change in the global geopolitical scenario, the Tibet story, is being reinvented by its key stakeholders, as well. For instance, in stark contrast to the popular “Burning Tibet” narrative, China is constructing a new paradigm/identity for Tibet – that of a “Happy Tibet” rejoicing in the fruits of China’s ‘leapfrog development policy’. Not just that, in its effort to strengthen its political as well as cultural/religious grip over the people of the plateau, China is also constructing yet another new paradigm of ‘Communist-Buddhists’ to carry forward the legacy of Tibetan Buddhism in a post Dalai Lama contingency.

On the other hand, with the Tibetan cause apparently facing a global rout due to the economic and political might of rising China, the Central Tibetan Administration (CTA), is moving away from its earlier “religion/culture” paradigm and strengthening its democratic credentials to maintain the international appeal of the cause and to not lose out on its global constituency.

India’s paradox is no less glaring. The country, which has been playing host to the 14th Dalai Lama since 1959, housing the CTA and rendering humanitarian assistance to the maximum number of Tibetans (1.20 lakh)<sup>4</sup> in exile, has, for the first time, seen signs of a rift developing between New Delhi and Dharamshala. Further complicating the matter, such reports of India distancing itself from the Buddhist spiritual head, are surfacing at a time when India itself is seeking to reclaim its past glory as the original homeland of Buddhism.

It is this churning in Tibetan politics, which is at the core of this chapter. Based on the chain of events in recent years and the evolving discourses and narratives on Tibet in the Chinese, Indian and CTA context, this paper strives to highlight how Tibet politics in 2015 has entered a phase of transition marked by glaring paradoxes and shifting paradigms.

## **China Creating New Paradigms**

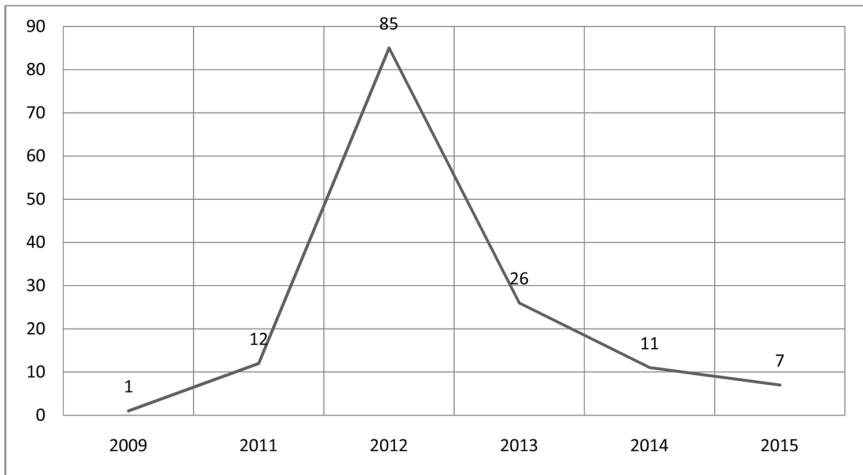
### *From a Hapless to a Happy Tibet*

Since the Cold War days, the Tibet issue under the guidance of the 14th Dalai Lama, has struck a sympathetic chord with the international community. Much has been reported about the deplorable human rights situation prevailing in “China controlled Tibet”. International human rights bodies have relentlessly pointed out the Chinese Government’s highhandedness in suppressing Tibetan political, cultural, religious and socio-economic rights in the name of combating separatist sentiments. Issues like: the steady influx of Han Chinese into Tibet

since 2008; the ongoing economic marginalisation and employment discrimination against the Tibetan community; environmental degradation; policy of patriotic re-education, stricter vigilance on the movement and activity of the Tibetan community; tighter control over the media; interference in religious affairs like the reincarnation of Lamas and Tulkus; raids on monasteries; arbitrary arrests and imprisonment; and torture and ill-treatment in detention have made national, international headlines umpteen number of times.

The narrative of a burning Tibet – with self-immolation protests, numbering a staggering 140 by the end of 2015, has also dampened the spirits of very many within the international community.<sup>5</sup>

**Fig. 1: Self Immolation Cases in Tibet**



Based on figures published by Central Tibetan Administration.<sup>6</sup> Self-Immolation protests peaked in 2012 when more than 80 cases were reported. This year too several self-immolation cases have been reported by CTA.<sup>7</sup>

However countering this popular narrative on Tibet, China has of late introduced a whole new paradigm—the one in which Tibet is witnessing a golden era and the one in which Tibetans are the happiest in the whole of China. Chinese officials<sup>8</sup> say that Lhasa has been topping the “happiness index” in China for five consecutive years and the Tibetan people’s sense of security and happiness are both at historic high.<sup>9</sup>

China supports these claims with a complex set of statistical data. In all the government publications on Tibet, be it the 12th White Paper on Tibet, or the other documents released during the 50th anniversary of TAR (Tibet Autonomous Region) or the Sixth Tibet Work Forum (TWF), China bombards its critics with a staggering amount of statistical data highlighting Chinese feats in the TAR and

recounting the “dark and backward” Tibet’s Great Leap Forward under the “firm leadership of the CPC and the Chinese central government”. For instance, Chinese government reports note that since 1994 Tibet Autonomous Region’s (TAR) GDP has witnessed a 281-fold increase, soaring from 327 million Yuan in 1965 to 92.08 billion Yuan in 2014.<sup>10</sup> China states that it has so far invested a whopping 600 billion Yuan in Tibet’s fixed assets and provided a subsidy of another 600 billion Yuan since 1965.<sup>11</sup>

As a result, once secluded from the rest of the world, Tibet is now well connected with 75,000 kilometres of highway open to traffic and 58 international and domestic air routes in operation. Furthermore the opening of the Golmud-Lhasa and Lhasa-Shigatse railways and the ongoing construction of the railway connecting Lhasa and Nyingchi has made Tibet accessible like never before.<sup>12</sup> An extensive energy system is now in place with hydropower at its core, backed by geothermal, wind, and solar energy sources. By the end of 2012, all administrative villages in TAR had access to electricity. In 2014 the total installed generating capacity reached 1.697 million kw, and the annual output of electricity generation totalled 3.22 billion kwh.<sup>13</sup> Not just physical infrastructure, Tibet now has an elaborate network of information infrastructure. The total length of optical cable lines in the region is now 97,000 km of which over 30,000 km are long-distance optical cable lines.<sup>14</sup> Optical cable has now reached 668 townships and towns in 74 counties, i.e. 97.8 per cent of all townships and towns in Tibet, and mobile phone signals cover 5,261 administrative villages. The number of Internet user households has reached 2.177 million, with an Internet penetration of 70.7 per cent, and mobile Internet coverage in farming and pastoral areas has surpassed 65 per cent.

With quality infrastructure in place, the total industrial output value has shot up to 15 billion Yuan in 2014 from 9 million Yuan in 1965, with an average annual increase of 16 per cent. Its proportion in the GDP rose from 0.6 percent in 1989 to 13.5 percent in 2014. The total volume of Tibet’s foreign trade rose from \$7 million in 1965 to \$2.255 billion in 2014, a 321-fold increase, or an average annual growth of 12.5 per cent.<sup>15</sup>

China further claims that the living standard of people on the plateau has also undergone a thorough change. Due to China’s proactive employment policy, Tibet has maintained a high employment rate. In 2014 the registered urban unemployment rate was below 2.5 per cent, and urban employment totalled 43,000. The per-capita disposable income of all the residents in Tibet rose to 10,730 Yuan. In recent years, the social security system that covers both urban and rural residents, has been established, benefitting 2.606 million people. It claims that nearly 2.3 million people in TAR now have their own houses and have access to safe drinking water. With improvement in education standards

and medical conditions, Tibetans' average life expectancy has increased drastically from 35.5 years in the past to 68.2 years at present.

There are questions whether these claims are substantiated, or whether they are internationally verified. Evidently, the possibility of independent verification is remote, given China's firm grip on foreign access to Tibet including the movement of international media who are still dependent on guided tours. However, with the steady flow of tourists into Lhasa,<sup>16</sup> and the entry of international brands like KFC into the plateau,<sup>17</sup> along with Beijing holding international conclaves and events like Tibet Development Forum and inviting high level international delegations like the one led by the U.S. Congress Minority Leader Nancy Pelosi<sup>18</sup> to the TAR, speaks volume about China's new found confidence in the Tibetan affairs. This year, the Chinese government, for the first time, allowed Indian correspondents based in Beijing, to travel to Tibet, to witness the opening of a new route for the Kailash-Mansarovar Yatra and also to attend international conferences.<sup>19</sup>

### *The Rise of Communist-Buddhists*

China is also crafting a whole new narrative around its affiliation with Buddhism. It is intriguing how the atheist state has lately positioned itself as the self-proclaimed custodian of Tibetan Buddhism and culture. With the 14th Dalai Lama's claiming that the Tibetan Buddhist tradition of reincarnation could cease with his death, Chinese policymakers have geared up to do the damage control and prevent any social repercussions following this proposition.

Chinese policy makers criticised the Dalai Lama for the "dual betrayal" of both his motherland and his faith and characterised the spiritual leader's dictum as "blasphemy", while projecting itself as the champion of Tibetan religion and culture. Further upping the ante, the Chinese side now claims that the end or survival of the century old practice of reincarnation in Tibetan Buddhism is not just a prerogative of the 14th Dalai Lama, but it needs the approval of the Chinese Central government, as has been the rule since the Qing Dynasty.<sup>20</sup> Not just that, China has also developed its first ever, nationwide living-Buddha authentication database—an official database to keep a track of real (communist) rinpoches and the unofficial or "fake" ones. China's projection of itself as the self-appointed champion of Tibetan Buddhism has evoked sharp reactions the world over, as it is in direct contrast to its communist legacy.<sup>21</sup> In an interview with the *New York Times*, the 14th Dalai Lama mockingly commented on China's communist government's "pretence" on Tibetan religious affairs and advised it to focus on the reincarnation process of its own leaders like Mao Zedong and Deng Xiaoping.<sup>22</sup> Lobsang Sangay, the Tibetan Prime Minister in exile termed the move "ridiculous," adding "It's like Fidel Castro saying, 'I will select the next Pope and all the Catholics should follow.'"<sup>23</sup>

Scholars like Thubten Samphel, the director of the Tibet Policy Institute, referenced China's long history to highlight the oddity of China's present stand on Tibetan Buddhism. He noted that China's famous communist leaders have always said that religion was the opium of the people. The party's popular stand on religious affairs has been that all spirituality is backward. Mao Zedong, has famously said that "religion is poison. It has two great defects: It undermines the race, and secondly it retards the progress of the country. Tibet and Mongolia have both been poisoned by it."<sup>24</sup> Since the later 19th-20th century Chinese society has vigorously debated whether Confucianism and Buddhism were a boon or a bane for Chinese society. Buddhism was virtually wiped out during the 1966-76 Cultural Revolution when temples were closed down and Buddhist statues were smashed.

However, of late, reportedly there has been an upsurge of religion—especially Christianity and Buddhism—in China. With the allegiance to Marxism declining and the spiritual vacuum created by the country's breakneck growth and the rush to get rich, more and more Chinese are turning to religion for spiritual comfort. Beijing's attitude towards this developing trend is worth noting because it is in sharp contrast to its earlier antipathy towards religion. It is not only allowing this spiritual upsurge to take place but is somewhat actively encouraging it. The ultimate agenda, scholars note, is not so much to usher in the liberal-democratic right to religious freedom, but to ensure that these religions serve the cause of the state—that is to infuse morality in China's highly materialistic society and practice social welfare thereby maintaining social stability. However, Christianity, is being associated with the 19th century Western imperial encroachment and is considered to be the force behind the Western value system of social justice, civil society and rule of law, which often makes the party uncomfortable. But, the sense of insecurity among party leaders is much less in the case of Buddhism. It has been reported that President Xi Jinping is much more tolerant towards Buddhism than his predecessors, in the hope that it will help fill China's moral vacuum and stem social unrest.<sup>25</sup> At several national and international forums, Xi Jinping has publicly spoken about Buddhism being a part of the Chinese culture<sup>26</sup>—the first time in years that any leader of the Communist Party of China, has openly acknowledged the role of a religion in Chinese society.

There have also been speculations about the Chinese elite—including Xi Jinping's wife, Peng Liyuan—taking an active interest in Buddhism. According to Tibetan sources there are presently 400 million Chinese Buddhists.<sup>27</sup> There were several reports in the international media, including *BBC*, tracking the rise of a new class of super rich communist Buddhists in China, some of whom are taking active interest in Tibetan Buddhism and are even privately advocating the 14th Dalai Lama's return to Tibet.<sup>28</sup> Given these developments, it was hoped that



the Tibet issue would finally make some headway under the auspices of the Xi government. However, with the release of China's latest white papers on Tibet which continue to denounce the 14th Dalai Lama and his Middle Way approach,<sup>29</sup> the theory of a possible rapprochement between China and the 14th Dalai Lama under the influence of the Buddhist Communists has once again taken a back-seat.

On the other hand, scholars like Robbie Barnett and Claude Arpi have been rather critical of Beijing's attempts to "control Tibetan reincarnation legacies through certificates and online lists". Calling the whole process of "legislating community traditions" as "clunky, inappropriate", they draw attention to the potential abuse of power and corruption involved in such a certification process.

They further argue that such moves indicate that "Beijing doesn't have enough power to control Tibet without a lama to handle it."<sup>30</sup> Explaining their stand they say that in spite of actively promoting Buddhism as the new moral glue in the atheist society, China is sceptical of completely entrusting the leadership to anyone else, other than the party itself. The Chinese leadership is aware that the spiritual heads of Buddhism – the reincarnated lamas or rinpoches, or the 'Living Buddhas' as Beijing calls them, wield a tremendous amount of influence amongst the masses. Their spiritual authority, they fear, can also be a destabilising influence on the nation, if not regulated by the party. So there has been a growing realisation in China that whosoever controls the living Buddhas, controls Buddhism and thereby controls the minds of the people in the plateau and within China.<sup>31</sup>

However, even in the face of fierce criticism from human rights groups, the western media and scholarly circles,<sup>32</sup> the CCP government has stiffened its resolve to claim a stake in the 14th Dalai Lama's reincarnation process.<sup>33</sup> Not just that, the Chinese leadership has also published online an official registry of 870 licenced living Buddhas, searchable by name, temple and identity card number, which obviously does-not include the name of the 14th Dalai Lama. In fact, to justify its stand on the issue, China is now openly describing the Tibetan reincarnation issue as a political, rather than a religious matter. Zhu Weiqun, a senior CCP official has been quoted as saying that: "...the issue is first and foremost an important political matter in Tibet and an important manifestation of the Chinese central government's sovereignty over Tibet. For this reason, since historical times, the central government has never given up, and will never give up, the right to decide the reincarnation affairs of the Dalai Lama."<sup>34</sup>

## **Shifting Paradigm for Tibetans in Exile**

### *The Long March from Theocracy to Democracy*

It is no less a paradox that while communist China has been striving to integrate

religion in the atheist, socialist Chinese society, Tibetan Buddhists in exile are strengthening their democratic credentials. It is well known that in the Chinese narrative, Tibet is often described as a medieval theocratic society, and the Tibetans in exile as the remnants of the feudal serf owners striving to reverse the progression of history. For the rest of the world as well, the Tibetan identity continues to remain enmeshed within the ‘culture and religion’ paradigm, with monastic figures and institutions wielding immense influence in all spheres. However, the ‘religion and culture paradigm’ may not remain the be-all and end-all of Tibetan politics for long. It is interesting to note how this deeply religious community is increasingly looking at ‘democracy’ as their new identity, as a source of pride and achievement and also as a leverage over China’s one-party authoritative rule.

In an important and positive example of a working democracy, Tibetan exiles recently held preliminary elections for the Sikyong and the Tibetan Parliament, in which more than 80,000 Tibetans from around the world registered to vote for a new government in exile. The 2016 general election for the Sikyong of the 15th Kashag and members of the 16th Tibetan Parliament in exile is the second direct election of the Tibetan leadership, since the complete devolution of political authority by the 14th Dalai Lama in 2011.

While celebrating the 55th anniversary of Tibetan Democracy this year, the Tibetan leaders in exile observed that over the years, democracy in exile has become more mature and public discourse more substantive. Viewing democracy as a potent tool for the sustenance and success of the Tibetan struggle, they pledged to further strengthen the democratic institutions in exile.

It is important to note how carefully the Tibetan leaders in exile have been crafting the democracy narrative. They are projecting Tibetan democracy as a “gift” from their spiritual leader the 14th Dalai Lama and striving to infuse pride within the Tibetan community about the fact that in Tibet’s case, democracy has evolved and developed peacefully without any bitter struggle. They are also highlighting Buddhism’s general compatibility with the concept of democracy. Taking the example of Buddhist societies such as Myanmar and Taiwan, they argue that Buddhism and democracy can coexist.

The key objective of Tibetan leaders today is to make the world take note of Tibetan democracy in exile. The Sikyong election of 2012 did receive good media coverage and also featured in government statements, like in the US Senate Resolution # 356. Regarding the present election, efforts are being made to raise global public awareness and garner recognition for the new government in exile from the international community.

### *Umay-lam versus Rangzen Debate*

For all these years, the predominant narrative of the Tibetan resistance has been the Dalai Lama’s push for non-violence and the “Middle Way”—a policy (Umay-

lam) dating back to the 1970s that does not seek full Tibetan independence, but “genuine autonomy,” whereby the Tibetans control their internal matters and are able to preserve their culture and religion, but issues regarding international relations and defence are delegated to Beijing. This Middle Way Approach is underpinned by the Dalai Lama’s own philosophy, that “all conflicts can be resolved through sincere dialogue if conducted in a spirit of openness and reconciliation”. The Middle-Way Approach, led to more than 20 contacts and consultations with the Chinese government from 1979, till all formal contacts came to an end in 1993. When talks resumed in 2002, nine formal rounds of dialogue and one informal consultation took place between the envoys of the Dalai Lama and the concerned PRC officials.

This policy has won the admiration and ardent support of the general mass of the Tibetan people as well as people and governments across the world. Many Chinese scholars and academics themselves have extended their support to the policy. The Central Tibetan Administration (CTA) too firmly adheres to this policy, terming it a win-win proposition between the status quo and independence – between assimilation and independence. The CTA launched a massive ‘Middle Way Approach Campaign’ last year to create global awareness for the Tibetan call for a peaceful resolution of the Tibet issue, through genuine autonomy. On the other hand, the 14th Dalai Lama himself clarified that “it’s in Tibet’s interest to be within China”.

Unfortunately, in spite of the “conciliatory” stance taken by the CTA, no major breakthrough in Sino-CTA negotiation could be achieved, which in turn, has caused much disappointment among the Tibetan community in exile. Now with China, in its last white paper, publicly denouncing the 14th Dalai Lama and his “Middle Way” approach on grounds that it negates the sound path of development in the TAR, and attempts to create a “state within a state”, several uncomfortable questions are being raised about the efficacy of the Umay-lam strategy. Also, with the 14th Dalai Lama celebrating his 80th birthday, there is a growing debate within the refugee community on how long the support for the ‘Middle Way’ Approach will last after his demise.

Lukar Jam, who ran for the post of prime minister in the 16th Tibetan parliamentary election, further muddied this ongoing debate by publicly rejecting the Dalai Lama’s Middle Way policy, arguing instead, that Tibetans should be demanding full independence or “Rangzen” for Tibet. A former political prisoner in TAR, Jam contends that China could not be trusted to honour Tibetan autonomy, because Beijing “makes regular changes in its constitution where minority rights are concerned”. Since most Tibetan refugees still support the Dalai Lama’s Middle Way Approach and consider it “unwise and impolite” to question the Dalai Lama’s wisdom, they have been especially critical of Lukar Jam’s ideas.

Jam has also been particularly criticised for not having any concrete plan to carry out the independence struggle that he is advocating. However, Jam's emergence in Tibetan politics is important, because he has not just brought the question of Tibetan independence back in the spotlight, which in recent years had lost ground to issues like, the living conditions in Tibetan settlements, unemployment, etc. In an interview to the Indian press, Jam said that his sole aim was to return to Tibet. He said he feared that if he focused too much on issues of unemployment among exiled Tibetans, the Tibet issue will "slowly die out" and Tibetans will "forget that they are guests in India". Another important concept advocated by Jam is the separation of religion and politics. An admitted atheist, he questions the double voting rights of Tibetan monks and says that he has separated the spiritual and political Dalai Lama and criticised only his political policies. These ideas are sparking the interest not just of the young Tibetans but also of those who still romanticise the legacy of Tibetan freedom fighters of Cold War Days and strive to resist "Chinese oppression," off the battlefield.

## **India's Quest for a New Paradigm**

### *Buddhism versus the living god of Buddhism*

Since the time of Jawaharlal Nehru, the 14th Dalai Lama has had very close relations with all the prime ministers of India. It has been the norm since then, that every prime minister meets the Dalai Lama soon after he assumes office, and both sides reiterate their solidarity with each other. It is also well known that within the Ministry of External Affairs, India's relations with China and with the Dalai Lama have always been given equal weightage. Not to mention, the high level of public support that the 14th Dalai Lama enjoys in India as a spiritual leader. Much in sync with this convention, the Modi government started on a very positive note with the Tibetan leaders in exile. The PM made quite a bold statement by inviting Lobsang Sangay, the PM (Sikyong) of the Tibetan parliament in exile as a guest of honour at the meeting of the head of states of the SAARC nations.

However, of late speculations are rife about an element of circumspection<sup>35</sup> creeping into India's relationship with the 14th Dalai Lama. Much has been written about the secret meeting between PM Modi and the Tibetan spiritual leader, just before the Chinese President Xi Jinping's India visit in August 2014. Though details of the "brief meeting" have been kept confidential, it has been widely reported in media that it did not go too well and the Dalai Lama appeared "shaken" by the encounter. Later, BJP president Amit Shah cancelled his scheduled meeting with the Dalai Lama ahead of PM Modi's China trip.<sup>36</sup>

In yet another development, which has been largely interpreted as a fallout

of the growing tension between the government and the Dalai Lama, the Tibetan spiritual leader travelled to California in early July for his birthday celebrations.<sup>37</sup> Although New Delhi did send two union ministers—Mahesh Sharma and Kiren Rijju,—who are also practicing Buddhists to attend the Dalai Lama's 80th eightieth birthday celebrations—and both reiterated India's friendship and spiritual connection with the Tibetan community in exile. But this was too little and too late to assuage the heightened speculation levels.<sup>38</sup> Moreover, some of Dalai Lama's recent interviews highlighting his wish to “go home to Tibet, as well as meet his friend Xi Zhongxun's son, President Xi Jinping”<sup>39</sup> have further fanned the flames of rumours that not all is well between New Delhi and the 14th Dalai Lama.

One view is that Delhi is distancing itself from the Tibetan spiritual leader to boost its relationship with Beijing. It has been reported that India is willing to infuse an element of reserve in its relationship with the Dalai Lama, who is seen as a major irritant in the Sino-Indian relations. The government which has been keen to settle the long-standing border dispute with China “at the earliest”, is willing to send a favourable signal to Beijing by distancing itself from the spiritual leader.

The other view is that Indian policymakers are not very enthusiastic about the Dalai Lama's direct overtures to Beijing. It has been reported that the Dalai Lama, his advisers and a Hong Kong-based Chinese business person had been discussing a possible meeting between the Dalai Lama and Xi during the latter's Delhi visit. However, the government in New Delhi was not too happy with these developments and had made its views known to the Dalai Lama.

Whatever the reason, New Delhi's decision to distance itself from the 14th Dalai Lama, comes at a time when it seeks to invoke its own Buddhist heritage—a perplexing paradox indeed.

In a major outreach to the Buddhist community globally, and at home, New Delhi, for the first time, organised an official function on a grand scale to celebrate Buddha Purnima, the day when the Buddha was born, achieved enlightenment and passed away. PM Modi while expressing his deep reverence for Buddhism, pointed out that, “Without Buddha, this cannot be Asia's century.”<sup>40</sup> India also convened a two-day historic conclave of two ancient Buddhist traditions – the Theravada tradition of Sri Lanka and the Nalanda tradition of Tibet and the Himalayas. This meeting of the two traditions was the first in 1300 years since the reign of King Harshavardhana in the 7th century.<sup>41</sup> Be it China, Japan, South Korea, Mongolia or Germany, Buddhism has found mention in all of PM Modi's official speeches, and visits to Buddhist shrines have been regularly incorporated in his itinerary.

It is the government's view that India's distinction as the birthplace of Buddhism can help it strengthen ties with countries where Buddhism is the

predominant faith.<sup>42</sup> Also, there is apprehension that if India does not re-establish its Buddhist credentials, they will quite possibly be hijacked by other countries with a substantial Buddhist population, especially China. In fact scholars<sup>43</sup> observe that China's active promotion of Buddhism in recent years did generate some kind of alarm in New Delhi. China held the first World Buddhist Forum in 2006 at Hangzhou. It convened the forum again in 2009 and 2012. Then China carried out 'Buddha's tooth diplomacy' to win the hearts and minds of people in Myanmar, Sri Lanka and other South East Asian countries.<sup>44</sup> Then there have also been reports that China has taken the lead in funding the building of a Buddha temple in Lumbini in the Nepal Terai, close to the border with India.<sup>45</sup> All these moves were viewed from New Delhi as Beijing's deliberate attempt to intrude in India's traditional sphere of influence. The then UPA government in India responded with a series of diplomatic initiatives of its own. In 2011, India convened the first Global Buddhist Congregation. It joined hands with Myanmar in 2012 to convene a conference of Buddhist scholars in Yangon. The Pan-Asian Nalanda Project was also revitalised.

Just when it seemed that Buddhism was increasingly becoming an issue in the Sino-Indian rivalry, PM Modi came along to insist that the religion could be a valuable bond between Delhi and Beijing.<sup>46</sup> Be it at the first meeting between PM Modi and President Xi on the margins of the BRICS summit in Brazil, or during the Chinese president's India visit, or PM Modi's visit to China, the leaders spent much time talking about their shared heritage of Buddhism.<sup>47</sup> However, there has been one fundamental difference between China and India's Buddhist diplomacy. While China's Buddhist diplomacy is used to accentuate its arguments about its peaceful rise and a "harmonious world" and has either systematically excluded the 14th Dalai Lama, or has been directed at countering the Buddhist spiritual leader's own soft power on the world stage. However, in India's case such an exclusion has been almost unthinkable, due to India's legacy of occupying the moral high ground in the Tibet issue, and also because of the general public reverence for the spiritual leader in India. Scholars have earlier predicted that unless New Delhi is willing to accept Buddhism on Beijing's terms, efforts to promote Sino-Indian friendship on the basis of religion are unlikely to go far.<sup>48</sup>

No wonder, the issue conspicuous, because of its absence in India's reinforced Buddhist diplomacy, is the Tibet Autonomous Region and the role of the 14th Dalai Lama in the same. It has been reported that on the occasion of Buddha Purnima, India's official communication initially mentioned that "the prime minister will lead the nation in prayers and solidarity with the people and nation of Nepal—the land of birth of Buddha and all those affected in India and Tibetan Autonomous Region." However, the statement was reissued after removing the reference to Tibetan Autonomous Region (TAR). Also, the Dalai Lama was

strangely missing from among the list of dignitaries.<sup>49</sup> Until now, the Dalai Lama's presence, on such occasions, especially those related to Buddhism, has been pivotal. At the 2011 Global Buddhist Congregation not only was the Dalai Lama invited, but he was asked to give the keynote speech, a move that provoked strong protests from China. But the trend seems to be changing under the Modi government. So to summarise, India, at present, is walking a tightrope between its renewed interest in Buddhism and its own apparently faltering equation with the 14th Dalai Lama who is otherwise considered the living god of Buddhism.

Further, adding to the ambivalence, India is making sincere efforts to reconnect with the Tibetan refugee community. In 2014, for the first time in Indian history, the Election Commission allowed India-born Tibetans to register as voters and participate in elections. Lately the Tibetan Rehabilitation Policy 2014, a policy guideline aimed at stabilising state policies related to the rehabilitation and welfare of the Tibetan refugees, has also been finalised and is in the process of implementation by different states.<sup>50</sup> Under the new policy, Tibetan refugees will get access to all welfare schemes and subsidies at par with Indians and will also be allowed to undertake any economic activity, to pursue/take jobs in any field for which they are professionally qualified.<sup>51</sup>

## **Conclusion**

As is evident from the above analysis, the Tibet story is being re-written. With the shift in global power balance, the key stakeholders of Tibetan politics are clearly reinventing themselves, redefining their cause and reshuffling their strategies, on a scale which can only challenge the conventional understanding of the Tibet issue.

In this state of flux, predicting the future is a daunting task. Some scholars say that the prospects for Tibet are rather bleak and there is a rough road ahead. The Dalai Lama's conciliatory posture has hardly been able to strike a chord with Beijing which continues to hold a deep grudge against the spiritual leader. They argue that the Dalai Lama has played the reincarnation card little too early, and is now left with hardly any card to bargain with Beijing. In such a scenario his dream of going back home to Tibet may remain a dream forever. At the most Beijing may finally allow him to return to Tibet, but at the very high price of accepting Tibet and Taiwan as parts of China as well as accepting Beijing's say in choosing the next Dalai Lama and probably endorsing China's claim to Arunachal Pradesh, as a part of Tibet.<sup>52</sup>

The counter narrative is that the stalled negotiation between China and Dharamshala is a missed opportunity for China. Its plan to buy time till the 14th Dalai Lama passes away and then come up with its own choice of Dalai Lama may prove counter-productive, or rather inflammatory in long run. Although

the Tibetan movement under the 14th Dalai Lama, has remained non-violent so far, however, in a post Dalai Lama scenario, one cannot discount the disruptive potential of the movement taking centre stage. Some also speculate that a renewed Tibetan independence movement could spark a chain reaction of secessionist movements in China's Inner Mongolia and Xinjiang autonomous regions. They say, "Tibet can be China's Tunisia". It will probably take a few more years, some decades or several centuries to put the Tibet issue to rest. However, till then, the only thing that is certain about Tibetan politics is the uncertainty itself.

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# 8

## China and the Infrastructure of the Tibetan Plateau

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Soon after the 18th Army of the People's Liberation Army (PLA) entered Lhasa in September 1951, the Chinese started building new strategic roads between China and Tibet on a war footing and improving the infrastructure in the region.<sup>1</sup> Mao Zedong knew that the only way to consolidate and 'unify' the new colony was to construct a large network of roads and airstrips. Priority was given to motorable roads, particularly the Sichuan-Tibet (or Sikang-Tibet) and the Qinghai-Tibet (or Tsinghai-Tibet) highways. Survey work for the Tibet-Xinjiang Highway (known in India as the Aksai Chin Road) cutting across western Tibet (and the Indian territory of Ladakh) started at the end of 1951 and construction began in 1953/54. On 29 November 1954, the *Xinhua* news agency reported: 'The two large armies of road builders from the eastern and western section of the Sikang-Tibet Highway joined hands on November 27. The Sikang-Tibet Highway from Ya-an [capital of the defunct province of Sikang] to Lhasa is now basically completed.' The communiqué further mentioned that 'gang builders and workers, including about 20,000 Tibetans, covered over 31,000 li on foot in the summer of 1953 and began construction of the 328 km of highway eastwards from Lhasa.' Three weeks later, another report stated that the Qinghai-Tibet Highway was open to traffic. The construction of one feeder road leading to Nathu-la, the border pass between Sikkim and Tibet, had some strange consequences. By sending tons of rice through this route, India ended up feeding the PLA in Tibet till 1954.

In December 2014, the Tibet Autonomous Region (TAR) celebrated the 60th anniversary of the two first highways connecting the Tibetan capital with the mainland. *China Tibet Online* termed the development 'a milestone of

transportation development in Tibet'.<sup>2</sup> The website, affiliated to *Xinhua*, noted: 'Following the opening of the two crucial highways 60 years ago, Tibet has become better connected to the outside world.' In a message for the occasion, President Xi Jinping described these projects as 'a miracle in road history'. President Xi wanted further improvements in the transport infrastructure in TAR: 'The two highways have played a vital role in Tibet's social system, economic and social development, as well as consolidating the southwest frontiers and promoting national unity.'<sup>3</sup> The year 2015 was also the 60th anniversary of the opening of the first airport in Damshung, north of Lhasa. Both road networks and airports were to play a crucial role in the 'liberation, development' and now 'stabilisation' of Tibet, not forgetting the 1962 border conflict with India. Since then, there has been rapid infrastructure development in the Tibetan plateau, which received a major boost in July 2006, when the Qinghai Tibet Railway reached the Tibetan capital.

### **A Special Year: The Political and Ideological Background to Infrastructure Development**

A series of events/declarations/meetings in 2015 provided the political, strategic and ideological background for the extensive infrastructure development in Tibet. It is important to understand this seemingly disproportionate development. The main celebration was to mark the 50th anniversary of the TAR foundation. In 1965, ethnic Tibet was divided into five parts, with the TAR remaining the largest region, while other Tibetan-inhabited areas came under the administration of Sichuan, Yunnan, Qinghai and Gansu provinces.

The 50th TAR anniversary was celebrated with pomp on 7 September in Lhasa. We shall briefly mention a few events held before that to mark the occasion: On 5 March, during the Third Session of the 12th National People's Congress (NPC), Premier Li Keqiang, in his government work report, announced that celebrations would be organised for the 50th anniversary of the TAR; he also mentioned that it was important to preserve the still clean environment of the plateau. As the NPC was meeting in March, the state media reported that from November 2014 to March 2015, 'many in the central leadership as well as various government departments went to Tibet and Tibetan-inhabited areas in Qinghai, Gansu, Sichuan, and Yunnan provinces to conduct research and make inspections.'<sup>4</sup> These officials included Yu Zhengsheng, Chairman of the Chinese People's Political Consultative Conference and Sun Chunlan, minister of the United Front Work Department (UFWD). The 'important' visits continued till the 50th anniversary function. One should also keep in mind the visits of Vice-Premier Wang Yang, General Xu Qiliang, Vice-Chairman of the Central Military Commission and Du Qinglin, a former UFWD boss.

On 16 April, the State Council Information Office (China's Cabinet) released a White Paper, 'On the Development Path of Tibet' in which the plateau's infrastructure found prominent mention.<sup>5</sup> A conference of the UFWD was held from 18 to 20 May in Beijing, where Xi Jinping asked the UFWD officials to make 'active efforts' to incorporate religions in socialist society, adding that 'religions in China must be Chinese'. In June, another White Paper, this time on Human Rights, was released. The State Council in the introduction stated: 'Under long years of oppression by the "three big mountains" – imperialism, feudalism and bureaucrat-capitalism – people in old China did not have any human rights to speak of.'<sup>6</sup> It was probably in response to the Western criticism about the lack of human rights and the repression on the plateau. As we shall see, 'repression' is intimately linked to the development of infrastructure.

On 10 June, *Xinhua* reported that Xi Jinping gave 'an audience' to the Chinese-selected Panchen Lama Gyaltzen Norbu at Zhongnanhai in Beijing. The meeting was 'very appropriate', said *Xinhua*, because it showed that the Party 'has consistently given a high level of attention to Tibet.' The news agency said that Xi Jinping has 'set an example for the rest of the Party members by taking the lead in uniting the religious figures.'<sup>7</sup> Gyaltzen Norbu has since been appointed Chairman of the Tibet Development Fund. *China Tibet Online* reported that Sun Chunlan, member of the Political Bureau and boss of the UFWD, conducted an inspection tour of TAR from 15 to 18 June. On 30 July, a meeting of the Politburo was called to specifically discuss Tibet affairs. *Xinhua* announced: 'Chinese leaders met to discuss economic and social development in Tibet, and how to ensure the autonomous region achieves prolonged stability.'<sup>8</sup> President Xi Jinping said the solution for Tibet was to 'maintain national religious policies and promote patriotism in Tibet.' A Leading Work Group on UFWD was set up during the meeting to take care of Tibet and Xinjiang Affairs, amongst others.

Even more importantly, a Tibet Work Forum was held in Beijing on 24 and 25 August 2015.<sup>9</sup> A Work Forum on Tibet is usually attended by several hundreds of officials, including all the members of the Standing Committee of the Politburo. The 6th Tibet Work Forum probably decided the fate of the Roof of the World and the Tibetan people for the next five to ten years. The last Work Forum was held in 2010 and emphasised that tourism development was the way to 'solve' the Tibetan 'issue' for good. Prior to that, four Tibet Work Conferences had been held in 1980, 1984, 1994 and 2001. The 2015 Forum was presided over by President Xi Jinping, who pleaded for 'national and ethnic unity as the key plans for Tibet, vowing to focus on long-term, comprehensive stability and an unswerving anti-separatism battle.' Premier Li Kejiang, who also spoke on the occasion, noted: 'Moreover, the building of local infrastructure should be speeded including transportation networks, water conservation projects, power-grids, among others.'

Li pledged to increase financial aid and implement preferential policies for Tibet. To 'conclude' the year, the 50th anniversary celebrations were held on 7 September, in front of the Potala Palace. The Grand Show was addressed by Yu Zhengsheng, Liu Yandong, a state councillor (a former head of the UFWD) and Sun Chunlan, the present head of the UFWD. In attendance also were Du Qinglin, a former UFWD boss and now vice-chairman of the CPPCC National Committee and General Zhang Yang, a member of the Central Military Commission. Old Tibet hands Jampa Phunsok, Phagphala Rinpoche and Raidi were also on the dais. 2015 was indeed a busy year!

### **Why this Frenzy of Infrastructure Development on the Plateau?**

There are at least three reasons for the infrastructure frenzy on the plateau: (in) stability in the restive region; the mega tourism boom; and equally importantly 'guarding' the border with India. Though it is rarely mentioned in the Chinese media, one could also add to the list the exploitation of the natural resources on the plateau (like water and minerals).

#### *(i) Stability of the Plateau*

There is nervousness in Beijing following the 2008 unrest in Tibet. On 7 September, soon after the grandiose parade, Yu Zhengsheng, the CPPCC chairman, who was the chief guest, met a large number of representatives from the PLA and the People's Armed Police Force (PAPF) posted in Tibet. Yu urged the army, the police and the judicial staff 'to crackdown on separatist forces and be ready to fight a protracted battle against the 14th Dalai clique.'<sup>10</sup> Yu also asked the defence forces 'to improve their abilities of governing Tibet according to law [sic], specifically cracking down on the separatist forces, strengthening social management and protecting the people's rights.' He also spoke of maintaining the stability of the border areas, a leitmotiv in the Chinese leadership's discourse. For all this, infrastructure is crucial.

#### *(ii) Defending the Border*

Reiterating his theory about the 'border areas' at the Tibet Work Forum, Xi mentioned 'a series of strategies that have been in effect during the 60-plus years of governing Tibet.' He said that 'governing border areas is the key to governing a country, and stabilising Tibet is a priority for governing border areas.'<sup>11</sup>

#### *(iii) Tibet: A Paradise for Tourists*

The main pretext for rapidly developing the infrastructure is tourism. According to the Ministry of Environmental Protection, which has compiled air quality data from 74 major cities, seven cities, including Lhasa, have met the national

standards for best air quality for five main pollutants. In 2013, *China Tibet Online* advertised the Roof of the World as follows:

Tibet with its mystery is the spiritual Garden of Eden and is longed by travellers home and abroad. Only by stepping on the snowy plateau, can one be baptised by its splendour, culture, folklore, life, snow-mountains, Saint Mountains, sacred lakes, residences with local characteristics and charming landscape.<sup>12</sup>

Why should China spend so much time and energy on Tibet if there were to be no quick returns? Tourism brings tremendous revenues to the regional government. *China Tibet Online* has recently announced: 'It is predicted that the annual number of tourists will break the 20 million mark. With tourism revenue exceeding 28 billion Yuan, it is at a historic high.'<sup>13</sup>

In 2014 the number of domestic and foreign tourists travelling to Tibet was 15.5 million, while the revenue from tourism was 20.4 billion Yuan. In 2015, just from January to September, the TAR received 17.4 million tourists, an unbelievable increase of 36 per cent. During this period revenues had already amounted to 23 billion Yuan, an increase of 39.5 per cent over the previous year. Now, even winter holidays are being promoted. Not only are tickets for the Potala Palace available but train and airplane tickets are also available at discounted rates. Tibet's Department of Tourism has launched a special scheme, the 'Spiritual Lhasa Journey', to attract winter visitors to Tibet. This is a bit surprising for a Communist country. In any case, the tourism boom will continue in 2016 and new records will be set.

## **Airport Development**

According to the Tibet Civil Aviation Bureau, the terminal buildings of five of the TAR airports cover an area of 40,000 square metres. Some 61 air routes are now operational. There are an average of 108 air sorties a day; the weight of the cargo transported increased to 250,000 tons from 14.9 tons; and the number of passengers to 3.15 million from 4,400, fifty years ago.<sup>14</sup> New routes are constantly being inaugurated. For example, Lhasa is connected with Lanzhou in Gansu Province and Shijiazhuang in Hebei Province; a daily service links Chamdo in Tibet with the municipalities of Chongqing and Tianjin. Tibet Airlines is the first airline company based in Tibet. Launched in 2011, its network serves all major cities in China including Beijing, Shanghai, Chongqing and Hangzhou. The number of its routes will reach 31 with the opening of the three new ones.

During 2015, major work continued on three of the main airports in the TAR. Already by the end of 2014, 800 million Yuan had been invested in the expansion of Lhasa Gonggar, Chamdo Bangda, and Nyingchi Mainling airports. On 17 March 2015, *China Tibet Online* announced: 'In addition to Mainling County, expansion projects for Lhasa Gonggar Airport and Chamdo Bangda



Airport are all expected to ease the pressure of increasing passenger traffic coming in and out of Tibet.<sup>15</sup> The Mainling County Airport, located north of the McMahan Line, was officially opened to traffic in 2005. The same webpage explained that 'the expansions planned for the Mainling County Airport are part of the country's efforts to raise Tibet's civil aviation capacity and safety standards, while also supporting Tibet's economic and social development.'

Even if the defence needs are not openly mentioned, they are always present. Wang Dasong, the director of the Mainling County Airport Office, asserted that the airport will have 'an estimated passenger traffic of 750,000 people and a targeted cargo handling capacity of 3000 tons by the year 2020.' The construction includes a new 10,360 sq m terminal, a 3000 sq m comprehensive safe house, a fire station and pump stations, and the restoration of the old terminal. It will cost some 270 million Yuan. Further during the 12th Five-Year Plan, 170 million Yuan has been invested in the relocation of the air traffic control tower of the Lhasa Gonggar Airport. A new airport for Lhasa is being planned, the location for which has apparently already been decided. On 7 September 2014, it was reported that the Lhasa Party's Secretary Qizha La (Choedrak in Tibetan) went for an inspection tour of the site of the new airport. *The Tibet Daily* said that preliminary planning and design work have been carried out. Qizha La asked the people to fully appreciate the practical significance of the construction of this new airport.

The objective of the Party Secretary's visit was to accelerate the planning, design and other preparatory work for the project, which is to be implemented as soon as possible, according to the Party mouthpiece. Construction of a second runway at the Chamdo Bangda Airport in eastern Tibet began in November 2014. At an altitude of 4334 metres, this is the second-highest airport in Tibet. Its runway of 5 km makes it the longest runway in China's civil aviation airports. At present, this airport offers flights to Lhasa, Chongqing and Chengdu. According to *Xinhua*, 'The experimental project of Bamda Airport's second runway plans to excavate 560,000 cubic metres soil and rocks.' The project was expected to be completed by November 2015.<sup>16</sup> While the Nagchu Dagrang Airport appears to still be under construction (it was supposed to be completed by the end of 2015), the Shigatse Peace Airport and Ngari Gunsar Airport have expanded their operations. The historic sites of Western Tibet as well as the pilgrimage to Kailash-Mansarovar are the next 'fashionable' destinations for Han tourists.

## Outside the TAR

One should say a few words about the airports outside the TAR which can be used to carry tourists, but also PAPF reinforcements in case of disturbances or troops during a conflict.

*Hongyuan Airport* (Ngaba): In 2014, *Xinhua* reported: 'Southwest China's Sichuan Province opened its fourth high-altitude airfield, which local officials hope will boost tourism in the heavily Tibetan-populated region.' The Prefecture is situated in north-western Sichuan, at the border of Gansu and Qinghai provinces. Ngaba Tibetan and the Qiang Autonomous Prefectures (Aba in Chinese) were at the epicentre of the 2008 Sichuan earthquake. The area witnessed a wave of Tibetan self-immolations in 2011 and 2012.

*Daocheng Yading Airport*: The 4411-metre high Kardze Daocheng Yading Airport, built in Kardze in Sichuan province, became operational in 2014, a year earlier than planned. The Sichuan authorities planned to bring one million tourists to the area by 2015. But as important as tourism, the airport facilitates the transportation of fresh troops from the Military Area Command in Chengdu to the Kardze prefecture. Kardze has been one of the most restive areas on the Tibetan plateau. Thus, two birds are killed with one stone: the Tibetan protesters can be 'pacified' in no time and the deluge of Chinese tourists brings hefty revenues.

*Jiuzhai Huanglong Airport*: It is an airport in Songpan County. This airport serves two major scenic places in the area, namely Huanglong, 53 km away, and Jiuzhaigou, 88 km away. It is built 3448 metres above sea level. It started flights on 28 September 2003, and has one runway of 3200 m length.

*Huatugou Aviation Airport*: *Xinhua* reported that Qinghai Province is home to another airport at Huatugou in the resource-rich Mongolian-Tibetan Autonomous Prefecture of Haixi. The airport covers an area of 180 hectares and cost 700 million RMB. The airport was opened in June 2015.

*Golok Airport* (under construction): The Qinghai Airport Co. authorities announced that a new civil airport would be opened in another restive region of the Tibetan Plateau by the end of 2015. It is located in the Golok Tibetan Autonomous Prefecture of Qinghai Province. The airport has been built at an altitude of 3500 metres. Construction was completed by the end of 2015.

*Yushu Batang Airport*: It serves Yushu City (Jyekundo in Tibetan) in Qinghai Province. It is located 18 km to the south of the city centre, at an altitude of 3890 metres, which makes it the highest civilian airport in Qinghai Province. Construction started in 2007. The first aircraft landed on 29 May 2009. The airport was extensively used after the Yushu earthquake in April 2010.

*Delingha Airport*: It serves Delingha City, the capital of the Haixi Mongol and Tibetan Autonomous Prefecture in Qinghai Province. Construction began on 27 May 2011, at a total investment of 630 million Yuan. The airport was opened on 16 June 2014. Missile bases are said to be located close by. In an article on

the Federation of American Scientists blog, Hans M. Kristensen writes: 'Analysis of commercial satellite imagery reveals that launch units for the road-mobile DF-21C medium-range ballistic missile now deploy several hundred kilometers west of Delingha in the western part of central China.'<sup>17</sup> Most Chinese missiles use transporter-erector-launchers (TEL), which means that they can be moved by rail or road.

*Gannan Xiahe Airport:* It is located in Gannan Tibetan Autonomous Prefecture, Gansu Province, in Xiahe County, 72 km from the county seat and 56 km from Hezuo, the capital of Gannan Prefecture. Construction started in September 2010 with a total investment of 722 million Yuan, and the airport was opened on 19 August 2013.

*Diqing (Dechen in Tibetan) Shangri-La Airport:* This airport serves Shangri-la, the famous tourist spot in the Diqing Tibetan Autonomous Prefecture of Yunnan Province.

## **Dual Use of Airports in Tibet**

All these airports can also be used for military or law-and-order enforcement purposes. In July 2015, *Xinhua* announced the integration of civil-military airports to 'strengthen aviation safety and combat support capabilities.' In a joint statement recently, the PLA Air Force (PLAAF) and General Administration of Civil Aviation (CAAC) said that this integration will include joint maintenance of airport support facilities, joint flight safety support and joint airport management.<sup>18</sup> The Lhasa Gongkar Airport in Tibet and Sunan Shuofang International Airport in Wuxi in Jiangsu province will be the two pilot PLA/civil airports for implementing the 'integration', which is expected to be accomplished in the second half of 2015. The PLAAF/CAAC circular further affirms that 'All the civil-military airports will conduct strengthened integration next year.' This is evidence of the Chinese government plans to integrate civilian and military needs. The logistical importance of these airports in case of conflict has been noted by several authors such as General N.C. Vij, Monika Chansoria, Maj Gen Shashi Asthana and Shailender Arya. Army personnel and equipment can now be moved from one theatre to another. The speed of construction/renovation of airports has increased in recent years, thanks to the tourism boom.

## **Development of Railways**

After the arrival of the railway in Shigatse in August 2014, the region witnessed a major tourism explosion. The Shigatse Travel Bureau recently announced that 2.027 million tourists from the mainland and abroad travelled to Shigatse from

January to September 2015, generating 1.8 billion Yuan in revenue. These figures include air, road and train passengers. Despite the Kyirong (or Gyirong County) earthquake in April, Shigatse has continued to publicise its 'rich and age-old folk cultures' during the National Day holidays and other festivals.<sup>19</sup> Themes such as '*Amazing Mt Qomolangma* (Mt Everest or Chomolungma)', '*Mysterious Tsang*' or '*Auspicious Shigatse*' bring hordes of Chinese tourists. The promotion says that 'Shigatse adheres to the integrated development of eco-culture, the border culture, folk culture, red culture [sic] and Buddhism culture, which forms a new pattern of tourism development enjoying unique vitality.'<sup>20</sup> The main future development that will have serious strategic implications for India is the construction of the railway connecting Lhasa and Nyingchi, which will be completed in 2021 and the extending of the Shigatse line to Kyirong, on the Nepal border, during the 13th Five-Year Plan (2016-20).

## Road Development

We have seen the historic part played by roads in the plateau's development, at the time of the 'liberation of Tibet'. According to the White Paper on **Successful Practice of Regional Ethnic Autonomy in Tibet**, published in September 2015:

A comprehensive transportation system including roads, railways and aviation has been built, further facilitating Tibet's transportation. Radiating from Lhasa to Sichuan and Yunnan in the east, Xinjiang in the west, Qinghai in the north, and India and Nepal in the south, a road transportation network that connects prefectures, cities, counties, and townships has taken shape. At the end of 2014, the total length of roads open to traffic reached 75,000 km, 8,891 km of which have sub-high-grade surfaces or better, accounting for 12.6 percent of the total. Sixty-five, or 88 percent, of all 74 counties in Tibet had access to asphalt roads. As many as 690 townships and 5,408 administrative villages could be reached by road, respectively accounting for 99.7 percent and 99.2 percent of the total.<sup>21</sup>

Yu Zhengsheng presided over the opening ceremony of a portion of the new four-lane highway linking Lhasa with Nyingchi during the 50th TAR Anniversary celebrations. Speaking on the occasion he said that this highway is 'expected to help tourism, assist regional industrial transformation as well as preserve border stability and bolster ethnic unity.'<sup>22</sup> Construction of the highway started in 2013 with an estimated investment of 38 billion Yuan. This will be a game changer for India, due to Nyingchi's proximity to the Arunachal Pradesh border. According to the *Tibet Business Daily*, the high-grade highway between Lhasa and Nyingchi was expected to be open for trial operation on 15 September. It is not clear when the entire highway will be ready. As is the case with any infrastructure in Tibet, the roads are built for dual, civil and military use.

In January 2014, *China Tibet Online* reported that the Transportation Department had received subsidised poverty alleviation loans from agricultural

banks amounting to as much as 11.5 billion Yuan to facilitate country roads network construction in Tibet over the next three years. In 2013, the total length of the roads newly opened to traffic was 5290 km.<sup>23</sup>

The building of military roads is also proceeding apace. In March 2015, *China Military Online*, quoting the Chengdu Military Area Command (MAC) announced:

The highways leading to six frontier defence units in Tibet have been under construction. The six frontier defence troop units are the last ones in the PLA Tibet Military Command which have no access to the highways.

Many frontier defence companies and sentry posts in Tibet are stationed in forests, valleys or in snowy mountains. It is very difficult and costly to build highways in these places with adverse terrain conditions. Without highways, it is a headache for the frontier defence troops to hold manoeuvres and replenish materials.<sup>24</sup>

This is certainly the next objective for the PLA in 2016: to bring the infrastructure closer to the Indian border.

### **The Case of Metok**

Metok is the last Tibetan village before the Yarlung Tsangpo/Brahmaputra enters Upper Siang district of Arunachal Pradesh. *China Tibet Online* describes the area thus:

The remoteness of the location, together with other reasons such as climate and geological condition, and economic development, led to the isolation of the region. Having no way linking it to the outside world until the end of 2013, Metok is the last county in China to have its road.<sup>25</sup>

Historically, this was a mythic place; and only a very few intrepid pilgrims or adventurers had visited the 'hidden valley'. Ever since Metok was opened to tourists, the income of the county (which has fewer than 11,000 inhabitants) has reached 10 billion Yuan in just two years.

According to *China Tibet Online*, 'Going to Metok had once been only the privilege of the "brave" before the traffic was improved. After the opening of the road to Metok, self-driving travel became popular apart from hiking. Visitors from various places were attracted to this beautiful place.' This tiny but strategic valley, located a few kilometres north of India's border, hosted 70,000 visitors in 2013, the first year that the road was opened. The number grew to 90,000 in 2014 and the Chinese government expects 130,000 visitors in 2015. This poses a serious strategic threat for India, whose construction of roads and Advance Landing Grounds (ALG) remains tardy, to say the least.

## Electricity Generation

The main development of 2015 was the commissioning of the largest dam in TAR on the Yarlung Tsangpo. A PTI news report on 13 September stated: 'China today operationalised its US\$ 1.5 billion Zam [or Zangmu] Hydropower Station, the largest in Tibet, built on the Brahmaputra River, which has raised concerns in India over the likelihood of disrupting water supplies.' *Xinhua* confirmed that according to China Gezhouba Group, 'All six of the station's units were incorporated into the power grid today.'<sup>26</sup> The Zangmu dam is Tibet's (and the world's) highest-altitude hydropower station. Chinese Foreign Ministry spokesperson Hua Chunying tried to reassure India by saying, 'We will take into consideration the concerns of the Indian side and will remain in contact with them.' In 2013 an Indian Inter-Ministerial Expert Group (IMEG) on the Brahmaputra noted that there were three dams<sup>27</sup> within 25 km of each other and relatively close to the Indian border in Arunachal Pradesh.

The White Paper, *Successful Practice of Regional Ethnic Autonomy in Tibet*, explains:

An extensive energy system has now been formed with hydropower as the mainstay, backed up by geothermal, wind, and solar energy sources....The Qinghai-Tibet Power Grid Interconnection Project and the Sichuan-Tibet Interconnection Project have officially gone into operation, so consigning to history the previously solitary operation of Tibet Autonomous Region power line.<sup>28</sup>

The White Paper then lists some of the 'power supply' projects: Pangduo Hydro Power Station (HPS), near Lhasa (160 MW); Zhikong HPS, north of Lhasa (100 MW); Shiquanhe or Ali HPS in Ngari, Western Tibet (a few MW); Laohuzui HPS on Ba river in Nyingchi (104 MW); Xueka HPS on Ba river in Nyingchi (40 MW); Yangbajain Geothermal PS in Damshung (25 MW). The Zangmu HPS has by far the highest installed capacity in the TAR. The White Paper says: 'In 2014 the total installed generating capacity reached 1.697 million KW, and the annual output of generated electricity came to 3.22 billion KWH.' Figures for 2015 are not yet available but the White Paper adds:

[T]he Region has demonstrated and promoted 30,000 photovoltaic (PV) systems, established 90 PV power plants, and more than 1,200 solar streetlamps, with a total installed capacity of 8,000 KW. By the end of 2012, all administrative villages had access to electricity, and the problem of electricity access had been basically solved.

This is relatively small considering the availability of the sun on the high plateau, but post the COP21 Conference, it will certainly increase exponentially.

## Communications

Most of the information on communications is available in two White Papers. *Successful Practice of Regional Ethnic Autonomy in Tibet* says:

Tibet has now entered the information age, having established a modern telecommunications network with optical cable satellites and the Internet as the backbone. The total length of optical cable lines in the Region has reached 97,000 km, among which over 30,000 km are long-distance optical cable lines. Optical cables have now reached 668 townships and towns in 74 counties, or 97.8 percent of all townships and towns in Tibet, and mobile phone signals cover 5,261 administrative villages. The number of Internet user households has reached 2.177 million, with an Internet penetration of 70.7 percent, and mobile Internet coverage in farming and pastoral areas has surpassed 65 percent.<sup>29</sup>

It has to be noted that the civilian equipment is usually not shared with the PLA which has its own dedicated lines, VSATs, cables, etc. Previously, all mail from Shigatse had to be forwarded to mail centres in Lhasa. Mail would first be sorted at the terminal in Lhasa before being sent to Chengdu, which required a lot of time.

Further new surveillance equipment has recently been added to the civilian infrastructure. Systems integrating electro-optical devices, radars, communication equipment, command-and-control instruments and tools for image analysis have been installed on the borders. Mao Weichen of the South-western Institute of Technology and Physics in Chengdu, Sichuan Province, told *The China Daily*,

Our system has been adopted by border defence units in Xinjiang, Tibet, Yunnan and many other regions to curb illegal border crossings and drug trafficking... Users also include some airports and military bases. It can undertake round-the-clock, all-weather surveillance of illegal cross-border movements. Compared with traditional border monitoring networks that mainly depend on video surveillance, our system has a wider coverage and more deterrence thanks to the use of drones and acoustic weapons.<sup>30</sup>

It is thus clear that China is taking giant strides to be ready for any eventuality. Moreover, the railway lines to Nyingchi in the East and Kyirong in the Southwest of Tibet, as well as the four-lane highway between Lhasa and Nyingchi are worrying developments for India, which has been slow to build a decent infrastructure on its side of the Himalayas. This will have to be remedied at the earliest.

## NOTES

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## II. ECONOMY AND REFORMS

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# 9

## Chinese Economy: Measuring the Progress

*Sumita Dawra*

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### **Why the World Needs a Thriving China?**

China, the world's second largest economy, has been an engine for global growth. The 'factory of the world' has had a great hunger for commodity imports to feed its manufacturing and infrastructure sectors. Besides, Mainland China accounts for a fourth of the sales in the global luxury market. Chinese tourists make almost 100 million international trips. The nature and spread of China's outward investments include investments in companies and real estate in Europe, in Canada and the USA, to ports in Greece, Belgium, Nigeria, Pakistan, Sri Lanka, Singapore, to enumerate just a few. The massive domestic market in China today offers a huge growth opportunity for the multinational corporations (MNCs) that have been investing in the country, over the last more than two decades. Given how critical the Chinese economy is for global growth, the spectre of a slowdown in the Chinese economy sends shivers down the spine of the world.

This was exemplified by the events of August 24, 2015—the high point of the year's economics related events—when the stock markets crashed. The mayhem in global markets was triggered by fears of a 'faster-than-expected' slowdown in China. The world sat up to take notice of the health of the Chinese economy as global equity, commodities and currency markets took massive hits. Concerns relating to domestic stock markets (which actually constitute a small part of the total banking assets in the country) overshadowed the bigger weaknesses in the Chinese economy relating to real estate, credit risks, and over capacities in the manufacturing sector, not to mention the local government debt.

## **Dipping Growth Rates and Debate over 'Reforms versus Growth'**

A chronological review of the calendar of economic events in China in 2015, shows that: the month of January was dominated by Chinese economic growth dropping to the lowest level in 24 years. Having grown at 14.2 percent in 2007, and 10.4 percent in 2010, a slowdown in the GDP growth rates to 7.7 percent in 2013, followed by 7.4 percent in 2014, was worrying for analysts at the start of 2015.<sup>1</sup> Not that the trend was new, as Chinese growth rates have been dipping consistently since 2010. What was noteworthy was that it was the lowest growth rate for China in almost a quarter of a century, and the official target of 7.5 per cent had been missed narrowly.

Coming in the wake of mounting local government and corporate debts, apart from a cooling of property prices and a decline in the productivity of fixed asset investments,<sup>2</sup> it reignited the debate on whether the mammoth Chinese economy would finally have a 'hard fall' or would lapse into recession. The big question again was whether the Chinese policy makers would resort to an economic stimulus by propelling economic growth through big ticket infrastructure projects; and, if they did, what would that portend for the much needed economic reforms that China needed for its transition to an economy powered by domestic consumption and the services sector, rather than the traditional export oriented, investment driven growth?

The traditional growth model was no longer efficient, as Beijing had already realised, because of the weak exports and diminishing returns on fixed asset investments within the country. China clearly needed to rebalance and restructure the economy in more sustainable ways if the policy makers were to achieve their target of doubling the 2010 GDP and per capita income levels by 2020. However, while recognising the economic imperative of reforms, the Chinese policy makers also know that every percentage of GDP growth generates about 1.3 million to 1.5 million jobs in the Chinese economy – and the Chinese economy needs to add 10 million new jobs every year! Hence, policy makers also simultaneously underline the criticality of China growing at a certain 'reasonable' rate of growth.

## **Trade Data and Monetary Policy**

The February data focused on trade and the 'exceptionally strong performance' in exports, as news of improvement in major export markets made headlines. Exports in the months of January–February showed a 15 per cent growth compared to the figure of 6.1 per cent in the whole of 2014.<sup>3</sup> Imports remained in slide, underlining weak domestic demand, amid concerns over the slowing growth of the economy.<sup>4</sup> Nevertheless, a record trade surplus of \$60.6 billion was posted for February 2015.<sup>5</sup> The Yuan also showed a modest weakening against

the US dollar in February, leading analysts to point out that a slowing Chinese economy needed more than a weakened currency to spur exports and growth. More policy measures to 'spur domestic demand' were the order of the day if the country were to transition to its new model of sustaining growth through domestic demand and the services sector, among other things. The People's Bank of China (PBoC) – the country's central bank – cut the bank reserve requirement in February, which raised concerns about the risk of deflation in the Chinese economy.

### **Premier's Work Report to the National People's Congress**

March was about the pared growth target of 7 per cent for the year 2015 announced by the Chinese Premier in his work report to the National People's Congress (NPC) at the session held in the early part of the month.<sup>6</sup> The era of the "new normal" for the Chinese economy, used to blistering double digit growth rates over the previous three decades, had arrived. In an attempt to lead the economy on to a path of 'slower and more and sustainable' growth, quality was emphasised over quantity. Besides the work report emphasised the need: to create 10 million new jobs in 2015; to keep consumer inflation at around 3 per cent; keep the budgetary deficit at 2.3 per cent of the GDP; improve the local government debt-raising mechanism; deepen reforms of the state owned enterprises; and pursue a 'proactive fiscal policy, and a prudent monetary policy.'<sup>7</sup> This highlighted the concerns in the Chinese economy relating to the heavily indebted local governments, and a slowing economy that might threaten jobs and growth in incomes.

### **Concerns over Supply-Side Issues**

At the same time, the National Development and Reform Commission (NDRC) – the Chinese planning and macro-management body, projected that: foreign direct investments (FDI) into the Chinese economy would be an impressive \$120 billion; total trade growth would be at 6 per cent (same as in 2014); targeted capping fixed asset investments at 15 per cent; and declining reliance on coal based energy sources (which caused most of the pollution in the cities) in favour of alternate sources in areas of heavy pollution. It was decided to encourage mergers and to close down 'outdated capacities in oversupplied sectors' in a bid to rein in the surplus capacities in several industrial sectors (like steel, aluminium) that were a posing a threat to the sustainable growth of the Chinese economy.

Excess capacities in the manufacture of steel, cement, aluminium, solar panels and so on had already been flagged by experts as 'a principal threat to the Chinese economy and a big obstacle'. An overbuilt industrial sector coupled with the ongoing slowdown and an environment of weak exports did not portend well for

the Chinese economy. At the same time, heavy borrowings by local governments post the 2008 global financial meltdown—in a bid to keep growth chugging through stimulus measures—had created a serious economic problem with which present day China had to grapple. The work report to the NPC reflected these concerns as well.

### **Good News from Retail Sales Data and the OECD**

April was dominated by good news from the domestic consumer market with retail sales climbing 10.4 per cent in the first four months of the year, according to the National Bureau of Statistics (NBS). In the month of April alone, the y-to-y growth had been 10 per cent, at 2.24 trillion Yuan (\$366 billion).<sup>8</sup> Rural consumption at 11.4 per cent in April was higher than urban consumption at 10.2 per cent. However, in May 2015 came the news of a slide in China's Producer Price Index (PPI), which measures wholesale inflation. The data indicated a fall of 4.6 per cent on a y-on-y basis.<sup>9</sup> Soon after, in June, the Organisation for Economic Cooperation and Development (OECD) said that China could achieve a "soft landing," as it had "enough firepower to achieve its new normal." As such, China could achieve 'moderate, balanced and durable economic growth.'<sup>10</sup> While structural reforms would support China in the long run, the short-term measures of monetary policy, accelerated infrastructural investments, and the Silk Road initiative would promote growth. Debt swap measures could help China to reduce debt-servicing costs. However, it was clear that all these measures would involve a lot of hard work.

### **Will the Chinese Economy have a "hard fall"? Don't bet on it!**

Just because the economy is slowing down, need not imply that the country is going to have a "hard fall," or the economy is going to crash, as one economist noted. The Chinese growth story is far from over. China is transforming – as exports to European Union slow down, new markets are being explored for Chinese exports to the emerging economies of South America, Middle East, Africa and South East Asia. FDI is also finding new avenues of growth in the inland provinces of China, where wages are low. The services sector contribution to GDP is growing even as manufacturing is slowing down. Besides, new areas of hi-tech manufacturing are being encouraged, along with investments in key strategic areas such as the next generation of information technology, biotech, industrial materials, new energy sources, and an up-gradation to higher-level manufacturing.<sup>11</sup>

China is also expanding interconnectivity within the country, opening up the inland areas of the central and western regions through efficient transportation and infrastructural links with major cities of China. The building of economic

corridors across borders is part of an important strategy to opening up its landlocked inland cities to trade and commerce in the western provinces as for instance by building physical connectivity with Central Asian countries through the Silk Road initiative.<sup>12</sup> This is supported by the financial diplomacy initiative launched by China, one aspect of which is the Asian Infrastructure Investment Bank (AIIB) unveiled in June 2015 in Beijing with 57 founding members, and a projected fund of \$100 billion.<sup>13</sup> The bank would fund infrastructure development in Asian economies. The 21st century maritime Silk Road Economic Belt covers trade routes over the seas, and complements the Silk Road Economic Belt that goes over the land. In June 2015, the Chinese state conglomerate CITIC Ltd announced 300 projects as part of the “One Belt, One Road” initiative.

### **A Weakness in Industry Data and the Stock Market Crash that Shook Global Markets**

The month of July 2015 led with the news of a drop in industrial profits that were reported to have fallen by one per cent compared to the previous year. It was feared that weakness in industry might weaken business confidence further and have a negative impact on investments in manufacturing and exports, and thereby on government tax revenues.<sup>14</sup> In an environment of overall industrial weakness, the only exceptions were hi-tech manufacturing and the consumer goods sector, which posted profits.

Nothing in the first seven months of the year, however, prepared the world for the tumultuous events in the month of August, when a stock market crash in China followed the largest one day decline in the value of the Yuan<sup>15</sup> in 20 years – and was accompanied by the biggest contraction in the manufacturing sector Purchasing Managers Index (PMI) since 2008. Doomsday reports of a Chinese meltdown dominated sections of the media. The Chinese media itself went into defensive mode with stories that China was not the reason for the bloodbath in the global equity markets, suggesting instead that the problems of the west were more to blame. At the same time, China lowered the threshold for foreign capital investment in the property market, and made monetary moves to face the challenges of a volatile equity market. Despite the ‘Black Monday,’ on August 24, 2015, when stock markets crashed in China, creating turmoil in global markets,<sup>16</sup> one major international news magazine pointed out that the Chinese economy was not in a crisis, and even if China grew at 5 per cent, its economy would contribute more to world output than it did while growing at 14 per cent in 2007!

### **Reaching Out to World Markets – State Visits to US, UK**

The big story in September 2015 was Chinese President Xi Jinping’s visit to the



US and talks with US President Obama for exploring areas where China and US could work together. Against the background of an annual trade of nearly \$600 billion, between the two countries the Chinese state media projected this meet as an opportunity to create greater scope towards fulfilment of China's domestic development goals.<sup>17</sup> The two countries also discussed cyber security issues to enhance mutual trust, climate change and promote tourism.<sup>18</sup>

October is the month when the all-important third quarter economic data is released. It is a barometer of the economy's performance in the first nine months of the year and gives a reasonably fair idea of where the economy is headed for the rest of the year. A GDP growth figure of 6.9 per cent in the third quarter was below 7 percent for the first time since 2009, and created a buzz that perhaps the Chinese economy would not be able to meet the official growth target of 7 per cent for the year.<sup>19</sup> Following the stock market crash of August, analysts were wondering whether the Chinese policy makers would be able to manage a gradual slowdown as the economy transitioned to a new growth model, or was the slowdown going to be faster-than-expected.

In October 2015, Chinese President's state-visit to UK, was highlighted by the media as 'the first state visit from China in a decade.' The British Prime Minister said China would be bringing in investments and deals worth GBP 30 billion to UK.<sup>20</sup> These were to include investments in infrastructure in UK and raised hopes for London emerging more strongly as a trading centre for Chinese currency. For China, the advantage was expected to be the showcasing of its investment and trade ties for other potential partners to see. Investments ranged from a possible one-third stake of a Chinese company in a nuclear power plant in UK (the Hinkley Point project), to a deal in manufacture of electric buses, investment in a British theme park and so on.

### **Two Big News – 'one-child policy' Relaxed and Yuan added to Basket of Currencies!**

In October 2015 also came the big news of China relaxing its decades old one-child policy, prompted by reports of a shrinking working-age population (between 15-64 years) and increasing older population (65 years and above).<sup>21</sup> In November 2015, China's ongoing efforts to internationalise its currency received a boost with the announcement that the IMF was expected to add the Yuan to the world's basket of reserve currencies—the other four reserve currencies being the US Dollar, the Yen, the British Pound and the Euro.<sup>22</sup> This was confirmed in December 2015 by the IMF and is expected to spur greater financial liberalisation in China, on the capital account and interest liberalisation front.

## **Visit to Africa and the Central Economic Work Conferences 2014 and 2015**

In December 2015, Chinese President Xi Jinping visited Africa and pledged \$ 60 billion for development projects across Africa over the next three years.<sup>23</sup> It is well documented how China has been involved in building roads and railways for state-funded projects in many African countries, and is also making strategic investments in commodities. This has given the much needed boost to Chinese businesses and corporates, many of them being Chinese state-owned enterprises.

In December 2014, exactly a year before the concluding month of 2015, the Chinese policy makers had set the tone for economic development in 2015 at the annual Central Economic Work Conference (CEWC), by defining the new economic tasks for 2015. There was a recognition of the lower growth rate (of around 7 percent) – termed the “new normal”,<sup>24</sup> focus had changed from quantity to quality and efficiency; on maintaining economic continuity and stability; in identifying new growth points; improving livelihoods of the people and regional integration and development in the western and north-eastern parts of the country, as well as in the central and eastern regions. Besides the focus on economic reforms and the further opening-up of the economy would continue. As such, the economic events of 2015 will also have to be assessed against the backdrop of these goals.

Jumping a year ahead, to December 2015, the Central Economic Work Conference 2015 wrap-up emphasised the need to keep growth steady and continuing the reforms outlined in the 3rd Plenum of the CPC in November 2013. However, the buzz word this year was to undertake ‘supply-side reforms’ by reducing industrial overcapacities, bringing down surplus real estate inventories, reducing financial risks, cutting corporate costs particularly in the bloated state-owned enterprises, and supporting weak growth areas.<sup>25</sup>

## **Conclusion**

The year 2015 was dominated by the continued slowing down of the Chinese GDP growth rate (which eventually clocked 6.9 percent for the year), the launch of the AIIB as China continued its focus on building physical connectivity with neighbouring nations, the continuing shrinking of manufacturing, the stock market crash that highlighted concerns that policy makers may not be able to manage the slowdown that was suspected as being ‘faster-than-expected.’ Income disparities and the outflow of dollars from the economy also continued as challenges, while pollution in many cities was of continuing concern for human health. On the positive side, consumer spending increased its contribution to the GDP, as did the services sector. Property prices recovered and were stable,

while China invested its capital abroad in strategic investments, deals and building economic corridors.

While the growth target for 2016 was tentatively mentioned as required to be at least 6.5 percent, in order to achieve the goal of doubling Year 2010's GDP and peoples incomes by the year 2020, overall there was broad agreement that the Chinese economy was not in for a "hard fall," though a recession may have to be warded off. The economic fundamentals of the country remained strong, despite the doubts expressed by economic analysts that growth rates were being exaggerated.

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# 10

## China's Exports: Declining Foreign Trade in the New Normal?

*Sriparna Pathak*

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Over the last 30 years, a 10 per cent growth rate in China had become the common assumption for investors, businessmen/women/policy makers and others. Even during periods of overheating and undershooting, the Chinese economy always gravitated towards 10 per cent. However, as the country enters a period of staggering growth, the concept of the 'new normal' is fast becoming part of common parlance. It was Chinese President Xi Jinping who used the term the "new normal," to characterise the next phase of growth. This term was coined by Mohamed El-Erian, the former CEO of the global investment firm PIMCO, who famously used it to describe the West's painful economic recovery following the 2008 financial crisis. But Xi used the phrase to describe something different: a crucial rebalancing, one in which the country diversifies its economy, embraces a more sustainable level of growth, and distributes the benefits more evenly.<sup>1</sup>

While there is agreement across the spectrum that the growth rate has slowed, the point of contention among economists in China is the extent of the reduction and the time period that the "new normal" will last. There are two camps in this debate – the bulls and the bears. Qu Hongbin, an economist with the HSBC reflecting the bullish viewpoint stated that, "China's economy is slowing but this is mainly the result of cyclical factors such as weakening external demand and the lagged impact of earlier tightening measures". Andie Xie – an independent economist – expressing the bearish view said, "China has come to a true structural turning point, where the inefficiencies of a government-led growth model hurt the economy. As China has exhausted its surplus labour and western economies are in decline, exports won't rise to cover up the inefficiencies any more."<sup>2</sup> However,

in order to understand the problems that have led to the situation of slow growth, whether external factors alone can be blamed for the slowdown or is it the structure of the economy that has led to the current problems, it is pertinent to take a brief look at the country's economic history; which will enable one to understand how well the economy is poised to absorb to take shocks.

## **The Chinese Economy: A Brief Economic History of Reforms and Opening Up**

The Chinese economy has undergone a sea change, from the end of the 18th century to the 21st century, when China emerged as an important manufacturing platform of the world with the manufacturing sector, consistently accounting for half of China's Gross Domestic Product (GDP). While the Industrial Revolution may not have taken place in China, and China was a late entrant in the process of industrialisation, the fact remains that China has managed to achieve high and rapid industrialisation.

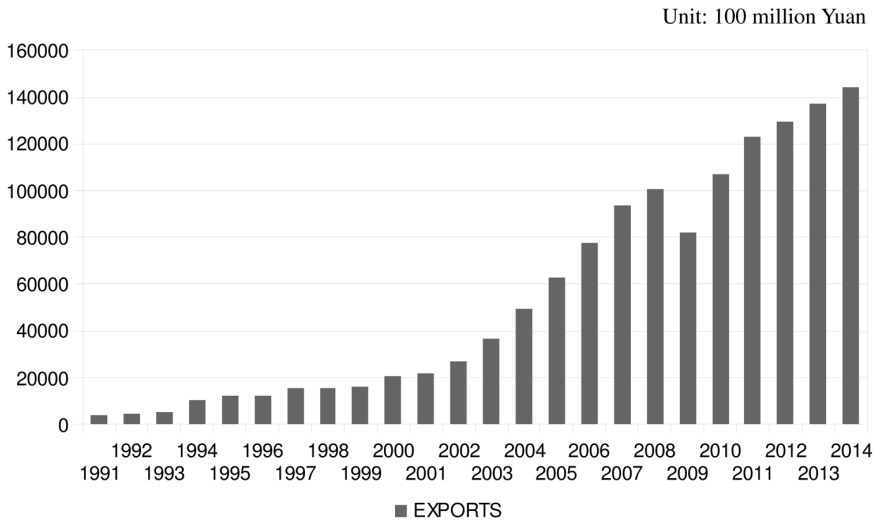
The total volume of China's manufacturing industry is the highest in the world. In 2013, China's industrial output had risen to 120 per cent of that of the U.S.<sup>3</sup> Also, by 2007; China had topped the lists of production volumes in more than 170 products.<sup>4</sup> Thus it cannot be denied that the Chinese economy is an important link in the global industrial chain. It is precisely because of its increasing capabilities in the manufacturing industry that the export led growth model has flourished.

Jiang Zemin and Zhu Rongji assigned, all the tasks of alleviating growing unemployment, increasing tax revenues, and the state's foreign exchange reserves; accelerating steady economic growth; fuelling technology transfer; along with promoting the competitiveness and the productivity of domestic enterprises to foreign trade, particularly exports. Because of this strategy, exports flourished and added to the vigour of GDP growth. The following graph shows the growth in exports from 1991 to 2014.

As seen in Graph 1, exports have been on the upward swing from 1991 to 2009. This was precisely because of the reforms and the policy of opening up the economy. Reform brought the country's foreign trade and exchange system in line with international practice, thereby promoting foreign trade in important ways. When China adopted the policy of opening up to the outside world, its foreign trade entered a new period of growth, leading to a multitude of flexible modes of trade. In December 1982, the opening up policy was formally written into the new constitution of China. This policy was a major decision made on the basis of an extensive comparison between Modern histories of China and other countries, by analysing international political and economic situations, and

especially the positive and negative lessons learned from the socialist model of development followed since the founding of the PRC.

**Graph 1: China's Exports of Goods and Services**



Unit: 100 million Yuan

Source(s): National Bureau of Statistics, People's Republic of China

The increase in Chinese exports, particularly manufactured exports, was due to a combination of factors such as the Coastal Development Strategy, the Export Processing Zones (EPZs) and the participation of foreign owned enterprises. In an export processing regime, raw materials, parts and components, and other intermediate goods can be imported duty free as long as they are used to produce goods for export. This regime was developed largely between the late 1970s and the late 1980s, and it greatly facilitated the ability of China's domestic and foreign owned firms to compete in world markets.

Additionally, from 1979 China began implementing policies to encourage foreign direct investment (FDI), when a legal framework for joint ventures was established, along with four Special Economic Zones (SEZs) in which foreign firms were offered preferential tax and administrative terms. A key feature of these reforms was that machinery and equipment could be imported duty free, as well. These facilitated a surge in inflows of both financial and physical capital so that China received even more FDI than the U.S. Importantly, the influx of technology associated with this FDI allowed China to produce relatively sophisticated products more rapidly than it would have otherwise. Also, many

manufacturing companies were also set up when the Chinese government started offering value added tax (VAT) credit reimbursements to encourage exports.

A substantial portion of the export activity of the foreign firms operating in China entails duty free import of components that are then assembled and exported as finished goods. The processing trade has grown steadily in China and by 2005 the value of processed exports had touched US\$ 416 billion, accounting for about 55 per cent of total exports. Yu and Tian in their analysis of the processing goods trade and stated that more than half of processing imports are attributable to Foreign Invested Enterprises (FIEs), while another 17 per cent of processing imports are attributable to Sino-foreign joint ventures, in the form of either contractual or equity joint ventures, while SOEs and private enterprises account for only a relatively small proportion (12.2 per cent and 10.2 per cent respectively).<sup>5</sup> It is through such policies and measures, that China became the manufacturing hub of the world, while additionally becoming an essential component of the global trade network.

In the early 1990s, light manufacturing accounted for more than 40 per cent of China's exports. These products largely consisted of footwear, clothing, toys and miscellaneous other manufactured articles. The other exports were manufactured goods such as textiles, machinery, transport and small electronic goods. China's manufactured exports have however diversified in recent years, and they now include more sophisticated electronics such as office machines, automated data processing equipment, telecommunication, sound equipment and electrical machinery, and industrial supplies. China boasts of a world class industrial economy and a modern industrial infrastructure with world class capabilities ranging from production to product development. As a result, it now has some of the world's largest electronics firms, with acquisitions and mergers that are enabling the creation of powerful players in some Chinese industries. The proportion of China's exports represented by machinery and transport including electronics rose from 17 per cent in 1993 to 41 per cent in 2003, while the share of miscellaneous manufacturing declined from 42 per cent to 28 per cent.<sup>6</sup>

Therefore, manufacturing especially labour intensive mass manufacturing became the engine for economic growth in China, since the economic reforms were initiated in 1978. Initially the focus of the industrial policy was on light industry, on the production of consumer durables, keeping in mind China's prevailing technical capacities and its comparative advantages particularly in the availability of surplus labour. But it was largely dependent on external demand.

After the death of Mao Zedong, it was Hua Guofeng, whose policies shaped the Chinese economy's performance in the period between 1976-78 and who initiated the 'most dramatic turnaround' with regard to the West. Utilising the previous efforts of Mao Zedong and Zhou Enlai in 1973-74, with regard to the



urea plants imports from the U.S, Hua embarked on a massive technology imports programme for 1978 that was double the combined value for similar imports between 1973-77. However, this 'open door' strategy of Hua Guofeng was the only major strand of his overall economic programme that survived through the Deng era. For both Hua and Deng, access to foreign technology was clearly crucial, not only for the continuous pursuit of modernisation but also for arresting the decline in industrial productivity due to years of repetitive investments in capital intensive, but dated industrial technologies. Light industries were called upon to enhance production for fulfilling, not only the rising domestic consumption demand, but also export requirements. Heavy industry, which earlier was an entirely 'closed system', was also strongly urged to make full use of production capacities.

This readjustment had a dramatic effect on quantitative trends in trade. In 1979, the visible account was in deficit by US\$ 906 million. By 1982, China had achieved a surplus of US\$ 6.868 billion. This surplus was achieved in spite of a poor world trade environment and it enabled China to accumulate substantial foreign exchange reserves and also to repay, ahead of schedule, loans from the International Monetary Fund (IMF).<sup>7</sup>

The basic purpose of the reforms was to recast China as a part of the global economy. At the same time that it was embarking on the domestic reforms that transformed the economy in the 1980s and the 90s, China was opening up itself to the global economy as well. This transformation included the establishing new institutions, both nationally and internationally, the development of new industrial strategies, the creation of SEZs, the adoption of trade and aggressive export strategies, along with the adoption of development strategies that were region specific within China. As a result, China's export economy grew at an average annual rate of nearly 27 per cent over the period 1978–2002.

### **Debating 'reforms' in 1978**

At the end of the Cultural Revolution, China was close to bankruptcy. Two conclusions were drawn from Deng Xiaoping's speech 'Practice is the Sole Criterion for Testing the Truth'. These were: Poverty is not socialism – socialism should develop productive forces in an order to be better than capitalism, that money and commodity should not be abolished in the primary stages of socialism,<sup>8</sup> and that the commodity economy should be developed. Therefore the planned economic system adapting to the production economy should be reformed. Thus, from the beginning of the 1990s, the establishment of a socialist market became the objective of China's economic system reform.<sup>9</sup> The establishment of a socialist market economy under state planning was described by Chen Yun as a 'bird in a cage'. Chen Yun said: The bird must not be held

tightly in the hand or it will die. It should fly, but only within the cage: without a cage, it will just fly away. If the bird is a market economy, then the cage is state planning. Naturally, the size of the cage has to be appropriate.<sup>10</sup>

Deng Xiaoping delivered his well known speech on emancipating the mind and extracting the truth from facts and looking toward the future in unison, on December 13, 1978—which became an important policy statement for stimulating the national economy. Thus China began its economic surge through the interplay of the forces of the state and the market.

According to Tian Yu Cao, Deng Xiaoping's modernisation project marked a new stage for China. Deng Xiaoping inherited Mao Zedong's étatism and nationalism, even though he tried to practice them in a less rigid way, with more individual freedom and tolerance for social activities, and through communication and cooperation with the West in the fields of economics, politics, culture and military. He further adds that Deng Xiaoping's originality lies in his abandonment of the planned economy, which was the basic tenet of Mao Zedong and traditional socialism. He took the market system as the underlying institution for China's economic modernisation, while at the same time seeking to fit the market economy into the framework of socialism. Thus Tian Yu Cao holds that Deng Xiaoping introduced an alternative modernity that is different from liberalism as well as traditional socialism.<sup>11</sup> However, Harry Harding holds that China, while still insisting principally on its own efforts for modernisation, significantly modified the earlier Maoist emphasis on national self reliance, thereby greatly expanding the volume of China's trade with the rest of the world.<sup>12</sup>

The modernisation of the national economy at a time when the reforms were being undertaken meant developing industry, agriculture and national defence on the basis of advanced science and technology. Science and technology in the old China lagged some 50 years behind the developed countries. The gap was bridged to some extent in the 17 years since the founding of new China, but scientific research had been disrupted and no progress was made during the ten years of Cultural Revolution.<sup>13</sup>

In the mid-1970s the economy began to recover from the negative impacts of the Cultural Revolution, and production of light consumer manufactures, particularly textiles for export, began to rise again. Around the same time, petroleum output from China's main field at Daqing began to increase rapidly, and some oil became available for export. As foreign exchange earnings began to grow, China stepped up its technology purchases from the West and Japan. Fertiliser plants and steel mills were at the top of the list of desperately needed technology items. These trading relationships seemed set to continue growing, and ambitious technology import programmes multiplied in 1977-1978.<sup>14</sup>

By opening up to the outside world, drawing on foreign experience, expanding

economic and trade cooperation with foreign companies, obtaining foreign funds, technology and management expertise, China speeded up the process of modernisation and industrialisation. As exports rapidly increased and GDP growth rates sky rocketed, the China model began to be observed with great interest.

The term 'China model' covers the basic systems and policies China that adopted in the past three decades, including economic reform, development, opening up and socialism with Chinese characteristics. The China model, as put forth by Jiang Jinqiang, is different from any other model, and has features that are more salient than the Latin American or the East European and the Soviet model. The Chinese economic system cannot be completely explained by Marxist political economics, or by Western economics or general economics. In general terms there are three salient features of the Chinese model—endogenesis (self generation), innovativeness, and gradualness.<sup>15</sup>

The current context actually shares similarities with the initial period of reform and opening up. As the international economic environment has undergone changes in the aftermath of the global financial crisis of 2008, China is now trying to undertake further measures to rejuvenate the economy. The leadership has already come up with the concept of the 'new normal' which implies that while growth rates will slow down, structural changes will be undertaken in the economy in order to ensure that a '*xiaokang*' or a moderately prosperous society is built. This is clearly in line with the goals of 'socialism with Chinese characteristics'. In order to understand what lies beyond the year 2015, when China announced a series of goals and plans to revitalise its economic growth, it is essential to first review its economic history.

## **The Current Scenario**

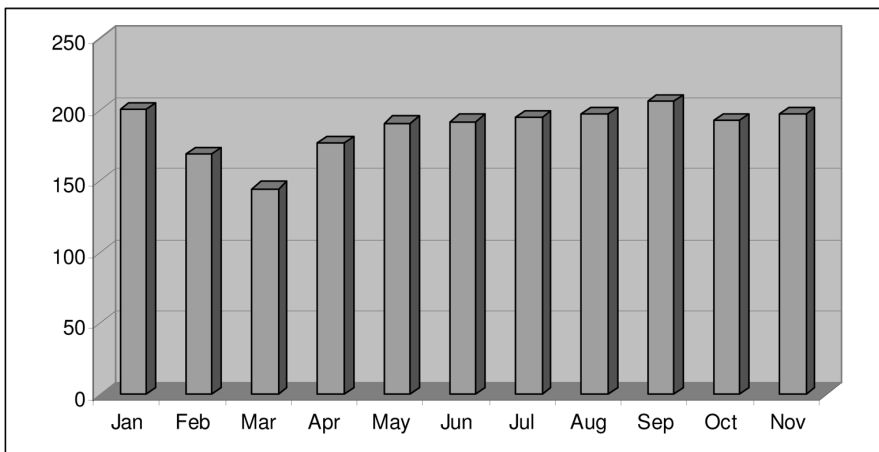
After years of rapid expansion, China is now entering a period of stuttering growth. In the last quarter of 2015, economic growth in China touched a six year low of 6.9 per cent despite repeated interest rate cuts and other stimulus measures. The rate has been the lowest since the 6.2 per cent recorded in the first quarter of 2009 during the global recession. In view of the situation, President Xi Jinping at the 18th meeting of central leading group for comprehensively deepening reforms held on November 10 said, that the spirit of reform and innovation must be strengthened and the country's governance system be modernised. A few days later, on November 16, at the G20 Summit, President Xi Jinping made a statement that China is on track for 7 per cent growth this year, despite lower expectations. The same sentiment was echoed by Premier Li Keqiang who also said that China was on track to reach its growth target of 7 per cent in 2015 while speaking at a summit attended by the leaders of 16 Central

and Eastern European countries in the Chinese city of Suzhou.<sup>16</sup> However, as has been revealed by data in 2016, China's growth in 2015 was 6.9 per cent.

While it is true that the global economy's mood is gloomy, and it is still recovering from the shocks of the global financial crisis, what also remains important is that the Chinese economy is export reliant. Greater attention should have been paid in the preceding years on spurring domestic consumption, instead of merely relying on exports. Exports constitute roughly 40 per cent of Chinese GDP. The dependence on the West is particularly high for exports. At the onset of the financial crisis in November 2008, China's export growth rate fell sharply to -2.2 per cent from 20 per cent in the October of that year. In 2009, China's exports fell by about 17 per cent.<sup>17</sup> Even in 2015, the rebound in economic growth in advanced countries has been modest. In December 2015, China's manufacturing fell to its lowest in three years. Exports to the U.S, one of the world's few economic bright spots, dropped 5.3 per cent from the previous year, while shipments to the European Union decreased nine percent.<sup>18</sup> According to a *Bloomberg* report, Chinese exports declined more than two per cent in 2015, the first annual decrease since 2009. Slumping imports along with declining exports meant that trade was well below the government's annual target for 6 per cent this year.<sup>19</sup> The export growth rate in 2015, on a monthly basis is shown in Graph 2.

As is clear from Graph 2, exports have been erratic, because of the erratic global economic environment. If the figures for exports in the different months of 2015 are compared with those of 2014, it is seen that deep cracks in the export led model have emerged, and the contraction is unnerving for analysts across the globe.

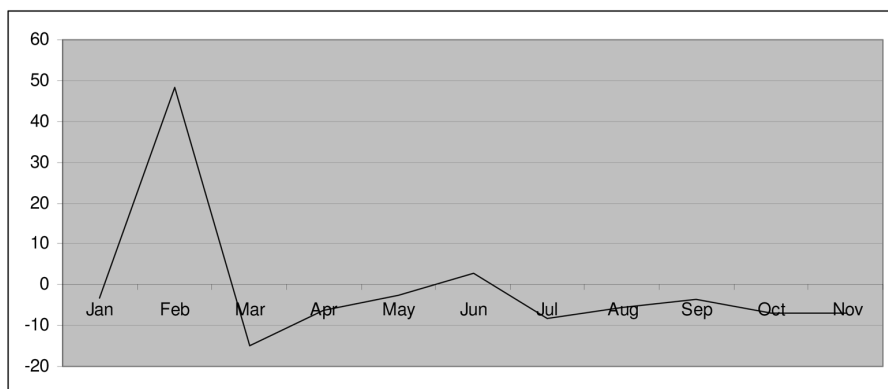
**Graph 2: Monthly Value of Exports from January to November 2015  
in US\$ billions**



Source: National Bureau of Statistics, People's Republic of China.

As is clear from Graph 3, the only months in which the exports growth rate has been positive compared to the same period in the previous year, are February and June. This clearly implies that a complete reliance on exports is no longer sustainable. In 2016, the February trade data confirmed China's disappointing start in 2016, with exports declining 17.9 per cent for the January-February period, the lowest since 2012, due to weak external demand. According to HSBC Global Research, shipments to both developed and developing markets reduced, with exports to ASEAN countries seeing the biggest contraction of 32.2 per cent compared to the same period in the previous year. However, the Chinese exporters' share of major markets, including EU and the US did not shrink as exports from other competing nations fell even faster. It confirmed that sluggish global demand was the main reason for the country's disappointing exports rather than a general loss of competitiveness.<sup>20</sup>

**Graph 3: Total Value of Exports, Growth Rate**  
(The same period last year = 100) (%)



*Source: National Bureau of Statistics, People's Republic of China.*

The way to tackle weak external demand is domestic consumption. In fact, one of the aims of the stimulus packages announced after the financial crisis in China was to spur domestic consumption and to improve the domestic business environment, so that reliance on the export led growth strategy can be reduced.

## **Economic Restructuring**

The Chinese government implemented a set of policies to restructure the economy in order to make it less dependent on state led investment and more efficient so as to spur consumption and innovation. The aim is to achieve what Chinese officials term a “better GDP.” In March of this year, the Chinese government adopted a new set of parameters to evaluate the health of the economy. The government dropped “electronic power output” and “total cargo volume,” the

two statistics that have been used for decades, and added “research and development expenditures” and “energy intensity” to its evaluation system.<sup>21</sup> Though no targets have been announced, PRC regulators will look to increase the proportion of services industries in the overall economy from the current 43 per cent. Policies will favour the development of the outsourcing, banking, insurance, e-commerce, logistics, and supply chain management sectors. Industries that are hamstrung by inefficiency or overcapacity—such as cement and coal—continue to be targeted.

On May 19, 2015, China's State Council published its “Made in China 2025” blueprint, which first found mention in the Chinese government's annual work report in March 2015. The focus areas of “Made in China 2025” are: innovation led development; application of smart technology; strengthening the foundations of the economy and pursuing green development; and redoubling efforts to upgrade from a manufacturer of quantity to a manufacturer of quality. The ten page blueprint aims at making China a stronger manufacturing power. It sets out a three-step approach along with nine strategic tasks and priorities required to achieve this goal. The steps are briefly as follows:

- To join manufacturing powers by 2025
- Attaining the mid level position among global manufacturing powers
- Consolidating China's position as a “manufacturing giant” by the 100<sup>th</sup> anniversary of the People's Republic of China in 2049, and joining the ranks of the top class of global manufacturing powers.

The tasks necessary to achieve the goals include: focus on innovation and upgrading; promoting greater integration of information technology and industrialisation; strengthening the fundamental capacity of industry; and striving to make breakthroughs in key sectors. One of the most important goals is to help China become “*xiaokang*” or “moderately prosperous” by 2020, which, according to the leadership entails maintaining a medium to rapid growth rate, reducing poverty and enhancing social welfare, improving the eco system and environment and putting in place more mature governance systems. In line with these formulations, the State Council in an official statement issued on November 11, said that the integration of healthcare with elderly care to address the needs of an aging population will be undertaken. This will benefit millions of Chinese families and create numerous jobs. This is also in line with the stated goal of expanding the services sector in the country.

The State Council stated in 2015 said that it will encourage financial institutions to make it easier for “lifestyle related businesses” (that include travel, sports, education and cultural sectors) to obtain loans.<sup>22</sup> In addition to this, the government has also announced new policies to boost consumption. These

measures include those for increasing imports and encouraging foreigners to spend more in China.

While the overall outlook of the economy, particularly for exports remains gloomy, there are a few bright spots. The Asian Development Bank (ADB) recently released its Asian Economic Integration Report 2015, according to which low tech goods accounted for 28 per cent of China's exports in 2014, compared to 41 per cent in 2000, thus ending the end of Japan's dominance of Asia's high tech exports. "China has made inroads in taking more and more hi-tech manufacturing onshore even as a lot of critical components are still imported from other countries," said Frederic Neumann, co-head of Asian economic research at HSBC Holdings Plc in Hong Kong. "It's becoming highly competitive, with highly skilled labour and we're seeing increasing research and development moving into China."<sup>23</sup> This definitely is a source of good news for the economy, and with more focused attention on moving up the value chain, better news can definitely be predicted for the Chinese economy in the future.

### **Policies, Plans and the Near Future**

A survey of the history of the economic development of the U.S. the U.K. and the Netherlands shows that these countries too have undergone the same process in their path to progress as China. The development process can be largely divided into three phases. In the first phase, the growth rate is more than 10 per cent. This has been so in the case of the US, the UK., the Netherlands, Japan and China as well. After the first period, there is a climbing down of growth rates, and the long term equilibrium growth rate is between two per cent to eight per cent. China is currently in this phase, which marks a structural change. Technology, innovation, labour inputs, capital inputs and marginal productivity are all currently in the process of structural changes.<sup>24</sup> These sectors need to change because export earnings can no longer be the single source for GDP growth. All the efforts made from 1978 enabled the country to become the manufacturing platform of the world. With the onset of the global financial crisis in 2008, the capacities of the prime export destinations for Chinese exports have diminished. Export earnings have thus taken a serious hit.

Boosting growth in new sectors will not be too difficult for the country. What will be difficult will be to wean the country off sectors like heavy industries. For example the country already suffers from over supply in segments like steel. A shift from low end manufacturing is also not going to be easy. The term that is being used for this process of economic transition, is rebalancing, and this is an apt term. Time will be needed for recording a substantial growth in consumption. The services sector will also need some time to offset the contradictions in the traditional sectors of heavy industry and manufacturing. Its

performance so far has not been completely disappointing, as the services sector in the first quarter of 2015 grew by 8.4 per cent, while growth in the secondary sector slowed to 6 per cent.

An analysis of the policies announced leads to the conclusion that the most likely scenario for the Chinese economy in the next few years is a moderate but steady decline in growth while structural reforms are underway. While the export engine shall continue to be important, it will not be the only important one. The Chinese economy will attempt structural shifts to ensure that it graduates to becoming a manufacturer and exporter of high end goods, from an exporter of low end goods. This growth strategy is relies more on domestic consumption rather than solely on exports.

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# 11

## Labour and Industrial Slowdown in Pearl River Delta

*Suresh T. Gopalan*

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An element of irony runs through China's recent past. In 2010 the World Bank announced that China was becoming the world's second largest economy. But four years into this glory came a rather unanticipated reversal i.e. China's descent into recession. The signs are all too palpable in the sliding manufacturing, the volatile stock market, the depreciation of the Yuan, industrial overcapacity and unsold inventory. China's political leadership, always imaginative in times of tribulations, at least provided a discursive rationale for this otherwise complex predicament: China they said was now entering the phase of what they termed was, the "new normal". But an economic crisis can seldom be mitigated by linguistic or discursive formulae. That was precisely what happened in Dongguan, Shenzhen and other Pearl River Delta cities when factory closures provoked labour unrest with increasing frequency and intensity during 2014-2015. These developments are portents of things yet to unfold. The large scale loss of employment in manufacturing and the workers protests that followed manifested the structural strains ingrained in the Chinese economy during its long navigation into an economic power house.

2015 has been an uncertain time, for Chinese labour and particularly, the migrant workers in manufacturing sector. The contraction of the export markets, and the falling demand at home have induced a downward drift in the industrial sector, leading to widespread redundancies. This paper examines three inter-related developments that underscore the shifting labour and industrial relations during the "new normal" of 2014-2015. The factory closures and labour unrest in the Pearl River Delta and the response of the local government can be seen as cause and effect sequences, revealing the structural problems in the Chinese economy.

## Pearl River Delta Industrial Model

The rise of the Pearl River basin as China's leading industrial production region was not in any measure fortuitous, nor was it created by a set of reform policies alone. To understand why the contemporary models of manufacturing, in the form of advanced production networks, came to cluster around in that region, we need to examine a combination of factors that were responsible for this development. I will outline below, four sets of factors that will enable an understanding of the origins of the distinctive industrial model, that germinated in the Pearl River basin cities. The first is its unique locational advantage of being part of a much larger spatial system that encompasses the southern provinces of Guangdong and Fujian, a long established *entrepot* for Hong Kong, and the traditionally entrepreneurial and technologically advanced island nation of Taiwan. Xiangming Chen has defined this as the Greater South China Economic Region (GSCER) whose economic influence derives from certain historically evolved linkages, both within China as well as those developed externally.<sup>1</sup> The region has strong internal linkages created by historical migration and population movements triggered by political upheavals. Fujian is closely connected to Taiwan by a long history of migration and similarly Hong Kong and Guangdong share a deep ethno-national affinity, as a significant number of Hong Kong residents are originally from the province. Despite their territorial and political fragmentation southern China, Hong Kong and Taiwan have close ethnic ties, along with a common language and native place affinities that gave a broader social and linguistic coherence to future economic interactions. Secondly, proximity to Hong Kong which has for long been Asia's leading *entrepot* and is intricately connected to global trade routes significantly leveraged the Pearl River basin industries when they began export oriented production in early 1980s. The third is the policy turnaround introduced by the central government of China since the late 1970s, which focused on the economic development of southern China. Two components of this policy reversal are crucial because of their eventual outcome. In 1978, Fujian and Guangdong were designated as the provinces for experimenting with the reform and opening up policy, with the objective of attracting foreign direct investment and advanced technology. During 1978-79, China established four Special Economic Zones (SEZ), three in Guangdong (Shenzhen, Zhuhai and Shantou), and one in Fujian (Xiamen). It is pertinent to note here the consistent privileging of locational advantages, in China's reform policy as in 1984, the government designated as "open" 14 coastal cities, including two in Guangdong (Guangzhou and Zhangjiang) and one in Fujian (Fuzhou). The fourth is the labour intensive nature of the export industrialisation in the delta region, particularly for the manufacturing of garments, electronics, toys, sportswear, and plastic products.

## **Industrial Slowdown and Factory Closures in Pearl River Delta Region**

Over the last two years, Chinese workers are being increasingly confronted with two sets of social realities that are in stark deterioration. The first is the large scale loss of factory employment or production jobs in nearly all manufacturing sectors. The second pertains to the overall depreciation in real wages, because of two parallel trends: the stagnation in the minimum wages; and the mounting wage arrears reported from many cities. Enterprise bankruptcy has been cited as the main reason for wage arrears while wage stagnation has its origins in the financial crisis of 2008, when the local governments formally announced a freeze of the statutory minimum wage revision. In the backdrop of a general economic downturn and industrial stagnation, China witnessed the return of militant labour activism that again brought the government and the workers into another confrontation. This section presents the three sets of interrelated developments that are putting a strain on the Chinese industrial workers and seeks to explain the structural factors responsible for their occurrence.

Factory closures and enterprise bankruptcies in the Pearl River delta region are unmistakably anominous sign of the maladies inherent in the Chinese industrial sector. The delta region is known as the factory of the world and has been China's manufacturing hub since the early 1990s. This industrial agglomeration in the Guangdong province in the southeastern China is basically powered by key Pearl River delta cities including Guangzhou, the provincial capital, Foshan, Zhongshan, Shenzhen and Dongguan. Although estimates vary there are around 70,000 factories concentrated in the region specialising in the manufacture of plastic products, electronics, garments, apparels, toys and automobiles for export as well as domestic consumption. Some of these factory towns such as a Shenzhen and Dongguan are fresh new cities carved out from the villages after the reforms, specifically for the purpose of making them into industrial hubs. The majority of the investors in the delta region, are small and medium entrepreneurs from China, Hong Kong and Taiwan. The workers in the delta region factories are drawn entirely from rural migrants who come from the relatively underdeveloped areas of provinces such as Sichuan, Anhui, Kansu, Jilin, and Guizhou. It has been estimated that the factory towns in Guangdong were home to about 45 million rural migrant workers, employed on contract basis at minimum wages.

The delta city worst affected by factory closure is Dongguan, the most important production base for China's exports. Enterprise bankruptcies and factory closures in Dongguan have their origins in the 2008 financial crisis. But the trend continued in the subsequent years and the city has been hit by wave of factory closures. Since 2008 the number of Taiwan owned enterprises in Dongguan has dropped from about 8000 to 3000 in 2015.<sup>2</sup> *The Economic Observer*, a Chinese

weekly, estimates that about 72000 business closed down in Dongguan between 2008 and 2012.<sup>3</sup> Dongguan was affected by the first wave of factory closures in the aftermath of the financial crisis when the toy and furniture manufacturers left the city. The city mayor Yuan Baocheng has been quoted in the *Chinese News Service* as reporting the closure of 498 enterprises in 2014.

The earlier rounds of business closures had a greater impact on small and medium enterprises who were mainly contract manufacturers for large branded companies and depended on low wage migrants for their cost advantage. But the recent closures include some of the listed companies also. It was estimated that about 20 million migrant workers lost their jobs during the plant shut downs in 2008.<sup>4</sup> The official response to the large scale plant closures has been that these are all part of the industrial restructuring necessitated by the fluctuations in demand. This view was succinctly expressed by city mayor Yuan Baocheng who told the *China Daily* that “it is normal for factories to close if sluggish demand has affected their operations.”<sup>5</sup> The local government’s response aims to restore investor confidence in Dongguan’s industrial competitiveness. However the problems seem to be well beyond the competence of the local government and no immediate institutional fixes can even partially address the issues outlined above.

The most pertinent question relates to the implications of plant closures for migrant workers in the Pearl River delta? To what extent will the developments in 2014-2015 impinge upon the future of production workers in the region? I address these questions by examining the plant closure as a structural problem, rather than as one confined to select segments of production or as a passing industrial trend as the local government is trying to project it. My reasoning is based on the available empirical indicators. Firstly, factory closures and bankruptcy have been a continuous industrial trend in Dongguan and other manufacturing cities in Guangdong province since 2008. During 2014-2015 plant closures engulfed enterprises of all sizes and across the diverse range of manufacturing segments, thus bringing the structural strains inherent in the region to the surface. Three reasons are often cited for the enterprise liquidations: the steep fall in demand, in particular the export market; the credit squeeze or the regulation of credit and finance by the central government to control diversion of funds for investment in real estate; and increasing production costs and most importantly the rising minimum wages rates. A combination of all these factors, have played a role in the closure of businesses in Guangdong. It is also to be noted that the Pearl River delta region as the factory of the world, has been closely linked with the global branded companies selling apparel, shoes, smart phones, electronics, toys, etc. and is therefore dependent on orders from these large companies for its survival. The two factors that sustained this relationship were the cost advantage

that the Pearl River delta factory towns offered these companies and the global demand that determined their production decisions. But now it seems that both these factors are being impacted as even the slight increase in the minimum wage rate has affected the contract manufacturers of Dongguan and other cities, and global demand has tumbled for the products sold by these global branded companies. Therefore the Pearl River delta model has come under severe strain, squeezing the profit margins of contract manufactures as well as eroding the wage gains of the migrant workers.

### **Labour Strikes**

2015 has been a turbulent time for industrial relations in China. The year recorded highest number of labour protests compared to any preceding year. Workers resorted to all forms of collective action including work stoppages, protest demonstrations, sit-ins, road blockades, protest meetings and confrontations with police. Two aspects of the Chinese industrial turbulence need particular mention here. Firstly, the labour strikes are not confined to any particular region or province as collective action by workers has been reported from nearly all provinces in China, although Guangdong accounted for a higher number of incidents. Secondly, labour disputes and subsequent workers strikes have spread to more industrial sectors leaving practically no segment of the economy immune from turmoil. But the trends in Chinese industrial relations indicate that manufacturing and construction accounted for higher share of labour disputes.

What explains the increasing labour militancy in China in recent years? There appears to be a close convergence between the factory closures, bankruptcies, production over capacity, and falling demand on the one hand; and rising labour militancy on the other. These factors are symptoms of the subterranean economic strains that are now rising to the surface in the industrial sectors. However these factors alone are not entirely responsible for the frequent labour strikes during 2014-2015. The data on labour strikes, in particular the regularity of their occurrence and the remarkable resilience demonstrated by ordinary workers suggest, the return of political agency in the industrial sectors in China. This section surveys the data on labour strikes in 2015 and examines why they broke out in different industrial sectors.

As the Chinese economy is currently experiencing a significant downturn triggered by the contraction in the export market and falling demand at home, there has been an upsurge in labour disputes in the manufacturing, construction and mining sectors. The *Chinese Labour Bulletin* (CLB) has compiled detailed data on the labour unrest that escalated in 2015. The CLB has recorded 2,774 incidents of workers strikes during 2015, which is double the figure of 1,379 in 2014.<sup>6</sup> The CLB researchers note that the increase in the workers collective actions

began in August when the Renminbi was devalued and the stock market crash that followed. The trend continued and escalated further towards the last quarter of the year. The escalation of labour unrest therefore needs to be understood in the specific context of the economic slowdown and the industrial crisis it induced. To put it in perspective, the Chinese labour protests are not the conventional agitations that workers usually take recourse to for demanding wage increases or trade union rights. On the contrary the labour upsurge in China is a product of a combination of factors that include: industrial stagnation; a production model based on cost advantages; and the absence of local regulations. The narratives on labour strikes in China now follow a familiar pattern, that of, abrupt factor closures, non-payment of wages and in many instances of enterprise owners and investors simply running away from the scene.

The peculiarity of the structural factors that provoked labour protests in China is apparent in the mode of agitation as well as its causes. Factory closures without wage settlements, and wage arrears, are the two main reasons for workers protests according to reports from different provinces. The collective action by the workers is mainly an attempt to secure their legitimate wages. In some instances the workers are forced into lengthy agitations to get the wages due to them, as in the case of the Xinsheng shoe factory in Guangzhou. The shoe workers agitation for compensation went on for three months, after the company abruptly closed down the factory and relocated it elsewhere, without clearing their wages. The company tried to avoid paying the compensation arguing that they could only pay them after selling off the factory assets. But the workers rejected this proposal and held on to their basic demand for compensation and after 88 days of agitation they were able to secure the compensation of 12,000 Yuan per worker.<sup>7</sup> In the course of their prolonged collective action, the shoe workers also developed new models of agitation when they elected their representatives, negotiated with the company management, solicited support from the local Trade Unions and also set up a strike fund. The demonstration effect of these strikes became visible in the region when the Taiwanese touch screen manufacturer Wintek, closed two factories in Dongguan. The company management promptly settled a compensation package with the workers based on their years of service.

For illustrative purposes another case typical of the current unrest, is that of the Fuchang Electronic Technology in Shenzhen. The company shut down the plant and informed the workers by posting a notice on the factory gate citing the credit squeeze and bad management, as reasons for the closure. There was no mention of how the company will settle the workers' wages or make any severance payments. This provoked the workers to organise protests in front of the company gate. As the workers agitation gathered momentum and continued for weeks, the Fuchang management who had initially refused them severance pay, later

reluctantly agreed to a wage settlement.<sup>8</sup> However the way the severance pay was calculated affected the experienced older workers and those who joined later differently. While those who had worked for three years were given three months' salary; the experience of workers who had worked for longer was not taken into account and they were forced into negotiating different terms.

Plant shutdowns and labour unrest over unpaid wages has become an all too familiar pattern in the manufacturing hub of Pearl River delta in South China and the re-enactment of the same sequence of events can be seen in other factory towns. In August 2015 the Ever Force Toys and Electronics Co, a Hong Kong owned toy manufacturer and supplier to the American Mattel Inc. closed its factory in Dongguan, provoking labour protests. At the time of the shutdown Ever Force had about 700 workers who had not been paid three months wages, amounting to some 4.5 million Yuan.<sup>9</sup> As in many other cases the shutdown took the workers by surprise as they had no prior information about the company's worsening fiscal situation. The protests also brought to the fore the mounting resentment of the migrant workers against the local authorities' response to the labour disputes.

It is pertinent to examine the peculiar system of employment that prevails in the manufacturing sector in south China. The production jobs are precarious as the factories recruitment of migrant workers is not in accordance with the Chinese national labour laws that regulate wages, employment terms and working conditions. The workers are required to sign a contract with the company who often burden them with responsibilities, disciplinary requirements and penalties. There is no inbuilt regulatory mechanism to protect workers from the arbitrary exercise of managerial control. Although the local authorities are expected to enforce the national labour laws, those provisions are seldom enforced on the factory shop floor or dormitories. However the workers are usually accustomed to a production regime and dormitory life, so long as they are paid the promised wages even if they are delayed for a few months. Employment is the most compelling reason for the migrant workers to travel to factory towns and take on arduous production work. It is also a factor recorded in the narratives of many workers and scholars that Taiwanese, South Korean and Chinese enterprises often enforce a strict regime of discipline and labour control. Over the years the system of recruitment without employment security, a disciplinarian production regime, recurring wage arrears and enterprise shutdowns and relocations, have trapped the rural migrant workers into a vicious cycle of work, job loss and wage arrears.

The course of low wage industrialisation that China has charted for the Pearl River delta region has been facing a new set of problems in recent years. In contrast with the early decades of reforms when the promise of wages had great economic attraction for the local people and the migrants alike, the prevailing wage rates do not offer much promise for the new generation of younger workers, who are



driven by different aspirations and they are increasingly refusing to accept the exploitative wage levels. The older workers had no social avenues for articulating their wage claims, as there was no institutional domain for addressing wage issues. But since the early 1990s a series of legislations and local regulations have been put in place to address not only the general norms governing employment, but also specific wage related concerns. The 1994 National Labour Law; the 2004 wage regulations; and the 2008 national labour contract; all have specific regulatory components pertaining to wages. The local authorities were largely averse to implementing the labour regulations as they were keener to attract investment and economic growth. The weak regulation at the local level led to wage flexibilities that in practice denied the Chinese workers their legitimate wages and other benefits. In the context of the simmering worker discontent in the Pearl River delta cities, it is interesting to note how the factory workers sought to retrieve their economic rights by invoking the legal regulations that had been rendered ineffective by the local authorities. In April 2014 several hundred workers of the Yue Yuan Company, a Taiwanese owned shoe manufacturing company, based in Dongguan staged protests against the company's failure to make social insurance contributions, as required by the National Labour Law. Towards the end of the month the workers action escalated into a full-scale strike forcing the company to pay and adjust the employees' social insurance contribution and also increase their monthly living expenses. Similar instances of protests marches, work stoppages and strikes for economic demands are being reported from the delta cities, clearly signalling the advent of a new generation Chinese working class.

### **Response of the Local Government**

The response of the local governments to labour disputes in general, and protests in particular, has undergone a perceptible shift in recent years. Earlier there was a trend of the local authorities trying to mediate in disputes and in some cases using their own funds to pay workers their arrears. But during 2014-2015 the government has increasingly taken a more confrontationist approach by deploying the police and detaining labour activists to end the labour unrest. The CLB has reported the increasingly harsh response of the local authorities towards labour protests as the police have more frequently resorted to reprisals, detentions and arrests to bring the striking workers under administrative control. From January to September 2015, 100 incidents of police intervention in labour protests have been reported from Guangdong province alone.<sup>10</sup>

From the labour rights perspective, 2014-2015 have been rather ominous. The local government perceived that the combined issues of industrial stagnation and labour unrest are a potent source of social instability. The labour activists, the most visible and articulate faces of workers movements, have been facing

increasing reprisals not only from the police but also from company managers, who have often used triad style methods to silence the activists. The rise of labour activists as independent, loosely networked, and diffused actors for labour rights, has been a notable development in recent years. Their emergence registers the profound changes taking place in the Chinese industrial sector where the official All China Federation of Trade Unions (ACFTU) has largely been seen as a labour bureaucracy without legitimacy. The ACFTU's silent acquiescence with regard to the local authorities' response in labour disputes has often enraged workers and has compelled them to search for their own legitimate and committed representatives.<sup>11</sup> It was from this industrial milieu, where the legal trade union became part of the apparatchik, that the labour activists emerged during the 1990s. Most of the labour activists are former workers who in the course of their own economic struggles came to develop particular capabilities of mobilisation, articulation and familiarity with the legal discourse on labour. Their active presence at the sites of labour unrest have often helped the affected workers to secure wage settlements and social insurance benefits and above all the collective actions that sustained their movement. In the government-labour confrontation that is re-enacted frequently in the industrial centres, the labour activists are facing even harsher clampdowns. Not only are they periodically detained, spied upon and harassed in myriad ways by the police, they are also subjected to the triad style repression employed by company managers.

In December 2015 the police detained five prominent labour activists in Guangdong province. These arrests were part of a wider police action to neutralise the labour movement at time when worker discontent is on the rise. The activists in custody include: Zeng Feiyan, the director of the Panyu Workers Centre; He Xiaobo, a labour campaigner from Foshan who runs a support group for injured workers; Zhu Xiaomei, a female activist in the support group; and Deng Xiaoming, of the Haige Workers Centre.<sup>12</sup> China's rights campaigners see the arrests as a coordinated attack that has rarely been seen in recent years. The unprecedented nature of the police action in Guangdong, has stunned labour activists and campaigners.

## **Conclusion**

For well over three decades, the economic transformation of the Pearl River delta region symbolised a distinctive economic model resilient for its competitive manufacturing capabilities. This model was derived from a combination of factors and was made possible by the reform policies. An extended spatial economic region comprising of the Guangdong and Fujian provinces in south China, Hong Kong and Taiwan. While these regions are governed by different administrative norms they are integrated into new set of capitalist logics referred as the global

production networks. The formation of a dense network of firms, raw material suppliers, global sub-contractors, local governments, finance and labour, along with forward trade linkages with transnational markets created an unparalleled economic model that catapulted the Pearl River delta region into the global focus. However the recent trend of industrial slowdowns, factory closures, bankruptcies and simmering labour protests have raised pertinent questions about the viability of this fabled developmental model. Has export oriented industrialisation already lost steam? The falling global demand has often been cited as a likely explanation for the crisis in the Pearl River delta region. While this argument acknowledges the structural dependence of the region on the transnational market for sustenance and conversely suggests that the roots of the crisis are external. The local government in Dongguan also blames the slowdown on the contraction of the export market. But this explanation is partial and conveniently overlooks equally significant questions as to how the region come to accumulate colossal levels of manufacturing overcapacity with large piles of unsold inventory in all segments of manufacturing that lead to steeply depreciating price levels. In other words, the Pearl River delta region now confronts a problem, that is an offshoot of the own structural makeup. When China began the export oriented industrialisation of the delta region which was typically labour intensive, low wage, network based, foreign investment driven and externally dependent, the policy planners may not have anticipated that the industrial capabilities they were creating would eventually become an economic burden. Therefore it needs to be recognised that the current industrial stagnation is in part a consequence of the very industrial model that the Pearl River delta has come to be celebrated for.

The origins of the industrial stagnation, as posited above, can well be traced back to the internal configurations, in particular how the labour was provisioned and under what kind of wage regime. As the prolific literature on the subject attests, the Pearl River delta labour was essentially the creation of large scale migration. For an unusually long period of three decades the low wage regime provided a stable foundation for production based on global sub-contracting. The developmentalist state at the local levels, steady streams of labour migrations, and the social control by the manufacturing firms ensured a complementarity between labour intensive production and the low wage regime. But this complementarity has been seriously disrupted by a complex set of factors manifested by the new economic aspirations of the migrants, increasing institutional regulations and growing numbers of collective action by workers. The significance of 2014-15 was the social intersection of industrial stagnation and labour discontent in the Pearl River delta, as the region looks towards the far less promising times that lie ahead.

## NOTES

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# 12

## Towards 'Rule of Law': Tracing the Legal Reforms

*Ritu Agarwal*

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The year 2014 has generated a fresh discussion on the law and governance in China. Chinese President Xi Jinping talked about 'Four Comprehensives' i.e. Comprehensively build a moderately prosperous society (全面建成小康社会). Comprehensively deepen reform (全面深化改革), Comprehensively govern the nation according to law (全面依法治国). Comprehensively strictly govern the Party (全面从严治党). These four comprehensives very well indicate the political challenges that CPC is facing today. There is a political necessity to continue economic reforms so as to generate income and wealth to all sections of society. There is also a need make law as the guiding principle for the administration of the country. It was also emphasized in these four comprehensives that the CPC itself should follow certain established norms and principles. These political ideas of President Xi Jinping got reflected during the fourth plenum of the 18th Party Congress when the CPC made *fazhi* as the central focus of the agenda. The term *Fa Zhi* literally means 'govern by law' and often been interpreted by others as 'rule of law' or 'rule by law'. In Chinese terminology, party is the governing agency and the main decisions are taken mainly by Politburo Standing Committee members. In this situation, the main issue is whether *fa zhi* works as a tool to re-emphasize the party leadership? Does the focus on *fazhi* indicate that the CPC wants to further institutionalise its power? Is the CPC considering a re-examination of the methods of governance with its emphasis on law in China?

Governance has been a political concern for party officials for quite some time and is reflected in a series of legal reforms ranging from providing social protection to different groups to granting property ownership to enterprises in a different social milieu. Law and legal changes in contemporary China have

been introduced as a mechanism to keep pace with the changing requirements. Law mainly works as an instrument through which the government responds to the structural tensions occurring at the social, economic and political level.

Social dissatisfaction is the main structural tension that has been making itself felt over the last few years and it is being reflected in number of ways. There are a number of social conflicts relating to and pertaining to issues such as migrants demanding residential rights in the cities, women against domestic violence, ethnic minorities against Han domination, environmental degradation caused by the setting up of large industrial plants and its possible effects on the population living in that area. For example, a large-scale protest against a Petrochemical plant was reported in Maoming, in the Guangdong province in 2014.<sup>1</sup>

In the last two years, public interests litigation cases have been filed mainly for protecting public resources or against public policies. From July till December 2015, there were almost 383 administrative cases and 118 civil cases mainly for protecting the environment and public resources. These public interest litigations were reported from various provinces like Beijing, Shandong, Guangdong and the Inner Mongolia autonomous regions. Among the 500 PILs, more than 300 were for environmental protection, 118 cases were over the transfer of state-owned land-use rights, almost 60 cases were related to the protection of state-owned assets, and 11 were for food and drug safety.<sup>2</sup>

Moreover, the cases against the corruption have quadrupled since 2013. The report on the break-up of the number of inspections carried out by the CPC also highlights the interesting fact that while in 2013-14, the main targets were the local government officials, in 2015 the officials in SOEs and the financial sectors also came under close scrutiny. In the last two years, the number of entities from SOEs to party agencies and public institutions has risen to 83 while the number was 20 in 2013.<sup>3</sup>

Second are the structural tensions that arise from the need to maintain the pace of economic reforms and avoiding of policy conflicts between the centre and the provinces. The divergent growth models at the provincial level require different development strategies. These development strategies are negotiated between the government officials, investment agencies and social networks at the local level. These local level government structures operate almost like autonomous political institutions away from central interference. The tension between central directives and local officials has become more apparent since Xi Jinping's anti-corruption drive of 2012. This is especially true in the case of government officials at the local level who are said to be running a parallel administration away from the central control. This has been especially so in the last couple of years when a large number of party officials were charged with political indiscipline, administrative malpractices and misconduct. Thus, the 18th Party Congress was

faced with the huge challenges of ensuring social stability and political discipline among the party cadres.

#### **Fourth Plenum of the 18th Party Congress and 'Rule of Law'**

The fourth plenum of the 18<sup>th</sup> Party Congress was held in Beijing in October, 2014. The plenum was important for two reasons. First, it had the rule of law as the central focus of its agenda. This is an important issue as for the first time in Chinese political history, law and governance issues have become important enough to be deliberated upon. In this larger definition of 'Rule of Law', Party leadership is the key link. The Communiqué says that the leadership of the CPC should govern the country by law and work towards the enforcement of law. It also says that the CPC should discipline and govern the Party in keeping with the rules. It reads as to construct the rule of law, Party leadership is the core. (*Fazhi Jianshe Yao Xin Zhong You Dang*)

There is no fundamental change in the relationship between Party and the law. The Party remains above the law. To support socialist legality, the fundamental principle is to confirm the faith in CPC leadership. (*Jianchi zhongguo teside shehuizhuyi fazhidaolu, zui genben shi jianchi zhongguo gongchangdang de lingdao*) To consolidate the Party position and complete its political mission of govern the country by law, in no way should the party leadership be weakened. Even the concept of rule by law is proposed by the CPC. (*yifazhiguo shi women dang tichu laide.*)

*Fa zhi*<sup>2</sup> aims to ensure political loyalty and adherence to Party line and thought. Zhang Lifan, a Beijing based political analyst has said that there is a lack of loyalty towards the central leadership across the bureaucracy. This is especially the case with lower levels of government and combating corruption at lower levels of the government is one of the challenges before the CPC.

Discipline is being seen as one of the important tasks before the Party. The Party has also started inspection tours to assess how the cadres are following the CPC party line in thought and action. The Communist Party's Central Commission for Discipline Inspection, headed by Politburo Standing Committee member and key supporter of Xi Jinping Wang Qishan has played a central role in this campaign in which hundreds of officials across the nations have been investigated and prosecuted.

The CPC further issued a communiqué entitled 'Comprehensively Advancing the Rule of Law in China' in October 2014 in Beijing. It stressed on strengthening the constitution and also emphasis government administration as per law. The constitution is to be taken as the basic core and the stress is on making administrative rules more legally binding. Xi Jinping laid down the framework

for the administration of the country which is to be based on the following principles:

1. Respecting the Constitution: Government officials have to be accountable to the Chinese constitution.
2. Setting up of rule based Government: the Constitution should be respected while formulating rules and regulations for the administration of the country.
3. Transparency: Efforts have to be made to improve the transparency in government affairs and administrative authorities are to be barred from any extra-legal activity.
4. Public Accountability system: the party officials will be responsible for the decision they have taken and the performance of the officials will be judged on the basis of their effectiveness in upholding the rule of law.

To further implement these four administrative principles, Xi Jinping in the communiqué also promised to give more freedom to judiciary. This political move is considered to be quite a welcome step as the number of cases being filed in the local courts is increasing in number over the last couple of years. It becomes an imperative for the government to sustain public faith in judiciary in delivering a fair justice to the people. To ensure this, the Party has for the first time officially banned local officials from meddling in any judicial procedure. It has also laid down principles which can improve the functioning of judicial courts and make the trial more free and independent. It was also sought to ensure that judicial and prosecutorial powers are exercised independently, fairly and in accordance with the law.

Last Year, President Xi Jinping issued the written instructions for the people's courts. It exhorted all the state officials to act according to the law. Besides it also made changes in the judicial management system. It explored the possibility of establishing judicial jurisdiction systems separated from administrative subdivisions which will guarantee the uniform and correct implementation of state laws. These structural reforms have been made to facilitate the independence of the courts and make them important agency in strengthening rule of law in China. The paper is going to analyse these issues in the wake of political challenges which the government in China is facing at present.

### *Local Bureaucracy and Central-Local Relations*

The Chinese constitution in 1982 included a provision for the setting up of local People's Congresses as a step towards the effective administrative functioning at the provincial, prefecture, county, township and village levels. The primary rule was that the local leadership had to be approved and monitored from the central level. The setting up of a local administration does not mean the transfer



of authority and responsibility from the central government to the subsidiary government organizations.

However, the reality at the local level is that it is the local Party Secretary and a few deputies who mainly control all formal political and legal institutions.<sup>4</sup> The power is centralised in the hands of these top party officials. The Party committee is the main administrative body which exercises its authority over judicial institutions. It also wields influence over the selection of court presidents and vice-presidents in their localities. The local government exercises its control over the finances of courts within their jurisdictions and local judicial officials rely on the support of local Party committees to address their personal and other infrastructure needs.

As a result, Chinese courts at the local levels have no institutional incentive to handle cases filed by the citizens. The cases that challenge the authority of local Party cadres have often gone unregistered as they may threaten entrenched local bureaucratic interests. Thus, the entire process deprives citizens of the effective redress of their grievances through local and political institutions.

Economic growth at the local level has been a primary concern of the central government and the control mechanism has been loosened up to facilitate local economic growth. Constitutionally, provinces in China have dual responsibilities. While on the one hand, they are under the control of the central government and carry out the directives issued by the State Council at another level, they are responsible for executing the decisions of the provincial People's Congresses who control them. Thus, in a way, a province has the dual responsibility for representing local interests and implementing central directives that may clash with each other.

The centre monitors the political process at the local level by stipulating policy targets and evaluating cadres performance on the basis of how well the policy targets are achieved. This practice of fixing targets for economic growth has created a set of new practices at the local level. Local governments have been granted freedom in terms of fiscal management. They have been granted autonomy for mobilising resources outside of the sanctioned budget through foreign investment, foreign loans and various administrative fees and are thus less dependent on the Centre. This is particularly the case in the relatively prosperous cities and provinces such as Shanghai, Tianjin and Guangdong. These provincial economic strategies are not confined to coastal provinces. The western provinces also take various steps to make their economies more efficient.

Provinces have also acquired new budgetary powers, including the freedom to raise their own funds and manage their own budgets. It is mainly the responsibility of the provincial government to raise funds for investments in infrastructure development. They have also become the stakeholders in many enterprises whose profits have been distributed among the provincial authorities.

There is a nexus between the office holders and enterprise managers. Sometimes, funds have been raised by mobilising resources through kinship and family networks. These networks work like parallel institutions at the local level which even the central government finds difficult to meddle with.

These governments have often accumulated huge debts for infrastructure development and this has led to the levying of a wide variety of taxes. Land has become a circulatory capital that these county governments sell in the illegal and black market. It has led to a series of social protests from the peasants who have been given inadequate compensation and have often lost their livelihood. The rural landscape has been completely transformed and there are hardly any large patches of cultivable land, instead there are long highways connecting one city to another or the multi-storey apartments on the land that earlier used to belong to the villagers. It has certainly led to increase in social conflict as the massive scale of urbanization has left many jobless or compelled them to search for low wages unskilled work in the cities. Rural China has gone through a transition where the townships as well as counties have been merged into cities expansion and created a new vulnerable class with limited scope for social and physical mobility. These developments have created new hierarchies and generated new forms of social inequalities in today's China and have given rise to social protests be they for land rights or against other kinds of discrimination. There are a large number of social actors who want to articulate their demands through different channels.

### *Corruption*

Immediately after Xi Jinping took over as Party president in 2012, he launched an unprecedented campaign against Party, military, government and the officials working in state-owned companies who were suspected of corruption. Political loyalty and adherence to the Party line and thought are the key words in most of the official slogans and speeches by party leaders. The crackdown on corruption has also claimed senior officials in large cities like Beijing and Shanghai. In 2015 these included the vice-mayor of Shanghai Ai Baojun who is said to have played a leading role in developing the free trade zone and had made huge efforts to attract investment for high profile projects, another influential official was Lu Xiwen, a senior party official in Beijing who is being investigated for serious breaches of discipline.<sup>5</sup>

According to the *Xinhua* news agency, the CPC has dispatched 13 teams to undertake routine inspections of official conduct. The inspection team will mainly oversee the performance of officials in provinces like Guangxi, Shanghai, Qinghai, Tibet, Zhejiang, Hebei, Shaanxi, Heilongjiang, Sichuan and Jiangsu. In a new drive, the failure to implement the Party's directives was deemed as misconduct on the part of party officials.

There were also reports that following investigations conducted between May and June last year around 249 officials across 24 provinces were punished for reasons ranging from laziness to failures to spend government funds and delays in completing government projects.<sup>6</sup>

China's anti-corruption drive is so extensive that top most Chinese officials from almost every province are said to have been nabbed. At least 80 Chinese officials are supposed to have stepped down of which 59 are provincial level officials and others are from central government bureaus or from military departments. The Shanxi province in North China has been tagged as the most corrupt province where seven top level Chinese officials have been caught for the corruption charges. In an anti-corruption drive against officials, in Shanxi province alone, almost 15,000 officials were punished on various grounds in 2014 which almost created shortage of officials.

The main reason for discontent is that the local level officials often do not comply with the order and directive from the central leadership. 'The Central leadership is too far away from local officials'. This is especially the case at the lower levels of government and combating corruption at lower levels of the government is one of the challenges before the CPC.

Xi's anti-corruption campaign brought down a long list of senior officials many of whom were even the close allies of Jiang Zemin. The National Security tsar Zhou Yongkang has been jailed and his associate Wei Hong, the governor of Sichuan province is under investigation on alleged charges of corruption. Besides these, there is a long list of officials who have been prosecuted for corruption. Xi Caihou, former Central Military Commission vice chairman has been expelled from the Party and faces military trial. Li Dongsheng, vice minister of Public security and the former deputy director of China Central Television was prosecuted as was Ji Wenlin, vice governor of Hainan province. Li Chuncheng, the deputy party chief of Sichuan province was expelled from the Party. Jiang Jiemin, former chairman of a major oil company was prosecuted. Zhou Bin, former chairman of Zhongxu Yanggoang Energy and Technology was arrested.

### *Public Interest Litigation and Legal Aid Centres*

Public interest litigation is one of the effective ways of addressing the problems relating to public policies in China. It does much more than just providing legal aid in individual cases, it addresses the issues related to wider social interests of large sections of society. Thus, it is one of the important ways to advocate policy changes on the issues of public interests. The 1990s in China have been termed as the 'Rights' decade because this was the time when consciousness of individual rights whether consumer protection or compensation emerged for the first time in China. Infact, since 2000, a series of lawsuits have been filed against public

policies and social discriminatory practices based on regions, age, gender and group. Lawyers and law students joined hands in fighting against such practices as denying a job to someone on the basis of regions and group, early retirement age for women, pension benefits etc.

Another interesting feature of addressing the public grievances is through the establishment of legal aid centres in China. Since the 1990s, various legal aid centres have been set up in different parts of China. The Wuhan university centre for the protection of the rights of disadvantaged groups was the first one to come up in 1992. It mainly deals with the problems faced by different social groups like women, youth and children, people with disabilities, senior citizens and labour.

It was followed by a major influential centre the 'Peking University Centre for women's law and legal services in 1995. This organisation mainly focuses on women's rights and providing legal aid in the cases of public interest apart from social networking. It has university law professors and law students as its members. The scholars from the Institute of Law, Chinese Academy of Social Sciences, founded the Dongfeng public interest and legal aid law firm in China in 2003. It is the first non-profit law firm and fights cases relating to discrimination, press freedom, property rights etc.

University aid centres have played an important role in providing legal services in individual cases as well. The main advantage of these centres was that since they were university based they are beyond the purview of government regulations and control. Most of them were funded by foreign agencies.

To deal with the issues of environmental protection, a Centre for legal assistance to pollution victims was established in 1998 for providing free legal aid to pollution victims.

There is no doubt that there is a rising consciousness regarding the protection of individual rights which started with the filing of a case for consumer protection and has now expanded to include policy issues of wider social interest. Moreover, the media also joins hands with these lawyers which add to the pressure tactics being used against the public officials. Public opinion has been used to air public grievances against a particular public policy. The goal of many of these lawsuits is to generate public attention to make the officials take action. Besides, there is an emergence of online NGOs and social networking sites that are engaged in anti-discrimination lawsuits. There are legal networks working for the protection of rights of groups against discrimination and injustice. For example, there were reports about a case in Shenzhen where lawyers raised their voices to compel foreign enterprises to respect the rights of communities.

Thus law in present day China can hold the government accountable for injustice and grievances. Public Interest litigation can be powerful means to press for greater transparency and accountability on the part of the government. There

have been cases where citizens sought official information regarding government levies and taxes and other government expenses that the public deem as unnecessary.

The PIL cases and the number of legal aid centres indicate that there is already a legal consciousness among the people in China especially after the reforms. Law is a powerful instrument which has been used by the citizens to address the issue of public interest. Therefore, judicial independence from government interference and transparency and accountability on the part of government officials has become a matter of popular dissatisfaction. There is a social paradox in China Economic reforms have created new ways of acquiring wealth and property but also developed new forms of vulnerabilities across different sections of society. Therefore, China has put its focus on judicial independence and acquiring public accountability on the part of officials.

All these reports suggest that there is a kind of public consciousness about individual rights in China and it has not led to the creation of new institutions and practices to respond to these individual grievances. This institutional vacuum has been responded by the regime by giving this new drive for making constitution as the core principle. Constitution has been regarded as the highest institution and nobody can violate the basic principles of the constitution. All the government bodies have to be made accountable to it. This may be one of the ways to centralise political power in a situation where the Party in a way determines the constitutional power and individual responsibilities.

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### III. FOREIGN POLICY AND STRATEGY

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# 13

## Chinese Foreign Policy: New Developments under Xi Jinping

*Panu Pazo*

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China's foreign policy since President Xi Jinping's accession to leadership has demonstrated a clear break from its past principles and praxis. The erstwhile approach of 'hiding one's capability and biding one's time' (*taoguang yang hui* 韬光养晦) advocated by Deng Xiaoping is now replaced by Xi's new mandate of taking a more 'proactive' (*fenfa you wei* 奋发有为) role in global affairs. This 'proactive' strategy indicates an increasing space for foreign policy priorities in the regime's overall administrative agenda. In the light of this newly formulated mandate, foreign policy under Xi Jinping is taking a new direction where the country's role in global affairs is transforming China from being a 'reactionist' to becoming a 'reformist' player. Be that as it may, the likelihood of China becoming revisionist in the near future, as pointed out by some China sceptics, remains improbable because of the detrimental effects it could have on its struggling economic growth.

Known more as a 'globe-trotting' President, Xi has made more foreign visits than his predecessors, President Jiang Zemin or President Hu Jintao. Counting from the beginning of his presidential term, he had made more than 33 foreign visits by the end of 2015. In 2015 alone, Xi visited 12 countries, spending 42 days overseas mainly to promote his signature foreign policy initiative, the One Belt, One Road Project.<sup>1</sup> The argument for an active China on the global stage is also an indication that China's foreign policy has come of age. Its growing international profile and increasingly important role in global affairs has brought China to the centre stage of world affairs because, as a global actor, China's contribution and participation becomes indispensable among the comity of nations. Furthermore, as China's economic investments in different countries



continue to grow, the need to build partnerships with the host countries are more from necessity than from choice.<sup>2</sup>

2015 was a landmark year for Beijing, as its approach to countries and regions, and bilateral and multilateral issues characterised it as a year of both continuity and reforms. In some aspects of its foreign policy, Beijing took an assertive posture while on other fronts it adopted an accommodative and cooperative approach. According to Professor Brady, 'where China cannot affect change, it makes the best out of the current global order and quietly pursues its own interests; but where the possibility of creating new norms exists, Beijing acts assertively.'<sup>3</sup>

The paper will assess China's foreign policy in 2015 in the light of the major developments and events of the year. It is divided into four sections; the first section discusses the political and security aspects of the Chinese foreign policy in which the driving force of nationalism plays a crucial role in China's assertive foreign policy posturing. The second section discusses the economic dimension of China's foreign policy and focuses on Xi's attempts to forge and strengthen ties in the neighbourhood and the region. This section discusses whether or not China's role as a catalyst for mutual benefit and win-win cooperation between countries is actually a self-interest based initiative that consolidates its influence in those countries. The third section examines the role of the multilateral regional and financial institutions launched by China. These bodies, according to the Chinese, function as vehicles to facilitate growth in the developing countries but can also function as mechanisms to push China's agenda in different regions and counter western dominated institutions. The final section concludes with a broad assessment based on the national goals and the important developments likely in 2016.

### **Politics, Security and the Role of Nationalism in Xi's Foreign Policy**

The construction of a Chinese naval base in the South China Sea did not go down well with Vietnam, Philippines, and the US. The US naval presence in the region and Washington's policy of 'pivot to Asia' are viewed by Beijing as an attempt to rebalance the power equation in Asia. Beijing has characterised US involvement in the region as a containment strategy to counter China's growing economic and political clout in the region. Furthermore, the Chinese are concerned because the Straits of Malacca constitute a vulnerable chokepoint for Chinese imports and navigational purposes, also known to the Chinese as the 'Malacca dilemma' (*malujia kunju* 马六甲困局). By setting up a naval base in the Spratly Islands China has secured a foothold but it has also found it increasingly difficult to balance its sovereignty and maintain stability in the disputed waters.<sup>4</sup> According to Shen, an Air Defence Identification Zone (ADIZ) similar to the one created in the East China Sea, could be repeated in the South China Sea.<sup>5</sup> The completion of the naval port and airstrips in the Nansha islands

(Spratly islands) pushed the neighbouring countries of Philippines, and Vietnam to undertake joint military exercises with powers such as Japan and the US.<sup>6</sup>

China and the US do not see eye to eye on issues such as human rights, the South China Sea, the arms buildup and international cyber crimes. It seems that until China takes concrete steps to resolve issues that bedevil the relationship, the US would not accept China's parity with itself. Xi's diplomacy has yet to make a strong political statement with regard to the US. Xi Jinping's September visit to the US, did assuage some differences but fell short of anything concrete. As the Chinese leadership gauges its position and power on the basis of its relations with the US, China's proposal for a 'new model of major-country relationship' failed to elicit any response from Obama.<sup>7</sup> Furthermore, the US has also been reluctant to accept Chinese conditions of 'respect for each other's core interests,' which was viewed as a 'blank check in Washington.'<sup>8</sup>

The forces of nationalism, whether a deliberate effort by the party or an unconscious outcome of China's growth, has become a major tool for the Chinese leadership to maintain stability and also keep the party in power. The sovereignty dispute between China and Japan over the Diaoyu islands continues and the growing nationalism on both sides has not shown any signs of mitigation. As stated by Nye, the growing nationalism in China could push the country to *hubris*.<sup>9</sup> The declaration of an ADIZ in the East China Sea, by China continued to be an issue of contention between the two countries. Another major development was the new security legislation passed in the Japanese Diet at the initiative of Prime Minister Shinzo Abe's and the Liberal Democratic Party, which marked Japan's departure from pacifism.<sup>10</sup> The act was passed in the light of China's growing military might in the Asia Pacific region. Furthermore, China-Japan relations were also marred by Beijing efforts to rake up nationalistic sentiments. During the parade marking the celebration of the 70th Anniversary of the end of World War II, China's military display consisting of 12,000 troops and 500 varied military equipment, was seen as the showcasing of a powerful army to the rest of the world.<sup>11</sup> Although, Xi did announce in his speech that China would reduce its army by 300,000 personnel by 2017, and that China was committed to peace, the celebrations did have militaristic undertones. The western media criticised China for deliberately describing the event as, 'the Victory of the Chinese People's War of Resistance against Japanese Aggression', which had overtly nationalistic and anti-Japanese overtones.

China's policy to counter India's power in the subcontinent continued through 2015. President Xi's visit and aid to Pakistan gave a further boost to the bilateral relations. Investments of over \$ 46 billion were committed for commercial infrastructure development along the China-Pakistan Economic Corridor (which also includes the Pakistan occupied Kashmir region). Further, China sold eight submarines to boost the Pakistan navy.

Despite the above mentioned looming tensions, China took steps towards cooperative security measures. President Xi's speech during the Conference on Interaction and Confidence Building Measures in Asia (CICA) held in May, enunciated the Asian Security Concept, wherein he announced the formation of a regional security architecture and the need for countries within the region to resolve problems among themselves and prevent outside powers from interfering in regional issues. The call was an implicit reference to the interference of US and Japan in the region's territorial disputes. The Asian Security Concept has been a Chinese agenda and could have dual inferences; either for Beijing to establish regional hegemony; or to sincerely undertake a confidence building measures in the region. On other fronts, China demonstrated its increasing influence in international affairs as a contributor and negotiator. In the course of the year, China along with the IGAD helped mitigate the conflict in South Sudan and led the peace process in other African nations. However, China's active participation in the South Sudan issue may have been driven by its own interests to restore the supply of oil as South Sudan along with Sudan, was once China's largest oil suppliers. China's position during the Ukraine crisis was different from the others and it supported the process of dialogue and negotiations instead of imposing sanctions on Russia. China's involvement in the Syrian crisis was along the lines proposed by the UN-Arab League Joint Special Representative for Syria.<sup>12</sup> Throughout 2015, China was not active in the Syrian crisis and although it did express its concerns, it remained supportive of the Russian involvement, which began in November. Events that created differences between US and Russia caused Russia and China to come closer.

Beijing's strategy of changing its position from being a follower to a rule maker may be a phase in its foreign policy. Similar to the shift in its foreign policy strategy from 'hiding its capability' to a 'proactive policy', China may change its foreign policy when it deems necessary and may become more assertive in the coming years, especially in the light of its military buildup and global economic ascendance.

### ***Pax Sinica*, Economic Expansion and the Changing Dynamics of Asia's Economies**

The global economic slowdown post 2008, put the brakes on China's three decades of unparalleled growth, as the decline in foreign investments led to a fall in exports and an overall slowdown in the country's domestic economy. The decline from a 10 per cent growth average over two decades to 7 per cent in recent years led to the shutting down of manufacturing units and scores of factory workers being laid-off. Under Xi's leadership, China is gradually transforming and reviving its sluggish economy from an export based growth model to a

domestic consumer demand economy. This is taking place while initiating risky but inevitable policy measures such as tackling corruption and transforming a society that is rapidly adopting western cultural practices. Xi's concept of the 'Chinese Dream' (*zhongguo meng* 中国梦) was developed to initiate a new phase in Chinese society, where one of the important changes would be the transformation of the economy. According to *Xinhua*, the 'Chinese Dream' aims to build a moderately prosperous society (*xiaokang shehui*, 小康社会) in all respects by 2021. By the 100th anniversary of the People's Republic of China in 2049, the state under the leadership of the Communist Party aims to build an 'affluent, strong, socialist country' (*fuqiang de shehuizhuyi guojia*, 富强的社会主义国家).<sup>13</sup> Xi's commitment to keep 'socialism as the core value' (*shehui zhuyi gexin jiazheguan* 社会主义核心价值观) attests his goal as a leader to achieve an economically well off stable society but he is also aware that with a struggling economy, China needs to look beyond its borders. Xi believes that in order to achieve these long term economic goals, Beijing needs to follow a proactive foreign policy which not only focuses on the developed and rich countries, but gives equal, if not greater, importance to its neighbourhood and the developing regions of the globe. During the course of the year, in an effort to boost his One Belt One road policy, Xi visited the neighbouring countries of Pakistan (April 20-21), Kazakhstan, Russia and Belarus (May 7-12), Vietnam and Singapore (November 5-7).

The concept of the 'Chinese dream' (*zhongguo meng* 中国梦) aims to achieve the 'rejuvenation of the Chinese nation' (*minzu fixing guojia* 民族复兴国家) which in broad terms means to ensure stability, maintenance of the party legitimacy, cleansing the system of corruption and serving the people under the banner of "socialism with Chinese characteristics" (*zhongguo tese shehui zhuyi* 中国特色社会主义). State Councillor, Yang Jiechi did make references of the 'Chinese Dream' in the country's foreign policy agenda. He stated that in order to achieve the 'Chinese Dream', a peaceful and stable international environment was necessary and that China was committed to realising the dream through peaceful development. He went on to state that as the 'Chinese Dream' is closely linked with the dreams of the people of other countries and China is willing to help developing countries achieve their dreams.<sup>14</sup> From these trends, it is clear that China's proactive foreign policy is largely based on expanding its economic engagement with foreign countries.

The Xi administration is focussing a great deal on China's neighbours and the region. In his speeches at regional and bilateral forums, such as the Boao Forum, SCO and the ASEAN Summit, Xi frequently refers to member states and the region as a part of the 'community of a common destiny'. In his 2015 Boao Forum speech, Xi stressed on cooperation among China and its neighbours in the fields of financial management, currency stability, investment and banking

and for the setting up of a financial security network in coordination with the Asian Infrastructure Investment Bank (AIIB), the Asian Development Bank (ADB), and the World Bank. Xi pledged to sign more cooperative agreements with neighbouring and regional countries and enhance the 'One Belt One Road' (*yidai yilu* — 一带一路) project to facilitate overall growth and development in the region.<sup>15</sup>

Xi's ambitious project of creating an economic *Pax Sinica*, the One Belt One Road (OBOR) initiative progressed further in 2015, with more than 32 countries from Asia, Europe and Africa signing coordination and cooperative agreements with China. Till the end of 2015, more than 60 countries and international organisations along the 'Belt and Road' had responded positively about participating in the initiative.<sup>16</sup> The OBOR project is envisaged to impact 4.4 billion people in the next decade and will generate around \$ 2.5 trillion.<sup>17</sup> According to Xi, the development of the 'Belt and Road' is, 'not to replace existing mechanisms or initiatives for regional cooperation... but to build on the existing basis to help countries align their development strategies and form complementarities.'<sup>18</sup> The Silk Route Economic Belt (*sichou zhi lu jingjidai* 丝绸之路经济带) is a land based connectivity route that will connect China with Central Asia, Russia and Europe (the Baltic region). It will also link the Persian Gulf and Mediterranean Sea through Central and West Asia. China will also be connected to South East Asia, South Asia and the Indian Ocean. The '21<sup>st</sup> Century Maritime Silk Route' (*ershiyi shiji haishang sichouzhi lu* 21世纪海上丝绸之路) will pass through the South China Sea and Indian Ocean as a single route. A second route will connect China to the South Pacific through the South China Sea. The four gateways have been identified as Xinjiang, Heilongjiang, Yunnan and Guangxi Zhuang Autonomous Region and Tibet. This initiative will not only help to promote the integration of the Chinese economy with the rest of the world, but connectivity at the domestic level is also being undertaken between Tibet, Kashgar, Chongqing, Chengdu, Wuhan, Beijing Shanghai, thereby linking China's underdeveloped interior regions with the outside world.

The Asian Infrastructure Investment Bank (AIIB) like the OBOR has become an integral part of Xi Jinping's economic diplomacy. The AIIB, which is a Multilateral Development Bank (MDB) functions as the financial arm of the OBOR. Conceptualised in 2013, the body came into being in 2015. According to Zhu, the AIIB effectively was the creation of the unequal Bretton Woods system, and although China does not oppose the prevailing global financial system, yet it feels constrained to exercise its global ambitions and play a greater role in the international political economy.<sup>19</sup> In his address at the opening ceremony of the AIIB in January 2016, Xi committed the bank to boost investment of private resources in infrastructure and promote regional connectivity and economic integration. China has contributed \$50 billion, in addition to the subscribing

amount, as the initial capital, and is eventually expected to increase it to \$100 billion.<sup>20</sup> The AIIB aims to reform the global economic governance system by making it more equitable and effective. The AIIB according to Chinese official sources is committed to work alongside the World Bank and the ADB.

In the year 2015, China also signed FTA arrangements with South Korea and Australia thereby bringing the two important Asia Pacific powers into its economic fold.

## **China's Multilateral Agenda and Larger Regional Role**

China's increasing participation in multilateral institutions ranges from security related issues to economic cooperation and its role as a more active player in international affairs debates Shambaugh's description of China as a 'global actor', rather than a 'global power'. Recent trends in Chinese foreign policy show that Beijing's far-reaching diplomatic efforts are beginning to adopt positions of initiatives and leadership. China's global role, under Xi is being defined by the fundamental aim of promoting its national interest, particularly the preservation of the state, its sovereignty and economic stability. The Asian Security Concept as enunciated by Xi during the CICA Summit suggested the creation of a common platform to maintain comprehensive, cooperative and sustainable security in the Asian region. However, China's construction of a naval base in the Nansha Islands brought apprehensions among some of the Asian countries. The unilateral action was perceived by the neighbouring countries as a threat to their own territorial security. During the Asia Pacific Economic Cooperation (APEC) Summit, in Manila, a forum that was established by the US, China followed up on the agenda of the previous year and put the Free Trade Agreement of Asia Pacific (FTAAP) back on the negotiating table. This move runs counter to the US proposal for the TPP (Trans-Pacific Partnership). Beijing called for collaboration in the OBOR and the AIIB, as these initiatives enable China to take the lead in a common agenda and spearhead Asia's rapid growth. However, in spite of taking a leadership role and launching regional cooperation initiatives like the OBOR, it must not be forgotten that China has benefitted tremendously from a US dominated world order and any threat to the current order would mean a threat to its own existence. Hence, it should not come as a surprise that Xi's policies will continue to maintain the status quo, and may even defend its continuation in the future.

The consolidation of developing countries as an emerging bloc in world affairs, particularly in the areas of infrastructural development, has been an important agenda under Xi. The 2015, BRICS Summit witnessed the establishment of the New Development Bank (NDB) and the BRICS Contingent Reserve Arrangement that was set up, largely due to China's efforts. The NDB is headquartered in Shanghai and its initial capital consists of a \$ 100 billion reserve currency. The

NDB like the AIIB, would focus on infrastructure development among its member and other developing countries, and will work with other multilateral banks like the World Bank, IMF and even the AIIB. However, it is still early to confirm that the NDB, like the AIIB, will remain committed to maintain international standards of environment and labour. According to Niu and White, after the 2015 BRICS Summit, the US has shown greater interest in the BRICS than before.

Beijing has adopted a pro-active policy in regional multilateral diplomacy as well. Organisations like the Shanghai Cooperation Organisation (SCO), Forum for China-Africa Cooperation (FOCAC), the China-Community of Latin American States (CELAC) and the China Central Asia Cooperation Forum (CCACF) function as vehicles to push China's agenda to play a more active role in world affairs, improving the international governing system, contributing to the public good, and providing the developing countries with a platform in the international arena.<sup>21</sup> These regional multilateral institutions have become well established mechanisms for China to establish its presence in the regions across the globe. To avoid bottlenecks in many of these forums, the US, Japan and western countries have not been given membership status. These bodies function as alternatives to western dominated institutions and at times even to counter the western agenda, while continuing to maintain China's presence in different regions. During the 2015 SCO and CCACF meeting, China pushed its OBOR agenda. With India and Pakistan joining as full members of the SCO, China is expected to align its OBOR agenda in the South Asian region. China's assistance and cooperation agreements for expanding economic growth and development continued at the FOCAC and China-CELAC Summit.

## **Conclusion**

Xi has made a number of changes in China's foreign policy but to see it from a completely new angle would be overlooking factors such as unresolved issues and the larger historical and geopolitical aspects. Hence, within the changing course of action and behaviour, there is a continuum particularly with regard to China's core interests (preserving the basic state system and national security, protection of national sovereignty and territorial integrity and the continued stable development of economy and society) which will remain the cornerstones of Xi's foreign policy manoeuvres. Furthermore, as China's economy enters a new phase of slower growth, Xi Jinping could rely on factors such as nationalism and a pro-active foreign policy to keep his rivals at bay and the country together. In his third year in office, Xi has made other parallel changes such as: the streamlining of the PLA, which could be in preparation for a more assertive military policy in the future; fighting international cybercrime which could imply a growing nexus

between China's national security and cyber related issues. In 2016, he is likely to continue his policies on fighting corruption through negotiating extradition treaties and tracking down corrupt officials and bringing transparency into the domestic economic system and other bold steps towards political conservatism and general economic expansion. A pro-active foreign policy, especially with a focus on international economic engagements could be Xi's ticket to revive China's slowing economy.

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## China's One Belt One Road (OBOR) Initiative: Tracking the Progress

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In 2013, President Xi Jinping first used the popular catchphrase of 'Chinese Dream'. At the global level it meant changing the landscape shaped by the western countries. The term represents a vision for national rejuvenation and the creation of a new global order led by China. It also suggests that China is seeking to acquire great power status which requires it to be omnipresent. Taking this forward, on March 18, 2015, the National Development and Reform Commission (NDRC) together with the Ministry of Foreign Affairs and the Ministry of Commerce released a detailed action plan for the One Belt One Road (OBOR) initiative. The document highlights the OBOR as the centrepiece of Chinese foreign and domestic economic strategy.<sup>1</sup> It encompasses two initiatives namely, the 'Silk Road Economic Belt' (SREB) and the 'Maritime Silk Road' (MSR). Beijing has invested heavily in Silk Road diplomacy as part of its national rejuvenation, by dividing it into the Silk Road Economic Belt and the Maritime Silk Road. Thus the 'Chinese dream' can be seen in terms of larger China strategy of developing extensive transport networks, road routes, railway lines, ports and energy corridors.

On September 7, 2013, President Xi made a speech on how to "Promote People to People Friendship and create a Better Future" at Kazakhstan's Nazarbayev University. In his speech, he expounded on China's policy of good neighbourliness and cooperation with countries in Central Asia and said that he expected these countries to join hands in building the silk toad economic belt.<sup>2</sup> Additionally, at the Asia Pacific Economic Cooperation (APEC) summit in Bali on October 2, 2013, President Xi Jinping proposed the revival of the ancient "maritime silk road" (MSR).<sup>3</sup> This route symbolises the cultural and historical linkages between

China and South East Asia. Together these two initiatives are termed the OBOR. This will largely constitute the framework of the Chinese foreign policy for the next few decades to come. It is intended to bolster economic growth and regional cooperation between all participant countries.

This paper has four parts. First, it clarifies the ambiguities the surround the concept. Second, it explores the aims and objectives of the initiative. Third, it explores the compulsions behind the initiative as well as its trajectory vis-à-vis the Chinese foreign policy. Four, it tracks its progress until now.

### **Ambiguity surrounding the concept**

Starting with the epistemology of the OBOR there are a lot of ambiguities and confusions surrounding the concept. The very translation of the term is ambiguous. The literal translation from the English source to the Chinese is 一帶一路 *yīdàiyīlù*, but it is not clear as to how we can connect the MSR and the SREB with this term. It stands for one belt one road, but there are multiple belts and multiple roads rather than just the one.<sup>4</sup> There is confusion even among the policymakers in China, whether to describe the OBOR as a new “initiative” or a new “strategy”. Indeed it is an “initiative” rather than a “strategy” for two main reasons. First, it is still at a very premature stage. Second, the initiative itself launched to downplay the ‘China Threat’ theory. Using the word ‘strategy’ would again give rise to mistrust and the project would perhaps be perceived as a threat by the partner countries. There are many interpretations of the OBOR, but they all agree that it begins with a set of domestic plans and expands into a grand strategy for the Eurasian continent and beyond. The underlying principle of the concept as projected by China is a win-win situation for all participant countries.

The OBOR is often compared to the US Marshall Plan, for the simple reason that the thrust of both the plans is to export the surplus of their country. Wang Yi has stated that comparing Marshall Plan and the OBOR is like comparing ‘apple and oranges’.<sup>5</sup> Evidently, the OBOR is more than just a Marshall Plan. The geographical expanse of the OBOR is larger than the Marshall Plan. The Marshall Plan (for European Recovery) was only limited to Europe but the OBOR proposes to cover almost the entire globe by connecting the four continents of Africa, Asia, Arctic and Europe. Given the spread of the plan, the OBOR seems to be more ambitious plan, especially in terms of highways, fast trains and maritime transportation. Obviously, since the project requires vast resources no single country can dominate. Hence the OBOR proposal has to adopt a multilateral collaborative approach. The proposed mega projects would take centuries to complete.<sup>6</sup> The aim of the Marshall Plan was to contain Communism. This was the main reason why the Soviet Union did not join the plan and started its own economic organisation, the Council for Mutual Economic Assistance

(COMECON) (1949-1991). On the other hand, the OBOR advocates regional connectivity based on 'open cooperation' and does not propose to divide the partners on any plank.<sup>7</sup> Needless to mention, the US was the single source of funding for the Marshall plan but in the globalised world of today no single country can do this. For this China has already designated the Asian Infrastructure Investment Bank, Silk Road fund and New Development Bank especially for the smooth progress of the OBOR. Overall, there is a huge difference in the total cost of both the projects. The approximate cost of the OBOR is \$21 trillion whereas the US had invested \$13 billion (\$100 billion in current valuation) in the Marshall Plan.

The OBOR will face more challenges than Marshall Plan. After the Second World War, it was easy for the US to implement the plan without any resistance from Europe. Conversely, China is still a rising power and the OBOR has security implications for many countries. Clearly, China will face a lot of challenges while implementing it.<sup>8</sup>

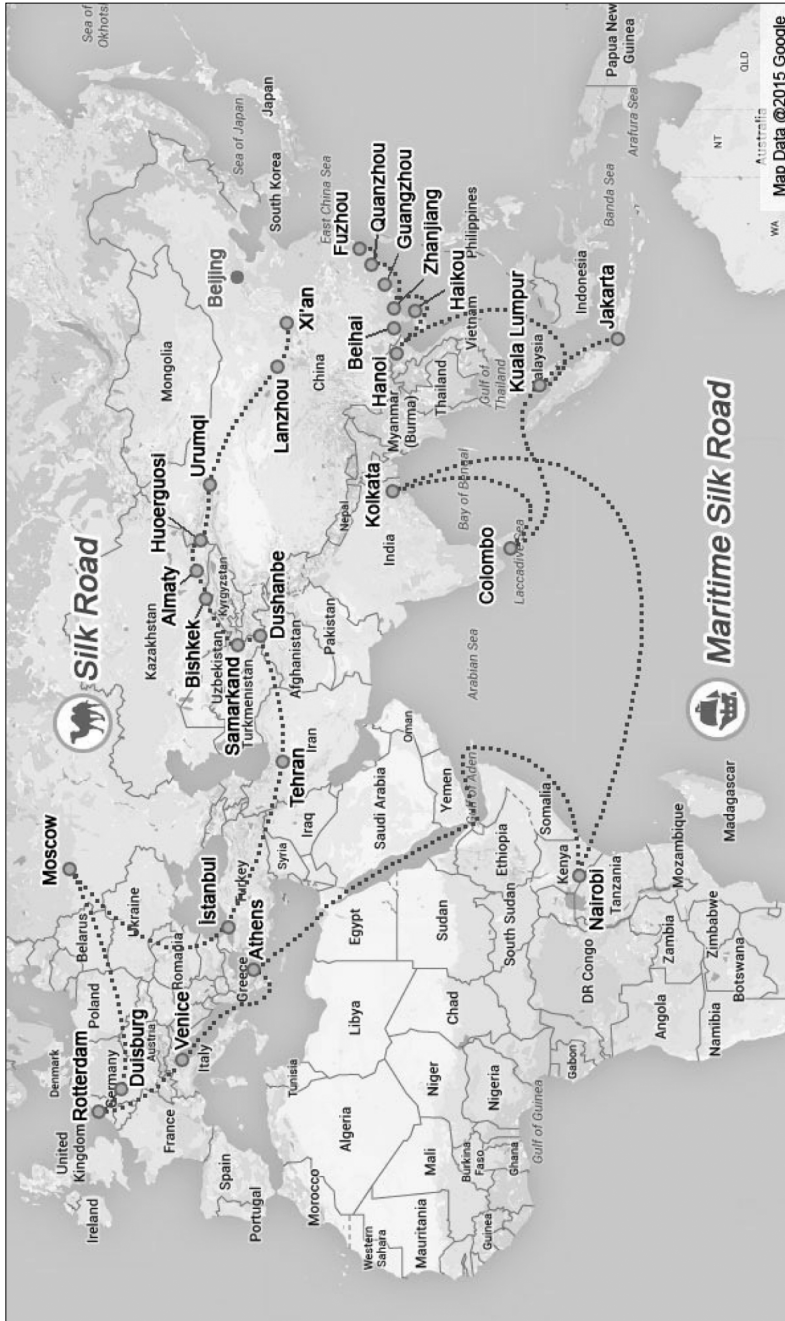
### **Mapping the Initiative**

The geostrategic canvas of the OBOR is divided into land (belt) and sea route (road). The belt is connected by a network of rail routes, overland highways, oil and gas pipelines and other infrastructural projects stretching from Xian in Central China, through Central Asia and Russia, with one artery crossing Kazakhstan; and the other going through Mongolia but both linking up with the trans-Siberian railway and going on to Moscow, Rotterdam, Venice where it converges with the planned maritime route. The road has a maritime dimension; hence it is popularly known as Maritime Silk Road (MSR) and includes a network of ports and other maritime infrastructure. It has two outlets. The MSR goes from China's coast to South East Asia, the Indian Ocean and the Persian Gulf to Europe. It starts from the port city of Quanzhou in Fujian and goes around Nairobi, to the Horn of Africa, with a stop at Athens before finally joining the land Silk Road in Venice.

Interestingly, the geopolitical theorists, Harold Mackinder in 1904 and Nicholas Spykman in 1942 had termed the area of the OBOR as the 'Heartland'<sup>9</sup> and the 'Rimland'<sup>10</sup> respectively. Both believed that whosoever controls this particular region is destined to control the world. Clearly, in contemporary times, China is trying to rule the heart of the world.

### **Aims and Objectives of the OBOR**

The geographical spread of the OBOR clearly shows that it runs through the continent of Asia, Europe and Africa connecting the economies of East Asia at the one end and the developed European countries on the other. China is at a



Source: <http://en.xinfinance.com/html/OBAOR/>

critical juncture, where its current investment driven development strategy appears to be increasingly unsustainable as returns on investments drop, debts rise, and many heavy industries are plagued by overcapacity. The OBOR could potentially help ease the transition to a more consumption driven growth model or, alternatively, delay the day of reckoning in this regard. At best OBOR can be viewed as a stimulus package for China's dropping growth rate.<sup>11</sup>

China is largely projecting the OBOR as an economic initiative. Needless to mention, it will help China to deal with the problem of overcapacity in its industries. The rail, road and other infrastructure need to implement OBOR will require vast amounts of construction materials and capital equipment. These are the sectors where China has an overcapacity. The OBOR will reduce overcapacity in China's heavy industries that have become dependent on investment led growth and massive infrastructure spending. Needless to mention, overcapacity is central to the OBOR initiative.<sup>12</sup> These infrastructure investments will need constant financial flows. Three funding institution have been started to support the initiative. These include: the Silk Road Fund; Asia Infrastructure Investment Bank; and the New Development Bank.<sup>13</sup> The Silk Road fund was established in Beijing in December 2014. The total capital of the fund is \$40 billion. It is a medium to long term development and investment fund. The investment will come from the State Administration of Foreign Exchange, China Investment Corporation, Export-Import Bank of China and China Development Bank.<sup>14</sup> The Asian Infrastructure Investment Bank is a multilateral development bank for the 21<sup>st</sup> century.<sup>15</sup> The AIIB will lend to projects in the energy and power, transport and telecom, rural infrastructure, water supply, environment protection and logistics sectors.<sup>16</sup> The New Development Bank is a multilateral bank operated by the BRICS (Brazil, Russia, India, China and South Africa) countries. It is an alternative source of funding to the existing the US led funding organisations such as World Bank and IMF.<sup>17</sup>

The Chinese economy has entered the phase of the 'new normal' wherein the annual GDP growth has slowed down to 7-7.5 per cent from double digit levels. The OBOR aims to further tap the growth potential of the countries in the region that will further boost the Chinese economy. The 13<sup>th</sup> Five Year Plan will further help in facilitating the initiative because it lays a great deal of emphasis on the Free Trade Zone (FTZ).

Within this initiative China is trying to internationalise its currency because without an internationally accepted currency, these interconnected projects will be hard to implement. China's OBOR ambitions are closely connected to its drive for the RMB's internationalisation and its formal acceptance as a global reserve currency in the IMF's Special Drawing Rights baskets.<sup>18</sup> China needs to create an "RMB zone" and extricate itself from the "US dollar zone" with its

partner countries.<sup>19</sup> Apart from currency convertibility the other question that remains is the degree to which China will allow the free flow of capital and investment. Another plan related to the OBOR is 'Made in China 2025'. The State Council of China unveiled this national plan on May 9, 2015. It is a ten year national plan intended to transform China from a manufacturing giant into a world manufacturing power.<sup>20</sup>

Apparently, the primary component of the OBOR is economic but one cannot overlook its security implications. Indeed China has frequently tried to leverage its foreign economic ties to advance its political/security goals.

The OBOR can be seen as a response to the US 'pivot to Asia' and other economic, political and military initiatives taken by the US.<sup>21</sup> Additionally, China's objective in proposing the MSR is to counter the American theory of the "String of Pearls". Booz Allen Hamilton undertook a study titled, *Energy Futures in Asia*, for the Pentagon in 2005, according to which: 'China is building strategic relationship along the sea lane from the Middle East to the South China Sea in a ways that suggest defensive and offensive positioning to protect China's energy interests, but also to serve broad security objectives'.<sup>22</sup>

The OBOR can also be seen as China's response to the more mega-economic blocks led by the US that include: the Trans-Pacific Partnership (TPP) in Asia and the Transatlantic Trade and Investment Partnership (T-TIP). The Road is explicitly oriented towards South East Asia, while Europe is the destination for the Belt. Notably the OBOR is an initiative competing with the US blocks.<sup>23</sup>

## Chinese Foreign Policy and the OBOR

The OBOR is going to be keystone of the foreign policy of China for the next few decades. Hence, it has started a debate on the direction of Chinese foreign policy. Peripheral diplomacy has been the thrust of Chinese foreign policy since the third plenary session of Eleventh CCP Central Committee where the central task of party was changed from class struggle to economic construction. Deng Xiaoping and other reformist leaders were determined to end the domestic political turmoil and create a favourable international environment for economic modernisation. The reformist leaders in Beijing made a deliberate effort to devise an integrated regional policy known as the '*zhoubianzhengce*' (periphery policy) or '*mulinzhengce*' (good neighbourly policy) to cope with the changes that affect its relations with neighbouring countries.

A good relationship with the countries involved is essential for the construction of OBOR. Although many countries have signed memorandums of cooperation with China with regard to the initiative, opportunities and challenges co-exist in terms of the specific ways of cooperation, participating groups, and so on. Notably, the periphery policy is guided by economic modernisation.<sup>24</sup> China adjusted its

periphery policy to create a favourable periphery to ensure the smooth functioning of its modernisation programme. The policy has played a very important role in fulfilling the objectives of China's peripheral strategy, and has determined the direction of Chinese foreign policy. It has facilitated the national strategic goals of maintaining security and territorial integrity, creating a stable periphery, and building friendly neighbourly relations by following the guideline, of always doing good to the neighbour and making the neighbour your partner.

China has focussed on the development of the 'periphery policy'/'good neighbourly' relations and partnerships with bordering countries to prevent external threats from exacerbating internal friction. China has done so to ensure that its modernisation programme runs efficiently. Further, economic modernisation developed the eastern periphery of China more than the west. Thus to reduce the economic gap between the eastern and western region, China launched its Western Development Strategy (WDS). The western region consists of six provinces, five autonomous regions and the Chongqing municipality, accounting for more than 70 percent of the mainland area and is the habitat of 75 percent of the country's ethnic minority population. Due to this strategy, the combined gross domestic product of the western region rose to 6.69 trillion RMB in 2009, i.e. four times more than the 1.67 trillion RMB in 2000.<sup>25</sup>

In 2003, China invested about 200 billion RMB (\$24.3 billion) in infrastructure projects in the western region. Eight key projects, including three road construction projects, an airport extension in Shaanxi province and four west-east electricity transmission projects were undertaken. Another significant project was China's west-east natural gas pipeline project, starting from Tarim of the Xinjiang Uygur Autonomous Region to Shanghai.<sup>26</sup>

The belt in particular aims to promote stability in Central Asia, which in turn will reduce the spill over of extremism into China's restive west, especially Xinjiang which is of crucial importance for the smooth implementation of the OBOR. The year 2015 marks the 60<sup>th</sup> anniversary of the Xinjiang Autonomous Region (XUAR). It is the bridgehead for China's Western Development Strategy (WDS) and has been designated as the 'core area'. China's White Paper on Xinjiang Uygur Autonomous Region states that 1.7 trillion RMB has been granted to Xinjiang over the past 60 years, to boost its development.<sup>27</sup>

The westernmost land port in Xinjiang province i.e. Horgos port (bordering Kazakhstan) has already been upgraded to a city. The pipeline from Turkmenistan also enters China in Horgos. Further, this port is being built to improve the prospects of varied investments and to create jobs with various nations and promote currency exchange.<sup>28</sup>

The strategy is supported by a series of preferential policies formulated for the development of the western regions that includes higher investment,



preferential tax rates and flexible policies. China's State Council approved the 12<sup>th</sup> Five Year Plan for promoting the economy of Western region. The Plan targets 12 provinces of the western region that were further clubbed into economic zones. It gives special emphasises on the infrastructure development for the region. Evidently, the OBOR is a national level program and for this purpose the central government wants to integrate the western region through the networks of rail and road.<sup>29</sup>

Among the countries along the belt, China is most interested in Afghanistan both for geo political and geo-economic reasons. Afghanistan is China's neighbour and any development in the country is bound to affect internal dynamics in China. Given that Afghanistan is a landlocked country and shares a border with China, Beijing will engage with Kabul to secure its western periphery, especially the Xinjiang region. China needs a stable and secure neighbourhood for its 'Peaceful Development' plan that also emphasises a stable and secure neighbourhood.<sup>30</sup>

Afghanistan has been projected as a key component of China's New Silk Route initiative. This fits in perfectly with President Ashraf Ghani's strategy to revive the country's economy, making it a "hub of regional trade, transit and peace," and reducing reliance on aid. However, given its security environment Afghanistan does not feature in the New Silk Route map that has been made public. The New Silk Route in fact bypasses Afghanistan and enters Iran by through Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan.<sup>31</sup>

China already has a stake in Kazakhstan's Kashagan oil field, and the functional and expanding Central Asia-China natural gas pipeline that passes through Turkmenistan, Uzbekistan and Kazakhstan. While delivering his speech in Kazakhstan in 2013, Xi said, China was committed to promoting relations and cooperation with Central Asia, and called for more practical collaboration in five areas. These are: stepping up policy communication; improving road connectivity; promoting unimpeded trade; enhancing monetary circulation; and lastly increasing understanding between peoples. China is now increasing its imports from these countries, notably Kazakhstan and Turkmenistan. Consequently, the new Silk Road project would allow China to tap the supply lock from its new Central Asian energy partners. It would also allow the country to secure and improve the supply routes for its energy imports from these states, and to mitigate the potential effects of supply cuts from the Middle East, Africa or Russia.<sup>32</sup>

Soon after assuming the power, Xi Jinping elaborated on China's strategic objectives at the Peripheral Diplomacy Work Conference (October 24-25, 2013). He stated that China should start connecting with the countries along the route to accelerate infrastructure connectivity to construct the MSR. As part of its peripheral diplomacy strategy, China follows the policy of friendship and

partnership with neighbours by sticking to the principle of helping stabilising and enriching neighbours. This peripheral diplomacy further requires that, “doing a good job on the peripheral diplomatic work is needed to realise the struggling objective of the ‘two Centennials’ and to realise the Chinese dream of the great rejuvenation of the Chinese Nation.”<sup>33</sup> Notably, the two Centennials (hundred year) goals refer to the 100<sup>th</sup> anniversary of the Chinese Communist Party in 2021, -when China is expected to become a moderately prosperous socialist country” that is not only prosperous but strong, democratic, civilised and harmonious and the 100<sup>th</sup> anniversary of People’s Republic of China (PRC) in 2049.

Through the MSR China is trying to strengthen its peripheral diplomacy to reduce tensions on its periphery. This will lead to the optimum utilisation of their resources and energy which would promote economic growth. A stable periphery will reassure China’s Peaceful Development. Like the ancient route the new MSR is expected to bring considerable profits to its neighbours. China’s territorial maritime disputes with South East Asian countries have already created complex circumstances that hamper good relations in the region. As part of its good neighbourly policy China is willing to initiate talks with South East Asian countries. On the other hand the booming Chinese economy acts as an engine of growth for most Asian economies and China is already the leading trade partner of most of the countries.

In a speech in Singapore, “Xi welcomed China’s neighbours to ‘take the high speed train’ and the ‘free ride train’ of China’s development and live an abundant life together, emphasising that neighbouring countries are welcomed to join the OBOR cooperation so as to jointly realise the outlook of peace, development and cooperation.”<sup>34</sup>

Over the medium to long term, the successful implementation of the initiative could help deepen regional economic integration, boost cross-border trade and financial flows between Eurasian countries and the outside world, and further entrench Sino-centric patterns of trade, investment, and infrastructure. This would strengthen China’s importance as an economic partner for its neighbours and, potentially, enhance Beijing’s diplomatic leverage in the region. Energy security is the motivating factor for the initiative. Increased investment in energy and mineral resources, particularly in Central Asia, could also help reduce China’s reliance on commodities imported from overseas, including the oil, transiting the Strait of Malacca.

## **Progress of OBOR**

All the provinces in China have made OBOR their official development priority. Western Qinhai is improving its connectivity and building a logistical centre

and warehouse. The Xining Special Steel, a state owned company will design products for ports, shipping and other infrastructure in destination countries. The Guangdong province is building a power plant in Vietnam, setting up banana plantations in South East Asia, and an oil refinery in Myanmar.<sup>35</sup>

One of the major strategic interests of the OBOR is Pakistan. The China-Pakistan friendship is described as an, “all weather friendship”. The two countries have participated in joint infrastructure projects, most the notably, the Gwadar and China-Pakistan Economic Corridor (CPEC). As a part of the OBOR, President Xi in April announced a plan to invest a further \$46 billion in Pakistan to improve the CPEC which is a single bridge between land and sea routes. It enables China's access to the Arabian Sea and the Indian Ocean. China has included the CPEC in its 13<sup>th</sup> Five Year Plan. Further, the year 2016 marks the 65<sup>th</sup> year of their diplomatic relations.<sup>36</sup>

### **Xi Jinping's Vision of OBOR**

President Xi has also promised to invest \$40 billion for infrastructure projects in Central Asia, which is all the more welcome, because of the recession in Russia and the falling commodity prices in general. Chinese companies now own one-fifth to a fourth of Kazakhstan's oil production, about the same share as the national company.<sup>37</sup> China has also become the principal customer of Turkmenistan. The China National Petroleum Corporation (CNPC) has broken Gazprom's gas monopoly in the region. China also has significant investments in the Atyrau-Alanshankou oil pipeline and the Turkmenistan-China gas pipeline.<sup>38</sup>

Also, as a part of this initiative China has started improving the rail, road and air connectivity in the partner countries. In last two years it has built 15 new airports, expanded 28 existing ones and 51 other such projects are already in progress. In addition, China's Civil Aviation Administration has allowed carriers from Central and South Asia to establish more direct link services.<sup>39</sup>

Obviously, the year 2015 has witnessed an impressive initiative that has made steady progress. It has received support from, more than 60 countries, which is indicative of its importance. One good example of its growing acceptance is Taiwan's expression of interest in joining the initiative. However, Taiwan needs the US approval before it can do so. In addition Taiwan's candidature has also been debated by China because of its name-‘Chinese Taipei’ and not the Republic of China.

Thus clearly Xi Jinping has articulated a more magnanimous role for China than any leader since Mao Zedong. The goal of all the leaders Mao Zedong, Deng Xiaoping and Xi Jinping has been the same. They all want to restore China to its old historical leadership role in the world.<sup>40</sup> The land and maritime trade

routes are intended to expand the country's commercial and strategic interests to help realise the 'Chinese Dream' of national rejuvenation.

Nonetheless, there are bound to be challenges on the way; as for example from countries like Pakistan and the Central Asian states. But as long as China maintains its policy of 'non-interference' in the internal matters of a state, the initiative will be a success. The OBOR is an evolving plan as is the response of other countries. The OBOR will be as successful as the support it gets from its partners.

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# 15

## China in Global Economic Governance: Cautious Debut, Confident Journey

*Arpita Anant*

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China's foray into the international multilateral arena of the post-World War II era began with its membership in the UN in 1971. A decade later it replaced the Republic of China as a successor state in the International Monetary Fund and the World Bank. The next decade and a half was invested in learning the ways of the liberal international political and economic order while building China's capacities. Then came the years of the rise of People's Republic of China, which is now a two-decade long phenomenon. Since then, several doubts have been expressed about its potential impact. For nearly a decade i.e. from the mid-1990s until about 2004, there were fears of a politico-military nature, especially in the West and South East Asia, that China's rise will not be peaceful. In the following decade up until 2015, the concerns shifted to the economic realm. What would a fast growing partly liberal Chinese economy, integrated into the global economy more than ever before and having become a critical engine of global growth, mean for the global economic system? Each of these decades also witnessed a financial crisis—the 1997-98 financial crisis in Asia, and the 2008 and ongoing global financial crisis, which brought to the fore several weaknesses of the global financial system. They also presented China with the opportunity to strengthen its credentials as a rising power.

Three conclusions were arrived at overtime regarding China in the global economic order. First, that the liberal order based on norms of non-discrimination and coalitions, rules and institutions and openness, could accommodate the ambitions of rising powers like China.<sup>1</sup> Second, that multilateralism was the best way to deal with China and get it to open up, for otherwise China will dominate all bilateral relationships and determine the rules of the game.<sup>2</sup> Third, that

pragmatism, opportunism and self-interest would underpin Chinese behaviour and so China will create new institutions to suit its stature and serve its interests.<sup>3</sup>

To a large extent, these arguments have proved correct. On the first count, China has remained a member of liberal multilateral institutions, though not an uncritical one. Since China had gained greatly from the existing system, it has not completely overturned the system.<sup>4</sup> Its 'revisionist' intentions are being doubted even more due to the nature of its reform initiatives.<sup>5</sup> On the second count, China's engagement with the G20 has indeed affected a change in its global role.<sup>6</sup> On the third count, the years 2014-15 have been crucial. China finally set out to establish new institutions initiating a transformation of globalisation to a regional and cross-regional process, away from the Bretton Woods institutions, not just physically, but also normatively since although China is the largest fund provider in them, it does not claim a leadership role in them for all times to come.<sup>7</sup> Among the institutions set up are the Silk Road Economic Belt, Eurasian Economic Union, the BRICS New Development Bank and the Asian Infrastructure Investment Bank. Here too it is felt that the setting up of new multilateral development banks and asking Western countries to join them is 'reactive' rather than 'revisionist'.<sup>8</sup>

A more important point regarding what China ought to do with its power was spelt out by Nobel Laureate Joseph Stiglitz in 2005. He felt that China should take the lead in creating an alternative to the system of reserve currency, create a fair trading system together with other developing countries that will help developing countries, create a sustainable development model based on deforestation rather than reforestation or carbon sequestration.<sup>9</sup> Ten years on, this paper focuses on the developments in 2014-15 to indicate that these are precisely the tasks that China has started to accomplish. The paper is divided into four sections on four issues. Each section begins by reviewing the developments in 2015, followed by an analysis of the significance of the developments from a historical perspective. Section I focuses on the inclusion of China's currency in the Special Drawing Rights (SDR) basket of the IMF in December 2015. Section II dwells on the setting up of the BRICS New Development Bank (NDB) in July 2015 and the Asian Infrastructure Investment Bank (AIIB) in December 2015. Section III focuses on China's participation in the annual WTO Ministerial in December 2015. Section IV examines China's participation in the Financing for Development conference in Addis Ababa in June 2015.

The paper concludes that China has indeed taken the first steps towards fulfilling several of the expectations of it. More importantly, it has done so by finding a way of partnering with different groups of countries and by decoupling the linkages between issues that had been linked together in the old order. It



argues that this may well be the beginning of a new way of organising issues for their resolution in the longer run.

## **China and Reform of International Monetary System**

In the realm of international monetary reforms, the acceptance of Chinese currency as a reserve currency at IMF had been under consideration for some time. In 2015, amid fears of a slowdown in China's economy, the United States, which has the largest vote share in IMF, wanted China to be more transparent about market flows before supporting the inclusion of Yuan as a reserve currency in IMF.<sup>10</sup> China, committed to release economic data as per the IMF's Special Data Dissemination Standards (SDDS) and increase the transparency of its system to further the internationalisation of the Yuan.<sup>11</sup> France reiterated its support for this at the High Level Economic and Financial Dialogue (HED) held in Beijing, where the two sides wanted a greater role for the Euro and the Renminbi and a change in the IMF's quota and governance structure.<sup>12</sup> The Standard Chartered Bank predicted that as China's manufacturing increases and its demand for raw materials rises, suppliers will be willing to trade in the renminbi, thus making it more powerful in comparison to the dollar.<sup>13</sup>

The first disclosures made by China as per the SDDS were reported on September 30, 2015.<sup>14</sup> In November, the head of IMF approved the inclusion of the Yuan in the SDR basket. For this, China not only had to liberalise its economy but fulfil the IMF requirements of scrapping the ceiling on deposit rates, issuing three-month treasury bills weekly and improving the transparency of Chinese data.<sup>15</sup> The formal recognition by the IMF came on December 1, 2015.<sup>16</sup> China's vice finance minister had also urged the US Congress to ratify the IMF reform plan of 2010, to enable developing countries to have a larger say in it.<sup>17</sup> Later in December, the US Congress approved the IMF reforms that had been proposed in 2010, which, had doubled the IMF's quota resources from SDR 238.5 billion (about \$329.83 billion) to SDR 477 billion (about \$659.67 billion), and shifted 6 per cent of quota shares to dynamic Economically More Developed Countries (EMDCs).<sup>18</sup> This increased China's share from 3.996 per cent to 6.394 per cent, and made it the third largest shareholder in the IMF.<sup>19</sup> This formula has been implemented since January 26, 2016.

The G20, which has emerged as an important forum for maintaining the stability of the international monetary system especially since 2008, has seen China's active participation.<sup>20</sup> China's G20 presidency due in 2016 is much awaited. At the China-UK Business Forum in October, Xi Jinping said that China's presidency of the 11<sup>th</sup> G20 summit next year will allow it to contribute more to global economic governance.<sup>21</sup> Experts suggest that China is likely to create a permanent secretariat for G20 during its presidency of the group.<sup>22</sup> More

importantly, it will seek to have a strong economy and increase the use of the Yuan through G20 partnerships.<sup>23</sup> In the words of Vice Foreign Minister and China's G20 Sherpa, Li Baodong:

...In many ways, the five concepts of innovative, coordinated, green, open and sharing development (reference to the 13<sup>th</sup> five year plan) will not only set the direction for China's own future development, but also help to set the stage for our G20 Presidency next year and our partnership with the rest of the world for a long time to come.<sup>24</sup>

## **Historical Perspective**

China became a recognised successor of the Republic of China in the IMF in 1980.<sup>25</sup> Initially, China received funds from the IMF for mega infrastructure projects, and as it developed, it secured IMF funding for smaller environmental infrastructure projects.<sup>26</sup> In 2003, China first raised concerns about the dollar as the reserve currency, as its foreign currency reserves were on the rise and returns on its investment in US treasury bills were very low.<sup>27</sup> The push gathered momentum in the aftermath of the 2008 financial crisis with China seeking higher SDR allocation and linking the Yuan to the SDR to enable "longer term investments of its reserves with guarantees".<sup>28</sup>

In turn, the IMF had laid down two criteria for a currency to be included in the SDR basket. First, it must be 'widely used' and second, it must be 'freely usable'.<sup>29</sup> China carried out the required reforms gradually.<sup>30</sup> In order to increase the use of its currency, China began overseas trade and created an overseas offshore market where the Yuan would be used to buy Dim Sum bonds. It also entered into currency swap agreements with its trade partners.<sup>31</sup> To better invest its foreign exchange reserves, China created a Sovereign Wealth Fund called the China Investment Corporation in 2007 with an initial capital of \$200 billion.<sup>32</sup>

It has been argued that the inclusion of RMB in the SDR basket was important for China for three reasons: to aid the internationalisation of its currency; for diversifying its currency system; and to accelerate financial reform in China.<sup>33</sup> Thus while there is much more scope for an increase in China's quota in the IMF, the symbolic value of having its currency included in the IMF is no small achievement.

## **China and Reform of Development Banking**

As a leading economy of the world, financial contributions to multilateral development banks was already on the agenda of China's bilateral relations with the US.<sup>34</sup> However, the more important development in relation to MDBs was the setting up of the Asian Infrastructure and Investment Bank (AIIB) with a

fund of \$100 billion. Seven Chief Negotiators' Meetings were held through the year to discuss the modalities related to the launching of the bank. Following the announcement of the intent to set up the bank in 2014, Jin Liqun, the president-designate of the Asian Infrastructure Investment Bank, travelled to various G7 economies to solicit their membership for the bank.<sup>35</sup> While the US and Japan declined, UK agreed to join in. By March 31, 2015, the bank had 57 prospective founding members.<sup>36</sup> It was decided, after some disagreement, that the bank would have a 12-member board. It was also decided that the bank would focus on infrastructure projects, to make up for \$8 trillion shortfall in the building of ports, power plants and railways.<sup>37</sup> The articles of agreement on the AIIB, were signed by 50 founding members in Beijing in June 2015.<sup>38</sup> It was also announced that China would be the largest shareholder with a 30.34 per cent stake and 26.06 per cent of voting rights, followed by India and Russia.

In November, the National Peoples' Congress' Select Committee approved the setting up of the Bank. The AIIB, it was revealed then, was to have a three-tier structure—a board of governors, a board of directors and a management team. It was announced that the AIIB would invest in various sectors including energy, transportation, urban construction, logistics, education and health care.<sup>39</sup> The bank was formally established on December 25, 2015.<sup>40</sup> The One Belt, One Road initiative, was also rolled out in 2015 with funds sourced from the bank.<sup>41</sup>

Reinforcing the trend of China becoming a lead investor, the New Development Bank (formerly the BRICS Bank), was inaugurated in July 2015.<sup>42</sup> At least to begin with, in both these banks, the system of administration is distinctly different from that in the World Bank. In the NDB, no matter what the size of its contribution, every country has one vote. In the AIIB similarly, it has been decided that bidding for contracts will also be open to companies from countries that are not part of the AIIB. Also, the membership of AIIB is open to all countries, and several European countries have joined it.

## **Historical Perspective**

Three issues become significant in this context. First, China's engagement with multilateral development banks, especially the World Bank. Second the Asia-centricity of China's multilateral initiatives. Third, the focus on infrastructure development. China's relationship with the first multilateral bank of the world, namely the World Bank, began in 1980 when representation in the board of these institutions was passed on from the Republic of China to the Peoples Republic of China.<sup>43</sup> The decade of the 1990s witnessed the rise and ebb of World Bank borrowing and technical assistance by China. The relationship developed along two tracks—first, through joint studies, conferences, project financing and technical assistance; and second through economic (financial and

fiscal) re-centralisation and the emergence of modern macroeconomic management. China's experience with the bank was very positive and it helped China grow.<sup>44</sup>

China's focus on Asia too has historical origins. China has preferred to engage multilaterally with Asia, with a focus on Central Asia and South East Asia. China found that it useful to engage with groups of countries through the Shanghai Five and then the SCO and the ASEAN, ARF and APEC where rules of engagement were much less stringent than those in the multilateral institutions of the West.<sup>45</sup> Secondly, Asia centric regionalism became important for China around 1997 due to its global concerns regarding the US, and its growing footprint in Asia. Until then China was wary of multilateral institutions and preferred to deal with countries bilaterally or even act unilaterally. Simultaneously, Asian regionalism helped China to counter the prevalent idea of the China threat in the region and reinforce its commitment to its peaceful rise.<sup>46</sup> The Asian regional financial cooperation grew in the aftermath of the financial crisis of 1997-98 with the setting up of Financial Stability Forum (FSF), the Group of 20 and the Bilateral Swap Arrangement under Chiang Mai Initiative and Asian Bond Fund.<sup>47</sup> In Asia, China acceded to existing multilateral institutions by overcoming its fears of rules constraining its behaviour. This showed that China could accept someone else rules if they were in its national interest.<sup>48</sup> So China's Asia-centricity was strategic, as was its subsequent stretch to Oceania and Chile.<sup>49</sup>

Finally, China has a history of investment in the transport sector in Central, South West and South Asia. It has frequently approached the Asian Development Bank for loans for these. It had also tied up with the EU's Transport Corridor Europe Caucasus Asia (TRACECA) Programme. Railway and roads linking Kazakhstan and Kyrgyzstan with Xinjiang are TRACECA projects.<sup>50</sup> Interestingly, China's association with the African Development Bank goes back to 1985, and its focus too is on infrastructure building.<sup>51</sup> China's Silk Road Fund, set up in 2014, has already invested in infrastructure, manufacturing and energy projects in South Asia, Italy and Russia.<sup>52</sup> Given these factors, the setting up of the NDB and AIIB seem to be part of a logical progression.

## **China and Reform of Development Financing**

In preparation for the third FFD Conference in late 2014, China with the G77 countries espoused the provision of trade related capacity building measures for developing countries through the WTO along with financing for more information and communication technologies (ICTs).<sup>53</sup> They also called for setting up of a formal intergovernmental body for strengthening international tax cooperation which is critical for development and endorsed the setting up of a legal mechanism for sovereign debt restructuring.<sup>54</sup>

Early on in 2015, the G77 and China endorsed the role of the UNDP within the UN system to carry forward development activities in various underdeveloped parts of the world. They urged the UNDP to manage its resources more efficiently, raise more resources and use the mechanisms of South-South cooperation to its advantage.<sup>55</sup> This was by way of inputs for the Third Financing for Development (FFD) Conference held in Addis Ababa in July 2015. Together, they actively participated in the preparation of the draft outcome document to be adopted at the conference. They pushed for synergy between the Sustainable Development Goals and the Means of Implementation to be worked out at the FFD Conference.<sup>56</sup> Subsequently, commenting on the zero-draft to be adopted at the FFD Conference, they called for a strict focus on economic issues and the economic system so as to achieve the best outcome.<sup>57</sup> Proposals were also put forward at the conference for an effective global partnership for development, external debt restructuring, going beyond North-South cooperation to South-South cooperation, and involving the private sector in development.<sup>58</sup> They also highlighted the need for coherence in economic, social and environmental policies to enable sustainable development.<sup>59</sup>

In a related sphere, the South South Cooperation Fund for climate change, to which China pledged US \$20 million in December 2014, was formalised with the signing of a Memorandum of Understanding with the UN.<sup>60</sup> Again, at the Summit on SDGs, President Xi Jinping promised to set up a UN fund with \$2 billion for the developing countries. He promised to waive off the debts of least developed countries and also announced the 'cap and trade policy' China would be adopting.<sup>61</sup> In addition to a green finance component in China's 13<sup>th</sup> five year plan and Integrated Reform Plan for Promoting Ecological Progress,<sup>62</sup> China also promised to give 20 billion Yuan (\$3.1 billion; 2.9 billion euros) to help develop low-carbon initiatives in developing countries.<sup>63</sup>

## **Historical Perspective**

What is significant in this context, is China's association with the UN and especially its initiatives for betterment of developing countries. When China joined the UN system, it was a reluctant multilateralist.<sup>64</sup> In fact, China chose not to join the developing country coalition of G77 and thought of itself as the fourth pillar of world economy, distinct from the Western, Eastern and 'Third World' blocs.<sup>65</sup> Eventually though this changed and among the many global identities it encompasses, the developing country identity emerged quite strongly.<sup>66</sup> In fact until the mid-2000s, reform of the international economic system to benefit the poor and the less developed countries and multilateralism, with the UN at the core, are issues that China had emphasised in order to reassure the world of its commitment to peaceful development.<sup>67</sup>

China participated in the first FFD Conference held in Monterrey in 2002. Here it made a case for a global mechanism for coordination of development, a general framework for development respecting individual country preferences for modes of development, reform of the international order and importance of MDBs in financing development.<sup>68</sup> Also, in collaboration with the G77 it made a case for debt restructuring and the focus on human development.<sup>69</sup> At the second FFD Conference in Doha in 2008, China aligned with the G77 to speak more assertively for a developing world that had economic weight, but yet required assistance for further development and urged for the realisation of the Monterrey consensus and the Doha Round of trade reforms.<sup>70</sup> Thus, China's participation in the third FFD alongside the G77 is the continuation of a post-liberalisation trend of associating with the developing world without actually joining the group.

### **China and Reform of Global Trade**

Participating in the 10<sup>th</sup> Ministerial Conference of the WTO in Nairobi, Kenya, China pledged to contribute an additional \$ 500,000 to the WTO's Least-Developed Countries and Accessions Programme (known as the China Programme) in 2016.<sup>71</sup>

### **Historical Perspective**

China's entry into the WTO in 2001 changed the nature of global trade significantly and in a positive direction. It also benefitted China. The volume of Chinese foreign trade in commodities increased by an average of 30 per cent, in the first three years, of its entry. It also became a lead investor from among the developing countries as per the World Investment Report of the UNCTAD, with a rise in overseas mergers and acquisitions and becoming a centre of world production.<sup>72</sup> Since then, China has done well to fulfil its obligations to the TRIPS regime of the WTO as well as in the reduction of tariff barriers. It has also done averagely well on the liberalisation of its services sector and the opening up of its government procurement market to foreigners. It has largely followed the rules of the system. However, interestingly, in the WTO, China has not always sided with the developing countries. A cost-benefit analysis rather than a constructivist (learning, normative, socialization mechanism) explanation describes China's behaviour.<sup>73</sup>

China has demonstrated maturity by adopting a coordinated approach to trade since its entry into the WTO. For instance, when the Multi-Fibre Agreement (MFA) came to an end, China allowed African countries to export textiles to China, since China's textiles had taken over their market share in US and Europe. It has also concluded cooperative trade agreements with Europe to limit its exports and regulate its industry so as to produce win-win outcomes.<sup>74</sup>

It has also taken the lead in proposing changes in the global trading system. At the Doha Development Round of negotiations, China made several interesting proposals for reform such as:

- The Trade Negotiations Committee of the WTO must be chaired by ambassadors of member states;
- The role of the chairs of the six subcommittees on the inclusion of draft proposals in the agenda should be limited and must be deliberated upon;
- Some restriction on developed countries in bringing disputes against developing countries;
- A 30-day consultation procedure if a developing country was involved in a dispute;
- Setting up of a Dispute Settlement Board panel in a time bound manner;
- Strengthening mechanisms for giving special and differentiated treatment to a developing country; and
- Reform of the anti-dumping rules.<sup>75</sup>

More recently, China initiated the Aid for Trade programme in 2011 for supporting some WTO programmes that assist developing countries in building capacity such as WTO accession internships; WTO accession round table meetings; Least Developed Country (LDC) participation in WTO meetings; South-South dialogue on LDCs and development; and LDCs' Trade Policy Review follow-up workshops.<sup>76</sup> Since 2008, China has also contributed \$2,800,000 to the Trust Funds of the WTO. Its commitment to the programme is to continue in 2016 also.

## **Conclusion**

The year 2015 saw the partial culmination of 20 years of Chinese efforts of becoming a responsible power to reckon with, as well as being a trailblazer for altering existing systems of economic governance. While its long quest for the recognition of the renminbi as a reserve currency came to fruition at the International Monetary Fund, China-led institutions such as the Asian Infrastructure and Investment Bank (AIIB) and the BRICS New Development Bank (NDB) were set up and raised hopes for a more developing-country friendly monetary system. These coincided with new life being breathed into the UN-led efforts for addressing the development agenda of large parts of the globe through the adoption of a framework for Financing for Development (FFD), Sustainable Development Goals and Climate Change. Though not China-led, the latter initiatives saw China's involvement, in varying degrees, with developing country coalitions and causes. So, China has partly fulfilled the expectations from it.

More importantly though, the debate on China in global economic governance seems to have come a full circle in 2015. For two decades the pertinent question was whether China, which was more comfortable with bilateral treaties as a mode of economic interaction, would socialise and integrate into the system of multilateral institutions created by the West (read US) outside the UN system, through the Bretton Woods mechanism, namely the IMF, the World Bank and the General Agreement on Tariffs and Trade later replaced by the WTO. With a minimal increase of quota in the IMF, the setting up of two new banks, and a reinvigoration of the UN system, that had been side-lined in matters of global economics, the question to be asked is whether the West, which is beginning to forge mega-regional blocks and prefers bilateral arrangements, would socialise and integrate into the system of multilateral institutions created or configured by China and other developing countries.

Also, as part of global economic governance China's engagement with the UN system has not received much attention. This is perhaps so because the UN has never been able to play a strong role in global economic governance. However, to the extent that it does, especially in terms of framing a normative discourse, it is important to look at the engagement of countries, in this case China, with this system. In this regard, neither singularly nor spectacularly so, China has continued its engagement with the UN system on developing country issues and sustainable development. Here, it has placed emphasis on poverty eradication, global partnership for development and the need for technological innovation in formulating the post-2015 SDGs.

What is noteworthy is that China has been able to straddle many different coalitions simultaneously. In the older institutions such as the IMF and the WTO, it is working with the developed countries and yet trying to reform their working to help democratise the monetary system and make it friendlier to developing countries. Among the newer ones, the BRICS NDB brings together a set of large economies while the AIIB is open to all who are willing to join it. In the UN forums, China continues to align with the G77, without actually being a party to it. Also, the sum of all this, means that China is contributing to reform of the old monetary system, setting up development finance alternatives, and attending to causes such as sustainable development of developing countries without making one conditional on the other. It is these linkages that had made the older system problematic. This may well be the beginning of a new way of organising issues for their resolution in the longer run.

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## IV. ENGAGING THE MAJOR PLAYER

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# 16

## China-U.S. Relations: Sharing Power is Not an Option

*Namrata Goswami*

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For the world to continue on its path of shared prosperity propelled by globalisation, trade liberalisation and open markets, strategic stability between the United States (U.S.) and China is essential. This is not just a statement of hope, but a statement based on fact. Most of world trade today is possible due to access to the Sea Lanes of Communication (SLOC) that are patrolled by the U.S. navy but are close to the Chinese mainland. Trade between China and the U.S. made an exponential leap from just \$2 billion in 1979 to \$534 billion in 2015.<sup>1</sup> Significantly, the trade deficit between the U.S. and China also soared to a record high of \$365.7 billion in 2015.<sup>2</sup> China is the second largest trading partner of the U.S. and tops the list of imports into the U.S. It would be fair to assume that without Chinese goods, the U.S. may have limited choice of consumer goods that are affordable for a vast majority of its population. In addition, U.S. firms and companies like Apple, General Motors, have invested heavily in the low cost assembly of their products in China, thereby bringing down costs and increasing their profit margins. Interestingly, China keeps U.S. domestic interest rates low, by being the second largest purchaser of U.S. treasury bonds and by extension buying up U.S. debt. This aspect of the relationship has a direct impact on the U.S. economy, which in turn locks in the China-U.S. relationship like no other.<sup>3</sup>

From China's perspective, a relationship with the U.S. based on some sort of recognition of its major power status is very much in its interest. In order to operationalise this strategy, President Xi Jinping formulated a "New Model of Major Country Relations" in 2013, which aspired to accord a co-equal status to both the US and China so that both recognise each other as major powers in the

international system and thereby cooperate in a win-win.<sup>4</sup> However, rooted in the concept are divergent interpretations of what is required of each power. For the U.S., the major power concept should have an inbuilt mechanism for problem solving, especially with regard to territorial issues in the South China Sea. Moreover, it should include a clear preclusive statement that even if the U.S. were to accept the Chinese proposal relating to the major country model, this acceptance cannot be interpreted by China as an acknowledgement of Chinese core national interests, including their land reclamation activities in the South China Sea. However, contrary to popular opinion in Washington, D.C., I would argue that the acceptance of the Chinese proposal does not show the U.S. in a bad light, nor does it mean that the U.S. would have to give up a share of its power and influence.<sup>5</sup> In fact, the acceptance of shared responsibility based on a win-win could result in China accepting limits to its own territorial claims and lock it in more tightly with U.S. influence and power. This by itself could put an enormous chain lock on China's proclivity to act rogue in the South China Sea. For if at all, China's main goal in the new model for major country relationship, is a sense of vindication that it is being accepted as a major power by the U.S., any denial of that would only lead to more belligerent behaviour especially in the South China Sea since China is keenly aware that it is only in this area where there is a conflict of interest between China and the U.S. and its allies. Hence, any escalation in this area forces the U.S. to take note of China.

This chapter focuses on the China-U.S. relations in 2015. Locating the relationship within the framework of the regional power and influence matrix, the chapter highlights four trending issues that were dominant in the relationship.

1. The new leadership in China and Obama's last term.
2. The Struggle for Writing of Global Economic Rules.
3. Cyber Security.
4. The South China Sea (Demonstration of Credibility).

### **The New Leadership in China and Obama's Last Term**

The year 2015 turned out to be an eventful one for both President Xi Jinping and President Barack Obama. With Xi warming up to his role as the Chinese head of state, and Obama on his way out as his second term draws to a close, not much was expected of both men. To be sure, Obama, in his first term as President, reached out to China for a better relationship when Hu Jintao was President and hosted him at a state dinner in 2012, at the White House. In 2009, Obama was of the belief that better relations with China had the potential to change the course of the 21<sup>st</sup> century. He went out of his way during his China visit to reach out to the Chinese public through town hall meetings with students, and refused to meet the Dalai Lama, before the visit—a sore point for

China where previous U.S. presidents were concerned.<sup>6</sup> In a joint statement, both sides agreed to expand dialogue, cooperation, and maintain high level contacts through meetings, telephonic conversations, correspondence etc. Interestingly, President Hu reiterated that while their interests may be common, the responsibilities were different for both with the insistent focus on climate change, energy and the environment. Hu pushed for a recognition of the core interests of both, on which there should be respect, if not common agreement. Obama, on the other hand, welcomed a growing role for China on the world stage, and highlighted the critical role to be played by China and the U.S. (the two largest consumers) with regard to energy. The sore point however was Obama's advice that China and the representatives of the Dalai Lama should resume dialogue on Tibet.<sup>7</sup>

Yet despite the perception of China resisting U.S. moves to make it accountable for human rights issues when Obama visited China during Hu's regime, President Obama welcomed the new leadership under President Xi in 2013. Significantly, Obama met Xi in a summit meeting in California in 2013 just after Xi took over as President of China.<sup>8</sup>

The year 2015 turned out to be an exciting one for President Xi with regard to the United States. He was accorded a full-fledged state visit, met with the CEOs of the most important U.S. tech companies, including the Facebook (banned in China) CEO, Mark Zuckerberg; the Apple CEO, Tim Cook; the Amazon CEO, Jeff Bezos; the Microsoft CEO, Satya Nadella, amongst others. President Xi in these meetings promised to control intellectual property theft, as well as improve the investment climate in China. Given the fact that China is fast emerging not only as a manufacturing giant but also a consumer giant, it makes sense for top American tech companies to court Xi and for him to respond in kind. This is because millions of Chinese work in the overseas manufacturing units of American companies.<sup>9</sup> However, the issue of Internet freedom and Chinese cyber espionage remained the sticking points. Google absented itself from the meeting.

Despite this, President Xi was given a 21 gun salute by the White House and hosted to a state dinner by Obama during his first state visit to the US as President of China from September 24 to September 25, 2015. Xi came to the US bolstered by the fact that since assuming power in China in November 2012, he had quickly consolidated it, started a campaign against internal corruption within China, including the Chinese Communist Party (CCP), as well as advocated the idea of a 'China dream' of spreading Chinese civilisation as well as infrastructure and connectivity across the globe. He met Obama in 2015 on the strength of the enormous economic muscle of a USD \$100 billion Asian Infrastructure Investment Bank (AIIB), as announced by Xi and Premier Le Keqiang in 2013.<sup>10</sup>

Amongst the range of issues discussed during this visit were U.S.-China cooperation on Afghanistan's future development that included a China-U.S. led high level Afghanistan reconstruction event on the sidelines of the UN General Assembly on September 26, 2015. Both countries committed to work towards ensuring nuclear security and contributing to the success of the 2016 Nuclear Security Summit. Both countries signed a 2030 agenda for sustainable development especially to fight poverty, ensure food and health security and the like. Both countries agreed to expand the military confidence building measures signed in 2014, especially with regard to notifications about major military activities, especially with regard to ballistic missile launches—on US insistence.<sup>11</sup>

Despite this apparent bonhomie and pictures of Obama and Xi at the state dinner, three issues challenged the smooth major country relationship as proposed by President Xi. Issues that divided both nations included: a struggle between the U.S. and China as to who would write the rules in the global economy; U.S. accusations relating to Chinese cyber espionage; and rising tensions in the South China Sea because of Chinese land reclamation activities.

### **The Struggle for Writing of Global Economic Rules**

The year also witnessed some rather noteworthy trade agreements being concluded. One of the trade deals, that excluded China (the predicted lead economic super-power by 2050)<sup>12</sup>, was the Trans-Pacific Partnership (TPP) signed in October 2015. The TPP is a free trade agreement that aims to reduce tariffs between the U.S., Singapore, New Zealand, Australia, Japan, Malaysia, Vietnam, Brunei, Canada, Mexico, Chile and Peru. The TPP sets high standards with regard to intellectual property, environment protection laws, labour rights, and transparent information on those who infringe copyrights.<sup>13</sup> The idea behind the TPP, as stated by President Barack Obama, is to ensure that it is the U.S., and not China, that should be in a position to write the rules of the global economy.<sup>14</sup> The TPP is an American framework for global economic transactions, imports, exports, that offers the U.S. and the other signatories' a competitive edge vis-à-vis China.<sup>15</sup> Most importantly, it promotes the idea of "made-in-America exports, grow the American economy, support well-paying American jobs, and strengthen the American middle class".<sup>16</sup> The TPP has not yet been ratified by the U.S. Congress,<sup>17</sup> and the U.S. presidential election scenario has revealed that candidates like the Democratic presidential hopeful, Bernie Sanders and the Republican presidential hopeful, Donald Trump are opposed to the deal, and their ideas on trade have resonated with voters.<sup>18</sup>

There is speculation amongst those in the know, that China may be invited to join the TPP at a later date, since there is a clause in the TPP that once it is ratified and enforced, other countries of the Asia-Pacific Economic Cooperation

Forum (APEC) can join in. APEC members like South Korea, the Philippines, Taiwan and Thailand have expressed their intention to join the TPP.<sup>19</sup> While many within China viewed the TPP as part of the U.S. 'rebalance to Asia' strategy to isolate China, there are those who argue that China should study the TPP and decide whether it would benefit from joining it.<sup>20</sup> At present, the loss that China could incur by not joining the TPP could approximately be USD \$46 billion by 2025. If it joins, it may profit up to USD \$809 billion by 2025, according to a study undertaken by Peter Petri of Brandeis University, Michael Plummer of Johns Hopkins and Fan Zhai of China Investment Corp.<sup>21</sup> Joining the TPP would however require China to initiate reforms in its financial sector (including currency reforms), ensure more transparency in state owned enterprises and Internet freedom. Moreover, the TPP is a political statement since U.S. allies in the region view it as a counter to the growing Chinese economic influence in Asia with the establishment of the AIIB, but also due to its land reclamation activities in the South China Sea.<sup>22</sup>

Significantly, China was also busy with its own regional free trade initiative negotiations, termed the Regional Comprehensive Economic Partnership (RCEP)<sup>23</sup> which includes the 10 member states of the Association of South East Asian Nations (ASEAN), Australia, India, Japan, New Zealand and South Korea. Significantly, unlike the TPP, the RCEP includes India, predicted to be the second largest global economy by 2050.<sup>24</sup> The RCEP is a direct counter to the American led and conceptualised TPP, as it is a fully Chinese backed initiative. Inaugurated for the first time at the ASEAN summit in Bali, in 2011, the RCEP will bring together two free trading zones, namely, the East Asian Free Trade Agreement, which includes the ASEAN countries, China, Japan and South Korea, and the Comprehensive Economic Partnership, which includes Australia, India and New Zealand. The RCEP covers trade in goods, services, investment, and dispute settlement. While the TPP excludes both China and India, the RCEP includes both and therefore has the potential to grow trade exponentially in the next 20 years.<sup>25</sup> The RCEP was signed in November 2015, and is to be implemented this year. Interestingly, while commentators within China argue that China is fully supportive of free trade, as has been vindicated by the RCEP,<sup>26</sup> commentators within the U.S. argue that the tussle between the RCEP and the TPP has a geopolitical dimension that will determine whether it is the U.S. or China who will write the rules of the global economy.<sup>27</sup> China's initiatives to write the rules of economic engagement in Asia include the AIIB as well as the 'One Belt, One Road' or OBOR. While the USD \$100 billion AIIB aims at building infrastructure in sectors like power, transportation, water supply in Asia,<sup>28</sup> the OBOR's core connecting dots are based on the ancient Silk Road connecting Asia to Africa and Europe. Included in this is also the idea of a maritime Silk Road.<sup>29</sup> The AIIB

initiated by China was signed by 51 Prospective Founding Members in September 2015. It is rather interesting that both the RCEP and the AIIB are aimed at establishing alternative economic mechanisms to the western led global economy especially to financial institutions like the World Bank and the International Monetary Fund (IMF) that limits the capacity of rising powers like China and India to have a greater say in the way global economy is structured. The AIIB will fund the OBOR and China hopes this will facilitate the easy movement of goods, people, and services across borders.

Clearly the RCEP, the AIIB and the OBOR initiatives are efforts by China to develop the capacity to write the rules of economic engagement and it is a direct counter to American led initiatives like the TPP. The impact of these two alternative economic mechanisms has implications for U.S.-China global relations. On the one hand, the U.S. has accused China of 'free-riding' on U.S. global economic initiatives. On the other hand, any Chinese economic initiatives to develop independent rule setting capacity is often viewed by the U.S. as a threat to its global primacy. As a result, 2015 will prove to be significant in terms of the shape the global economy will assume in the next 10 to 15 years.

## Cyber Security

Cyber security became a major issue in China-U.S. relations in 2015. In April 2015, U.S. officials, especially from the Office of Personnel Management (OPM) discovered that hackers from state sponsored entities in China had compromised the personal data of about four million federal government employees including their Social Security Numbers (SSN), training schedules, as well as performance ratings.<sup>30</sup> A report in *The New York Times* put the number of federal employees compromised at 21.5 million in a separate cyber-attack originating in China. This was the largest cyber-attack on US federal systems revealing their sheer vulnerability to outside intrusion.<sup>31</sup> In 2014, a similar cyber hacking had compromised U.S. federal employees including those applying for high level security clearances.<sup>32</sup> Significantly, in China's updated document titled 'The Science of Military Strategy', published in December 2013, there were explicit references to cyber warfare units, which was an unequivocal and deliberate acceptance of its cyber intelligence capability for military purposes. Despite China's acceptance of cyber units, the Chinese state has categorically claimed that all its cyber units are focused on defensive purposes, especially towards safeguarding Chinese virtual networks.<sup>33</sup>

Following the rise in tensions over cyber-hacking, President Xi and President Obama added cyber-security mechanisms to the process of strengthening bilateral cooperation. This involved quick and timely responses to information on suspicious cyber activities, especially by taking steps to "mitigate malicious cyber

activity emanating from their territory”.<sup>34</sup> This aspect also included a commitment to cutting out the theft of intellectual property, inclusive of ‘trade secrets’.<sup>35</sup> Both countries agreed to establish a high-level joint dialogue mechanism including a hotline to fight cyber-crime. Yet, just a month after agreeing on these mechanisms, it was reported that Chinese hackers had targeted U.S. technology and pharmaceutical companies.<sup>36</sup> Significantly, the Edward Snowden leaked documents had revealed that the U.S. National Security Agency (NSA) had hacked the Chinese telecommunication giant, Huawei.<sup>37</sup> In response, China demanded an explanation from the U.S. and its foreign ministry officials, Hong Lei stated that “China has lodged complaints to the United States about this many times. We urge the U.S. side to make a clear explanation and stop this kind of acts... gravely concerned [about...] eavesdropping, surveillance and stealing of secrets by the United States.”<sup>38</sup> Huawei spokesman Bill Plummer stated that:

If it is true, the irony is that exactly what they are doing to us is what they have always charged that the Chinese are doing through us...If such espionage has been truly conducted, then it is known that the company is independent and has no unusual ties to any government and that knowledge should be relayed publicly to put an end to an era of mis- and disinformation.<sup>39</sup>

The tensions created by cyber espionage between both countries are not new, and these were further triggered last year but were addressed in the joint statement by the two presidents during the state visit of President Xi to Washington. Yet the suspicions and accusations continue on both sides. In July 2015, NBC news published a secret NSA map which revealed that nearly 600 U.S. corporate, government, and private enterprises were compromised by Chinese hacking over a five year period. China particularly targeted Google, Lockheed Martin, and U.S. Civilian Air Control Traffic Systems, the report alleged.<sup>40</sup> Moreover, instances of Chinese hacking into U.S. military were recounted by ‘Trend Micro’, a security company, in its report entitled *Operation Iron Tiger: Exploring Chinese Cyber Espionage Attacks on U.S. Defence Contractors*. These involved the stealing of data from the U.S. government and U.S. defence contractors, by a China based hacking group, the *Iron Tiger*. Trend Micro stated that “Operation Iron Tiger is a targeted attack campaign discovered to have stolen trillions of bytes of data from defense contractors in the U.S., including stolen emails, intellectual property, and strategic planning documents”.<sup>41</sup> These instances of cyber hacking, accusations of spying, as well as theft of intellectual property strained the China-U.S. relationship in 2015. According to Susan Rice, U.S. National Security Advisor, “This isn’t a mild irritation, it’s an economic and national security concern to the United States...It puts enormous strain on our bilateral relationship, and it is a critical factor in determining the future trajectory of US-China ties”.<sup>42</sup> Significantly, accusations of cyber-hacking or cyber-attacks are denied by China who in turn



accuses the U.S. of engaging in cyber espionage across the world, and using hegemonic bullying tactics. The biggest point of departure is that while spying by governments in cyber-space is still permissible (seen as classical espionage) from the American perspective,<sup>43</sup> spying on companies for commercial gain is unacceptable. These differences over norms that govern behaviour on the Internet as well as the difficulties involved in attributing the place of origin of an attack in cyber space will continue to create fissures in the China-U.S. relationship.

### **The South China Sea (Demonstration of Credibility)**

In 2015, the most contentious issue between China and the U.S. was the territorial dispute in the South China Sea. For long, South China Sea disputes have been a bone of contention between China and its neighbours as well as the U.S., which is treaty bound to come to the aid of its allies in this region in case a conflict erupts. Included in the dispute are the disagreements relating to claims over the Paracels and Spratlys Islands along with several disputed rocks, sandbanks and reefs known as the Scarborough Shoal. These areas are believed to be rich in reserves of natural gas. Moreover, the South China Sea is a major shipping route and abounds in fish. China claims the area on the basis of its nine dash line arguing that its claim goes back centuries. Vietnam contests the Chinese claim stating that it had historically ruled over the islands and tracing its claims back to the 17<sup>th</sup> century; The Philippines also stakes its claim on the basis of its geographic proximity to the Spratlys; Malaysia and Brunei have also staked their claim though Brunei does not claim any of the islands. Both Malaysia and Brunei do so on the basis of the provisions of the United Nations Convention on the Law of the Sea (UNCLOS).<sup>44</sup> These disputes have for long led to clashes. For instance, China and Vietnam have clashed over the Paracels and the Spratlys since 1974 when China took the Paracels from Vietnam; China and Philippines clashed over the Spratlys in 2012; Philippines has now filed a case against China in The International Tribunal in The Hague (Permanent Court of Arbitration) against China's building of a military base including air strips in disputed territory. China has responded by saying: "It will neither accept nor participate in the arbitration unilaterally initiated by the Philippines."<sup>45</sup> In response, the Court has argued that since both China and Philippines are signatories to the UNCLOS, they are legally bound by the Treaty's dispute resolution mechanism.

Tensions in the South China Sea came to a head when the U.S. revealed that China was building artificial islands by using dredger barges that could reach 30 metres below the surface, and mining huge quantities of sand to build artificial islands. In this process, China has carved out nearly a 2000 acre area from the reefs. This turning of the seas into land has created enormous tensions in the South China Sea. As a consequence, U.S. Defence Secretary, Ashton Carter

demanded an immediate halt to the land reclamation activities.<sup>46</sup> China, on the other hand, warned the U.S. in May 2015, that the Pentagon should desist from sending U.S. military ships and aircrafts within 12 nautical miles of the new artificial islands in the Spratlys. This line of action was suggested by Carter in order to assert freedom of navigation. The Chinese foreign ministry spokesperson Hua Chunying asserted that, “Freedom of navigation certainly does not mean that foreign military ships and aircraft can enter another country’s territorial waters or airspace at will”.<sup>47</sup> Wang Hanling, a marine affairs and international law expert from the Chinese Academy of Social Sciences stated that the U.S. action of sending its military aircrafts within 12 nautical miles of China’s artificial islands would be seen as “an invasion of Chinese territory”.<sup>48</sup> In May 2015, the Chinese navy issued a warning to the U.S. Poseidon PA 8 surveillance aircraft as it flew over the artificial islands, in a show of strength and an attempt to enforce a ‘No-Fly Zone’ over the disputed islands. This incident across the Fiery Cross Reef between the U.S. and China demonstrated the tension between them as to their respective spheres of influence. The Chinese navy was asserting that this was Chinese territory while the U.S. pilots claimed that they were flying over international waters. The U.S. deputy secretary of state, Antony Blinken stated that Chinese reclamation activities were contributing to regional tensions.<sup>49</sup> The Chinese foreign Minister, Wang Yi, stated that China will not stop the reclamation and that its claims over the islands are non-negotiable as they involve Chinese sovereignty.<sup>50</sup>

In an increasing demonstration of strength and credibility on both sides, the U.S. sent the *USS Lassen*, a guided missile destroyer close to the artificial islands (within 12 nautical miles) built by China. The Chinese U.S. embassy spokesman Zhu Haiquan, said that this move was an irresponsible flexing of muscle by the U.S.<sup>51</sup> On October 13, 2015, U.S. Defence Secretary Carter stated that:

Make no mistake, the United States will fly, sail and operate wherever international law allows, as we do around the world, and the South China Sea is not and will not be an exception... We’ll do that at times and places of our choosing... And there’s no exception to that, whether it’s the Arctic or the sea lanes that fuel international commerce widely around the world, or the South China Sea.<sup>52</sup>

Even as this war of words continued, the U.S. navy threatened to send more ships within 12 nautical miles of the artificial islands despite warnings from China that such an act would elicit a response from its military.<sup>53</sup> Significantly, a Chinese guided missile destroyer and naval patrol ship followed the *USS Lassen* and warned it against infringement on Chinese territory. The Chinese Defence Ministry stated that the U.S. action amounted to “coercive action that seeks to militarise the South China Sea region”.<sup>54</sup>

This assertion by both countries of their respective spheres of influence in the South China Sea is a classic example of how international relations play out

in the realm of geo-politics. China, for its part, issued a “South Sea Islands Location Map” from 1948. The Chinese claim is that Chinese ancient mariners discovered the Nansha Islands (now the South China Sea Islands) in the 2<sup>nd</sup> century B.C. These were renamed ‘Changsha islands’ during the Tang and Song dynasties (618 A.D. to 1279 A.D.). Quoting from sources such as the Guangzhou Records which were preserved by the Jin-dynasty’s Pei Yuan, China asserts that Chinese fishermen continuously traversed the South China Sea during the Ming and Qing dynasties (1368-1911). China also claims that it was the first to use navigational charts in this area, especially those drawn by the famous Chinese sea-explorer, Zheng He. These were followed by the 1716 and 1817 maps, where the “Nansha” islands were clearly marked. In 1947, China put the South China Sea Islands under the jurisdiction of Guangdong Province.<sup>55</sup> Similar historical claims are made by Vietnam, Taiwan, and Philippines.

As to the US, one key strategic goal (besides maintenance of primacy) that drives its foreign policy is the maintenance of the freedom of seas for the purposes of free trade. The South China Sea is integral to this, given its strategic location and its critical role as a route for oil shipments from Arab states to Japan and other Asian countries.<sup>56</sup> Besides this, the Pacific Ocean, of which the South China Sea is a part, is viewed as a melting pot connecting Asia with the West. From a geo-strategic point of view, the South China Sea connects the Indian Ocean and the Pacific Ocean via the Strait of Malacca, the Bashi Channel, and the Taiwan Straits. Nearly 10,000 merchant vessels traverse these waters annually and any single country’s dominance over the Spratlys would enhance its capability to control the maritime traffic transiting from the Malacca Strait to Japan, Singapore, Hong Kong, etc.<sup>57</sup> So, a scenario in which China exercises complete control over shipping lanes in the South China Sea, would give it tremendous leverage vis-à-vis the countries using this route for their trade. Losing control of this important maritime route to China would translate into a direct loss of influence for the United States in this regional theatre. It would also exhibit its inability to broadcast its power in an area over which it has credibly established both its presence and influence since 1945.

In the realm of international relations especially in the present context where the trading states are dominating the world *vis-à-vis* the empires of old, it is vital that the states stay at the top of their geo-political game when it comes to power and influence. In this regard, losing geopolitical space to China in the South China Sea would mean a loss of influence for the United States in an area critical for future trade and commerce, resources and abundant fishing. Coupled with this is the credibility factor, especially the ability of the United States to come to the aid and support of countries like Philippines, Japan, etc., *vis-à-vis* China.

Moreover, U.S. inaction would be interpreted as a giving in to Chinese bullying tactics thereby further fuelling the U.S. decline theory.

Needless to say that a subset of China's strategic choices is to reset the risk calculation in East Asia by creating doubts about the U.S. capability to protect its East Asian allies.<sup>58</sup> This aspect was demonstrated by China's declaration in 2013 of an Air Defence Identification Zone (ADIZ) over the East China Sea, thus orchestrating for itself a major role in the Association of South East Asian Nations (ASEAN), the East Asia Summit (EAS), and the Shanghai Cooperation Organisation (SCO).<sup>59</sup> These strategic postures, in which military power broadcasting is a major component, pose a serious challenge to the East Asian regional order and limit the U.S. to providing symbolic reassurance to its allies by, for example, getting its B-52 bomber aircraft to fly over the Chinese ADIZ. Given its faltering economy and military sequestration, the U.S. is obligated to ensure that its military presence in East Asia does not recede from its present strength, contrary to the expectations raised by the "Asian pivot"<sup>60</sup>: that the U.S. will increase its military strength in Asia.

It can be clearly inferred that China is asserting its military power in Asia. This can be grasped from the way the scenario is unfolding, which is not just about military power-balancing but also about identity, prestige, and pride. Projecting power means that China is bidding to create a sense of legitimacy by showcasing its power through regional institutional mechanisms, broadcasting its economic power, as well as by shoring up its military presence. It is aggressively exploring resources in and around its own coastline, which is bringing it into conflict with its neighbours. Nevertheless, the broadcasting of power is accomplished by asserting claims on territory that were once Chinese but were lost due to the events of history – for instance, the events of the late 19<sup>th</sup> century to about 1949 – the period which is described as the "Century of Humiliation" in China. As a result, communicating claims on territory, backing it up by a show of force, and physically challenging others all form part of the power-backed demonstration package. This was witnessed in 2012 when China published a map in its E-passport that showed islands in East and South China Seas along with Arunachal Pradesh and Aksai Chin in India – over which it has staked claim since the 1940s—as Chinese territories.<sup>61</sup> While there is a view that Chinese strategic culture is defensive in nature, perhaps since the time of Sun Tzu's *Art of War*, it has been refuted by Iain Johnston, who has defined strategic culture as "ranked grand strategic preferences derived from central paradigmatic assumptions about the nature of conflict and the enemy, and collectively shared by decision makers."<sup>62</sup> Johnston undertook a close and detailed assessment of the *Seven Military Classics* of ancient China and concluded that there was a Confucian/Mencian-dominated set of assumptions that viewed diplomacy and economic incentives as mere

symbolic gestures, but were of the view that the best way to deal with a threat to China was by the use of force and strategy. According to Johnston, the Chinese classics stressed the role of violence-based solutions to conflicts. Non-violent means were only expedient when faced with a powerful adversary; hence, negotiation and diplomacy were seen as delaying tactics. Therefore, for China to argue that it has a pacifist culture and history, is not supported by its historical writings and strategic thinking. Given the enduring influence of Chinese strategic culture, which considers the use of force a viable response to any threats to Chinese territory, or to broadcast its power, it is unlikely that the new generation of Chinese leaders will forgo the ancient thinking on strategy that has held them in good stead.

Therefore, China is going to be serious about power projection, and negotiations will be resorted to only in the context of tremendous power disparity, where China is the weaker actor.<sup>63</sup> This style of strategy and negotiation will not change even when there is generational change in the CCP or with the coming of new leadership, as it is time-tested and has worked in China's favour. Therefore, the proposal of President Xi for a "New Type of Major Country Relationship" with the U.S. on the basis of a win-win revealed that he no longer saw China as a developing country but as one of the major powers of Asia, at par with the United States especially when it comes to asserting regional and now slowly, global dominance. With regard to establishing a global presence, in November 2015, China confirmed that it was building its first out of area naval installation in Djibouti. According to the Chinese defence ministry spokesman, Col. Wu Qian, "This facility will better ensure that the Chinese military can carry out responsibilities such as international peacekeeping, naval escorts in the Gulf of Aden and Somali waters, and humanitarian assistance".<sup>64</sup> Significantly, in a demonstration of Chinese ambition, President Xi Jinping stated that China will establish a joint operational command structure by 2020 to support both its overseas operations and defending its territory.<sup>65</sup> Interestingly, the U.S. also has a military base in Djibouti, at *Camp Lemonnier*, the headquarters of the U.S. Africa Command's Combined Joint Task Force-Horn of Africa which is tasked with counter-terrorism operations and anti-piracy patrols in the Gulf of Aden.

For the near future, the issue of cyber security and regional dominance in East Asia will pit China against U.S. power. President Xi's proposal to share power for a win-win is not a viable option as the U.S. and China are not equals when it comes to comprehensive power. The U.S. continues to have the edge in both military and economic power; China, by all manner of predictions, is catching up but has a long road to traverse before it can hope for some kind of parity. Hence, as international relations over the ages have shown, the sharing of power between two unequal powers is not an option.

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## China-India Relations: Calibrated Bonhomie or Real Harmony?

*Netajee Abhinandan*

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If 2014 marked the beginning of a new phase of engagement between China and India, 2015 saw both sides moving towards a pragmatic reorientation of their bilateral relations. Prime Minister Narendra Modi's May visit to China, while paving the way for better understanding, laid the foundation for the start of a comprehensive dialogue between the two sides. A sense of bonhomie marked the bilateral relations between China and India in 2015; however, the question remains whether the bonhomie was a true manifestation of an improvement in relations that would continue in the coming years and lead to a credible partnership, or was it just a 'calibrated' show to downplay the political disconnect between the two countries. While both sides maintained a strategic silence on some of the contentious issues like the trade deficit, the massive Chinese investment in Pakistan's infrastructural projects, the South China Sea dispute and the prevailing tension in border areas, both agreed to engage more substantially on trade and economic fronts. The political exchanges at the highest level failed to achieve any major breakthrough in terms of political and strategic understanding as both sides chose to focus, rather pragmatically, upon intensifying the engagement in economic and cultural spheres. Clearly, there was an attempt on the part of both the sides to abandon the old zero-sum mindset and enter into a new phase of a constructive partnership based on mutual interests. However, most of the issues that have hindered the smooth progress of the relations remained unaddressed or rather were consciously sidelined during the bilateral exchanges. China-India relations saw high-level engagements in 2015 and the two sides look with much hope and anticipation towards 2016, to enhance cooperation in various spheres and expedite the process of resolving their

boundary dispute, as they move towards a more interactive and less confrontationalist relationship.

The chapter is divided into three sections. Firstly, it examines the political, economic and cultural aspects of the relations; secondly, it analyses the strategic tussle that continues at the regional level for greater power and influence, and thirdly, it maps the future course of bilateral relations while taking into account the role of the leadership of both the countries.

## **The Political Engagement**

2015 witnessed significant political engagement between China and India at the highest level. While the social, cultural and economic exchanges, started in 2014, continued, both countries moved forward towards better political understanding of each other's concerns signalling a 'maturing' of the relations. External Affairs Minister Sushma Swaraj made her maiden visit to China on January 31 and reached Beijing through Kunming—one of the starting points of the 21st century Maritime Silk Road (MSR)—a pet project of Chinese President Xi Jinping.<sup>1</sup> During her three day visit, Ms. Swaraj proposed a six-point template to broaden bilateral engagement. This included: an action-oriented approach, broad-based bilateral engagement, convergence on common regional and global interests, developing new areas of cooperation, expanding strategic communication and fulfilling the common aspiration of ushering in an 'Asian Century'.<sup>2</sup> Though her visit was construed mainly as a preparatory one, Swaraj still raised India's desire for the early resolution of border dispute, while setting the tone for a political dialogue between the two countries. On the other hand, signalling that India would not compromise on its territorial integrity, Prime Minister Narendra Modi visited Arunachal Pradesh on February 20, which evoked strong reaction from China. In a strongly worded statement, the Chinese Foreign Ministry Spokesperson Hua Chunying said, "the act of the Indian side is not conducive to properly resolving and controlling disputes between the two sides, nor in conformity with the general situation of growth of bilateral relations".<sup>3</sup> Hua expressed "diametrical opposition" to Prime Minister Modi's visit to a "disputed zone" along the China-India border.<sup>4</sup> Thus, with both the sides hardening their positions on the boundary issue, China's special representative Yang Jiechi met India's National Security Advisor Ajit Doval in New Delhi for the 18<sup>th</sup> round of talks on the border dispute in March.<sup>5</sup> Meanwhile, Modi visited three Indian Ocean nations—Seychelles, Sri Lanka and Mauritius—to intensify India's engagement in the region, thereby counter-balancing the growing influence of China. According to the Indian foreign ministry, "The visit of the prime minister to our friendly maritime neighbours is reflective of India's desire to further strengthen our ties in the Indian Ocean region,"<sup>6</sup> thus signalling India's intent to play an active role and enhance its presence in Indian Ocean region.

Prime Minister Narendra Modi visited China just on the eve of completing of one year in office in May 2015, and celebrated the anniversary in Shanghai. Before embarking on the trip, Modi harped on reorienting the relations in a more pragmatic manner, for maximum economic benefit, rather than moving around political differences. While talking to Chinese journalists, he exuded confidence that China would surely come forward to extend help and support for India's economic programmes, especially in the manufacturing and infrastructure sectors, and broaden the economic engagement.<sup>7</sup> Significantly, Modi started his three day visit from Xian, the home town of President Xi Jinping and capital of China's Shaanxi province, thus reciprocating Chinese President's gesture of accepting Ahmedabad as his first stopover during his India visit. During this visit, China and India signed 24 agreements/MoUs pertaining to diverse areas of cooperation. These included: establishment of consulate-generals at Chengdu and Chennai; an action plan for enhancing cooperation in the railway sector and space, education including vocational education and skill development; establishment of a State/Provincial Leaders' Forum, sister-state/province and sister-city relations, an India-China think-tank forum; and cooperation in the field of mining and mineral resources, science and technology, climate change and disaster management.<sup>8</sup> All these agreements, mainly focused on infrastructure, education, and technological development, were intended to enhance people to people exchanges and bridge the trust deficit that is considered to be one of the major factors contributing to the tardy progress of economic relations.

On the political front, both the sides reaffirmed their commitment to an amicable resolution of all outstanding political differences by continuing the process of dialogue. In the Joint Statement, "the two sides affirmed that an early settlement of the boundary question serves the basic interests of the two countries and should be pursued as a strategic objective by the two governments" and sought "a political settlement of the boundary question in a proactive manner"<sup>9</sup>. The Joint Statement was no different from the previous statements as it continued the old rhetoric without any significant deviation. China and India decided to have more Border Personnel Meeting Points in order to maintain peace and tranquillity on the boundary. However, Modi, unlike his predecessors, did not shy away from raising India's concerns on the contentious issues, with the Chinese leadership as he prodded his counterpart on how they "should take a strategic and long-term view of the relations".<sup>10</sup> Modi told the media after the talks, "I stressed the need for China to reconsider its approach on some of the issues that hold us back from realising full potential of our partnership".<sup>11</sup> Modi was referring to the longstanding problems in bilateral relations; China's continuing military assistance to Pakistan, specifically in Pakistan occupied Kashmir, the unresolved territorial dispute and others. Modi especially harped on the importance of

intensifying confidence-building measures (CBMs) between the two countries and the necessity to clarify the delineation of the Line of Actual Control (LAC) within a timeframe. It was a fervent political appeal to take forward the process for the resolution of the dispute.<sup>12</sup> Significantly, in his speech at Tsinghua University in Beijing, while announcing 'E-Visas' for Chinese tourists to facilitate greater travel, he sought clarification regarding the LAC from China for better understanding. Critics believe that the failure to outline a framework agreement for boundary settlement, despite Modi's persistent efforts, has dimmed the prospects of an early resolution of the dispute. Underlining the differences affecting the relations between China and India, Modi said, "Our relationship has been complex in recent decades," adding that there were issues that "trouble smooth development of our relations". "But, we have a historic responsibility to turn this relationship into a source of strength for each other and a force of good for the world," he said, adding that the Chinese leadership had been 'responsive' in the meetings.<sup>13</sup> Thus, amidst the display of bonhomie and public spectacle of cosiness between the two sides, the undercurrent of political mistrust was not totally absent.

The Chinese media responded quite positively, with substantial coverage, to Modi's three-day visit. Barring a few critical commentaries, referring to past rivalry and India's duplicity, media reports and comments were largely optimistic regarding the future course of relations between the two neighbours. While some media outlets like the state-run news agency *Xinhua* and the *China Daily* newspaper highlighted the positives of the visit, some others like the television channel CCTV, greeted Modi with a truncated map of India omitting Arunachal Pradesh and Jammu and Kashmir from it. It must be noted that before the start of the visit, an article titled 'Can Modi's visit upgrade Sino-Indian ties?' appeared in the state-run *Global Times* on May 11 which made a scathing attack on Modi accusing him of "playing little tricks."<sup>14</sup> The article put the onus for better relations squarely on India. Thus, amidst all frenzy, there were constant pointers towards the old acrimonies and India's responsibility to maintain the relations at the present level. The people of China, however, warmed up to Prime Minister Modi's overtures as he almost instantaneously acquired a fan following of nearly 65,000, on Sina Weibo, the popular blogging platform.

After Prime Minister Modi's high profile visit, Rajnath Singh visited China in November 2015, and became the first home minister, to visit China in a decade. During this visit, the two countries for the first time agreed to step up anti-terrorism cooperation in the region. Security authorities of the two countries agreed to share intelligence, by exchanging information about terrorist activities, terrorist groups and linkages. China assured India that it would take stringent action against some of the rebel groups in the Northeast as part of the anti-terror drive. After a meeting between Singh and China's Public Security Minister Guo

Sheng Kun, both sides decided to establish a ministerial mechanism that would, for the first time, link the two home ministries, bridging a vital gap in the overall institutional architecture of the bilateral ties. The new mechanism will provide an institutional platform that will cover all issues, such as law enforcement, cyber crimes, terrorism, trans-border crimes and drug trafficking, that affect the 'internal security' of the two countries.<sup>15</sup>

The Chinese Vice-President Li Yuanchao paid a high-profile visit to India from November 3-7, 2015. Li, during his meeting with Vice President Hamid Ansari, sealed two agreements on sharing of the hydrological data of the Satluj river and for an exhibition of ancient Indian culture in China, to be held in 2016. Addressing the business leaders of both the countries, Li urged them to turn the political will and strategic agreement between Indian and Chinese leaders into tangible cooperation.<sup>16</sup> Significantly, this was the first time that a Chinese Vice President had paid a state visit to India.

### **The Economic Engagement: Towards A 'New' Phase of Partnership**

In many ways, the primary focus of Modi's visit was to revitalise the economic ties with China and secure maximum benefits. In the field of trade and business, 26 agreements/MoUs were signed between the business leaders of China and India on May 16 in Shanghai in the presence of Prime Minister Modi. China committed to invest more than \$ 22 billion<sup>17</sup> in India apart from the proposed investment of around \$ 20 billion for the various infrastructure and industrial development projects announced during Xi's visit to India. These agreements covered a wide range of industries, including power infrastructure, renewable energy, steel and small and medium enterprises. Prime Minister Modi interacted with 21 CEOs of leading Chinese companies and over 40 prominent Indian CEOs at Shanghai, where he made a big push to attract Chinese investment. He assured investors that he would personally oversee their Indian entry and operations, although it is not clear whether there will be a dedicated office in the Prime Minister's Office for China, as in the case of Japan and other countries. Modi has asked China to leverage its vast financial resources to help India address its infrastructure needs as he realises that with its huge foreign exchange reserves and well managed state-owned corporations, China has the wherewithal and the interest in pursuing more tangible investment options in India than any other country. On the other hand, the economic slowdown and the increasing cost of labour in China have made Chinese companies look towards India with renewed interest as a lucrative investment destination. China is also conscious of the fact that Japan and other South East Asian countries are quite keen to enter India with bigger investments and tap the huge potential of its market.

However, India has been wary about the burgeoning trade deficit with China, which has been aggravated by Chinese restrictions on import of value-added Indian goods and services such as pharmaceuticals and IT. China has suspended the import of rapeseed meal, bovine meat and other meat products on various grounds. Permission for market access for certain fruits and vegetables is also pending. Commerce Minister Nirmala Sitharaman had conveyed India's concern regarding the trade deficit to the Chinese Commerce Minister during her visit to China in June 2014. A Memorandum of Understanding (MoU) on Cooperation on Industrial Parks in India was signed between the two countries on June 30, 2014 with the objective of expanding the scope of bilateral trade and investment to promote cooperation between Chinese and Indian enterprises including the development of Industrial parks, Special Economic Zones (SEZ) and the National Investment and Manufacturing Zones (NIMZ) etc. in India. The following table illustrates the gap in the trade figures between the two countries.

<i>Year</i>	<i>Value in USD Million</i>			
	<i>Import</i>	<i>Export</i>	<i>Total Trade</i>	<i>Trade Deficit</i>
2011-12	55,313.58	18,076.55	73,390.13	37,237.03
2012-13	52,248.33	13,534.88	65,783.21	38,713.45
2013-14	51,049.01	14,829.31	65,878.32	36,219.70
April-May 2014*	9,219.00	2,213.10	11,432.10	7,005.90

\* *Figures are provisional.*

Source: *DGCI&S*.<sup>18</sup>

Despite all these efforts and initiatives, India's trade deficit with China rose by about 34 percent in 2014-15 when it reached as high as \$48 billion.<sup>19</sup> Though not in any way close to the whopping deficit figure, cumulatively around \$250 billion since 2007, the various business deals (\$10 billion signed at Beijing and \$22 billion at Shanghai, in addition to \$20 billion announced by President Xi Jinping in 2014 for the next five years) are a major effort by China to address the issue of the trade deficit and allay India's concerns, to some extent. The Joint Statement also reflected this sentiment as it reiterated the resolve to further strengthen the 'developmental partnership' first announced in the Joint Statement released during President Xi's visit to India. According to the Statement: "The leaders noted with appreciation the positive momentum in investment projects as Chinese companies respond to the invitation to "Make in India" and Indian companies expand their presence in China."<sup>20</sup> Both Modi and Xi reviewed the progress achieved in railway sector cooperation which included projects such as: increasing the speed on the existing Chennai-Bengaluru-Mysore line, the proposed feasibility studies for the Delhi-Nagpur section of the high speed rail link, the station redevelopment planned for Bhubaneswar and Baiyappanahalli, heavy haul

transportation training and the setting up of a railway university. They emphasised the need for expediting the partnership by resolving all outstanding issues through the mechanism of the Strategic Economic Dialogue (SED).<sup>21</sup> There was a broad understanding that both sides would take necessary steps to remove the bottlenecks in bilateral trade and investment, facilitate greater market access to each other's economies, and support the local governments of the two countries to strengthen trade and investment exchanges. The two sides resolved to jointly address the issue of the trade imbalance so as to make it mutually beneficial. The acknowledgement of the importance of greater interaction and cooperation in the economic sphere by both the countries was perhaps the driving force behind all the agreements and deals that were signed in 2014 and 2015.

### **Reinvigorating Cultural Linkages: Establishing People to People Exchanges**

Culture has emerged as a key factor in cementing the bilateral relations between China and India. Prime Minister Modi used 'culture' as a potent tool to reach out not only to the leadership but also to the people of China during his visit. Even prior to his visit, he launched his own 'Weibo' handle to connect with the Chinese people directly. The symbolism of starting his visit from Xian, attending the Yoga-Taichi performance with Premier Li Keqiang at the world heritage site of the Temple of Heaven and taking a 'selfie' with him was clearly an attempt to move beyond the 'politics' of the relationship to a more 'personalised' diplomacy that apparently succeeded to a great extent. In fact, the selfie of Li and Modi went viral with over 33 million hits on the Weibo. The agreements signed during Modi's visit included many innovative initiatives in the field of culture, education and academic research. Modi even made a unilateral announcement to grant E-visas to Chinese people that reflected his earnestness to promote greater people to people exchanges.

To strengthen the institution-level cooperation and academic exchanges, three new institutions—the Centre for Gandhian and Indian Studies in Shanghai, the Yoga College in Kunming, and National Institute for Skill Development and Entrepreneurship in Ahmedabad were set up. Both the sides signed a fresh Education Exchange Programme (EEP) which provides for enhanced cooperation between institutions in the field of vocational education and collaboration between institutes of higher learning, etc. With both the sides agreeing to double youth delegation, it is expected that the youth of both countries would have greater opportunities for interaction in future. The two sides also decided to establish an 'India-China Think Tank Forum', which will meet annually, alternately in India and China. They also agreed to institutionalise the 'High Level Media Forum' and tasked the Ministry of External Affairs (MEA) of India and the State Council



Information Office (SCIO) of China to convene it on an annual basis, alternately in India and China.<sup>22</sup> A number of sister-city and sister-state relations agreements between Karnataka and Sichuan, Chennai and Chongqing, Hyderabad and Qingdao, Aurangabad and Dunhuang were also signed. On June 21, 2015, International Yoga Day was celebrated in more than 14 cities of China including Beijing, Shanghai, Tianjin, Qingdao, Hong Kong, Macau, Guangzhou, Chengdu, Kunming, Xiamen, Wuxi, Hangzhou, Wenzhou and Changzhou in which thousands of people participated enthusiastically.<sup>23</sup>

### **Security Concerns: The Strategic Tussle**

Significant progress in economic relations and the expansion of cultural exchanges have not succeeded in dispelling the security related concerns that dog the two countries. In fact, 2015 witnessed both sides seeking strategic realignments, not only to secure their own interests, but also to contain each other's influence and power. Chinese President Xi Jinping visited Pakistan in April 2015 and pledged to invest \$46 billion—almost double the amount he proposed for India—for developing the China-Pakistan Economic Corridor (CPEC). As per the CPEC plan details, the Chinese government and banks will give loans to Chinese companies for investing \$15.5 billion in coal, wind, solar and hydropower projects, that would come on-line by 2017, and help Pakistan to add 10,400 MW of electricity to its national grid. Expected to ease Pakistan's energy shortages by covering both generation and transmission, the \$75 billion CPEC, which is to become operational by 2020, entails building new roads, an 1,800-km railway line, a network of oil pipelines connecting Kashgar in China's western Xinjiang region to the port of Gwadar, along with an airport at the port, apart from a string of energy projects, special economic zones, dry ports and other infrastructure.<sup>24</sup> Though there is nothing new about Chinese assistance to Pakistan, its massive investment in and around Pakistan Occupied Kashmir (POK) makes India apprehensive about the probable encirclement of its territory by the Sino-Pakistan alliance. Despite China's claims that the project is commercial in nature, its potential for intelligence gathering and the forward deployment of its naval assets in the Gwadar and Karachi ports makes India uncomfortable. India quite reasonably believes that China's presence in POK would adversely affect and further complicate the process of border negotiations. Also, China's support and assistance for Pakistan's missile development programme continues despite persistent protests by India. Prior to Xi Jinping's visit to Pakistan, there were reports regarding the proposed sale of eight type 039A submarines by China to Pakistan. Pakistan, with China's help, is believed to be equipping these 039A subs with nuclear tipped missiles, while India still has no such subs.<sup>25</sup>

However, despite the strategic competition between China and India, both the sides moved closer towards a broader understanding on the issue of terrorism in 2015. Representatives from India and China met in New Delhi on November 4, 2015, for the seventh round of their bilateral counter-terrorism consultation.<sup>26</sup> The dialogue was the first since the Modi government came to power. According to media reports, China shared its experience of curtailing jihadi activities in Xinjiang province and restoring normalcy in the region and also vital information on their cyber security network. India also raised the issue of arms transfers to India-based insurgent groups in the North-east by some fringe elements in China. Hua Chunying, spokesperson for the Chinese Foreign Ministry, noted that, "China was ready to enhance communication and cooperation with the Indian side on counter-terrorism, which is of common interest to the two sides."<sup>27</sup> Though it was the first meeting of the specialised consultative group on counter-terrorism, both President Xi Jinping and Prime Minister Narendra Modi emphasised counter-terrorism cooperation during their respective state visits. Though India was greatly aggrieved when China blocked a procedural motion initiated by it at the United Nations Sanctions Committee (as per resolution 1267) in June 2015, to question Pakistan regarding the release of Zaki-ur-Rehman Lakhvi, the chief mastermind of the November 2008 terror attack on Mumbai which claimed over 160 lives, it has chosen to engage with China in a constructive manner. Modi reportedly raised the issue of Lakhvi's release with Xi when the two leaders met on the sidelines of the BRICS and Shanghai Cooperation Organisation summits in Ufa, Russia in July 2015. Also, China, recently, has started applying pressure on Pakistan with regard to the issue of Uyghur militants operating out of its territory.

### **Recasting the Regional Order: The 'Jostle' for Power Continues**

Regional cooperation, to achieve peace and development, has emerged as the most important aspect of contemporary international relations. Instead of being a grand global narrative, politics is increasingly becoming regionalised leading to significant changes in the power dynamics at both regional and global level. While China has announced ambitious projects like the '21st Century Maritime Silk Road' and 'One Belt One Road' (OBOR) to promote greater connectivity and expand its economic ties with distant regions, India also has been striving hard to enhance its presence in the Indian Ocean region and beyond. The Modi government is making great efforts to revitalise India's relations not only with its immediate neighbours but with countries in the extended neighbourhood, to expand its sphere of influence. India's growing ties with Japan, the defence agreement with Vietnam which includes the sale of advance helicopters and spares for MiG fighters, and the move towards developing close military relationship

with Singapore reflect a dynamic shift in India's approach towards the power politics in the Asia-Pacific region. India no longer wants to remain a passive player, but is instead moving to become one of the 'principal' actors in the region by aggressively pursuing its political, economic and security interests vis-à-vis China. As both the countries pursue their respective agendas for regional cooperation through innovative policy initiatives and pronouncements, there is a view that competition between the two powers will grow in near future.

With the emergence of Asia as the 'power zone' in the global political system, the geo-political rivalry between India and China has only intensified, because both the sides are trying hard to enhance their dominance and influence in the region. China is cautiously observing Indian moves as it aggressively pursues greater engagement with countries in its 'extended neighbourhood'—in South East Asia, Central Asia, West Asia—and moves closer to the US. Moreover, China is concerned about India's growing relations with South East Asian countries as part of its 'Act East' policy, specifically its fast-developing ties with Vietnam and the Philippines. Beijing opposes India undertaking oil exploration off Vietnam's coast, asserting that the area falls within the disputed area of the South China Sea. India, however, took up the project at Vietnam's invitation, stating that it is only a commercial activity which has no bearing on the dispute. China is also apprehensive about the increasing India-Japan and India-US engagement. It has expressed apprehensions regarding India's moves to include Japan in the India-US Malabar Naval exercises on a regular basis, during Japanese Prime Minister Shinzo Abe's December visit to India. On the other hand, India is fearful of the growing friendship and partnership between Pakistan and China and China's strategy of the 'string of pearls', which is perceived as an attempt to encircle India. China's increasing maritime assertiveness and military build-up as well as its growing presence in the Indian Ocean region have made India and Japan come closer and step up their cooperation. Significantly, during Japan Prime Minister Shinzo Abe's visit to India, the two countries while deepening their strategic engagement, called for a "peaceful, open, equitable, stable and rule-based order in the Indo-Pacific region and beyond" in their joint statement, clearly referring to China's role in South China Sea area.<sup>28</sup> So far, India has been silent on the OBOR project and has expressed its reservations regarding the Maritime Silk Road. It has also not responded to China's proposal for partnership in deep sea mining in the Indian Ocean. Notwithstanding the jostle for power and pre-eminence in Asia, of late, there have been attempts by China and India to deepen cooperation both at regional and global level which were further strengthened in 2015.

Significantly, India, along with Pakistan, was accepted as a full member of Shanghai Cooperation Organisation (SCO), in July 2015—mainly by the efforts

of China and Russia, thus, paving the way for greater collaboration among the stakeholders in South and Central Asia. China and India are also making efforts for the early implementation of the Bangladesh-China-India-Myanmar (BCIM) corridor, which envisages a network of modern road, railway, port and communication and trade connectivity in a region stretching from Kolkata to Kunming, the capital of China's Yunnan province, through Myanmar and Bangladesh, with Mandalay and Dhaka as the focal points.<sup>29</sup> In the Joint Statement issued during Modi's visit to China "the two sides welcomed the progress made in promoting cooperation under the framework of the BCIM".<sup>30</sup> Beijing has expressed its willingness to work with India to explore the synergy between its own "21st Century Maritime Silk Road" and India's "Mausam" project with a view to addressing New Delhi's strategic concerns and for their "common benefits". India, despite its reservations about China's grand infrastructure initiatives, has become an important founding member of the Beijing-promoted Asian Infrastructure Investment Bank (AIIB), which can fund BCIM, CPEC and other projects. Significantly, the Joint Statement devoted a separate section to "shaping the regional and global agenda" where India and China, as the two major poles in the global architecture, agreed to cooperate on a host of issues ranging from WTO, terrorism to regional organisations.

### **The Road Ahead**

The year 2015, in many ways, was no different from 2014 for China-India relations. While President Xi's visit to India in 2014 and Prime Minister Modi's visit to China in 2015 helped in strengthening the economic and cultural aspects of the relations, the political and strategic issues remained largely unaddressed. Thus, the trend of focussing on greater economic engagement brushing aside the contentious issues, which started in 2014, continued in 2015 without any significant change. Prime Minister Modi's visit to China drew on elements of the ancient Indian cultural traditions and historical China-India ties even as it sought to expand the economic relationship based on mutual interests and needs. This approach becomes very useful in the context of the recent efforts by both sides to mend ties and begin a new phase in the relationship. Both Xi and Modi have signalled the move forward, by adopting a pragmatic attitude towards the major issues, that is potentially conducive to developing closer personal ties between the leaders.

Both Xi and Modi have shown remarkable zeal in pushing the relationship towards a more constructive engagement. Quite apparently, the personal interest and involvement of both the leaders have given a much needed fillip to the bilateral diplomacy between the two countries. Significantly, the 'developmental' partnership, announced during Xi's visit to India, was given a fresh impetus during

Modi's China visit with China committing huge investments for key infrastructural projects in India. Also, the scope of dialogue on a whole host of important issues, both bilateral and multilateral, was certainly widened in 2015 through visits by leaders and various bilateral discussion forums. It is expected that this process will further intensify, as manifested by the two summits. However, despite the public spectacle of bonhomie and the hype about the personal chemistry between Xi and Modi, would China and India be able to reconcile their political differences or reduce the 'trust deficit' that plagues the relations? With China refusing to commit itself to the early resolution of the boundary dispute and stop military assistance to Pakistan, it is a difficult question to answer.

With both China and India seeking to redefine their regional and global roles by expanding their spheres of power and influence, competition is inevitable. However, the competition will not necessarily turn the relations adversarial. The tussle, even if in subtle form, cannot be wished away from the bilateral discourse. Small steps have been taken, by the leadership of both the countries, towards a reorientation of relations taking into account the changing geo-strategic situation of Asia; but only time will tell whether a successful redirection of India's relationship with China is in the making. The future course of China-India relations will largely depend upon the vision and abilities of Xi and Modi, both strong leaders who command massive popular and political support, as to how they navigate the politically turbulent waters to chart out a definite path towards building a strong partnership based on mutual trust and cooperation.

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## China-Russia Relations: Convergence and Divergence in Partnership

*Amit Kumar*

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Unlike their ideology-driven relationship during the Cold War era, Sino-Russian relations today are determined more by pragmatic considerations. This has resulted in a partnership of mutual expediency manifesting itself both in a convergence and divergence of the approaches and interests of the two countries on various bilateral and multilateral issues. In keeping with the trend of recent years, Sino-Russian relations witnessed a surge in 2015 also. The Ukraine conflict has brought the two countries even closer. Today, the two giants are poised to challenge the US global hegemony in tandem. However, how far they will sail together will be a factor of both convergence and divergence in their relations.

The common security threat from the United States is a key driver of the burgeoning China-Russia relationship and closer military ties. One arena in which the deepening military ties were most visible in 2015 was in joint military exercises. Another area which saw the two countries collaborating more frequently was in their support for each other at international forums. However, their economic cooperation has not been an area of much comfort and has emerged as an arena for both cooperation and competition. The Central Asian region has been another area of cooperation and conflict and their divergent interests and approaches are more conspicuous here than anywhere else.

### **Areas of Convergence**

It is indeed in the interests of both Russia and China to forge a strong partnership to further their national interests. China's primary national interest is to emerge as the dominant power in the world – a status it thinks it has enjoyed at various



points of time in history. Similarly, Russia wishes to regain its lost great-power status since the disintegration of the erstwhile USSR. By collaborating with each other, the two nations can go a long way towards achieving their goals, albeit with some riders attached to the proposition. The year 2015 saw the two countries moving in a direction that proves this proposition.

### *One Belt One Road (OBOR)*

In 1904 the geopolitical theorist Halford Mackinder had postulated that control over inner Eurasia would become the basis for world domination. He also predicted that if continental powers like Russia and China came together, the maritime powers would be subdued. The experience of World War I prompted him to revisit his initial postulation and he subsequently revised his thesis to strike a balance between continental power and maritime power. Mackinder stated that geopolitical dominance required both a continental as well as a maritime dimension. Alfred Mahan also had a Eurasia-centric global perspective, but his emphasis was on maritime power. China seems to be acting on the wisdom of both Mackinder and Mahan with its ambitious continental-maritime geostrategic initiative labelled 'One Belt, One Road'.<sup>1</sup>

The belt is the continental dimension of this geostrategic initiative. It consists of a host of infrastructural projects that include a network of rail routes, overland highways and oil and gas pipelines. These will link China with Europe through Central and Western Asia. The road also has a maritime dimension and consists of a network of ports and other coastal infrastructure projects which will connect China with the South East Asian countries, Africa and Europe. It is pertinent to note here that neither the belt nor the road follows any clear geographical line. It is more of a blueprint of how China would move towards integrating its economy with the world economy and expand its influence in the regions OBOR traverses through. China is likely to benefit from the enhanced economic cooperation fostered by OBOR, along with other regions that would also gain by cooperating in infrastructure development. The project also includes construction of international economic cooperation corridors and ports.<sup>2</sup>

There is already forward movement in this direction. Recently, China, Mongolia and Russia signed ten cross-border tourism cooperation agreements during the first-ever China-Mongolia Expo. These included training of tourism personnel and development of cross-border tourist routes, in addition to the construction of hotels and resorts worth approximately \$220 million. The agreements are seen as part of the ongoing efforts by the three countries to create an economic corridor that interlinks them. The Chinese state broadcaster CCTV calls the trilateral corridor the 'lifeline of the [OBOR] aorta'.<sup>3</sup>

An ambitious programme like OBOR also needs enormous funding. Three

financial institutions have been set up at China's behest to support the programme. The first is the Silk Road Infrastructure Fund, launched in February 2014. The China-led (US)\$40 billion fund invests in OBOR projects. The Asian Infrastructure Investment Bank (AIIB), founded in October 2014, is the second initiative. With 21 Asian member countries, the AIIB aims to be a global development bank with a registered capital of \$100 billion. The New Development Bank is a BRICS multilateral development bank that was established on 15 July 2014 with Brazil, Russia, India, China and South Africa as its members. The bank took off with an initial capital of \$50 billion, and aspires to increase its capital to \$100 billion.<sup>4</sup>

OBOR has four components, though only the economic component is generally being highlighted. The second OBOR component is security and diplomacy. As China's economic interests transcend national boundaries and the number of Chinese citizens abroad increases, China needs to ensure the security and safety of the projects and the Chinese people beyond its borders. OBOR provides both an opportunity and challenge for China to leverage its diplomatic clout in the region and other parts of the world. Thirdly, OBOR aims to promote Chinese culture, for which China is setting up Confucius Institutes all across the world. Simultaneously, China believes that an understanding of other cultures and the integration of different cultures is very important in order to mitigate misunderstandings and create a positive image of China abroad. Finally, OBOR deals with the great-power competition between China and the US. China is using OBOR and the AIIB to assert its influence in Asia-Pacific much to the chagrin of the United States. The US pivot to Asia is seen by China as largely being an effort to contain it.<sup>5</sup>

OBOR was announced in 2013 by President Xi Jinping. Ever since, it has been the focal point of Chinese diplomacy. OBOR is an effort to stimulate domestic economic growth and integrate the Chinese economy and foreign policy with the rest of the world so that it gains economically as well as strategically.<sup>6</sup> In the 11-page document, *Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road*, jointly issued by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce in March 2015, Russia features seven times, highlighting the importance China attaches to its partnership with Russia in general, and with regard to OBOR in particular.<sup>7</sup>

The Russian response to OBOR has ranged from scepticism to support. Russia was initially reluctant to engage with China on this issue primarily on two counts. First, it was concerned about the fate of the Eurasian Economic Union (EEU). Second, it was not willing to concede the role of the pre-eminent power in Central Asia to China, which Russia has always regarded as its 'sphere of influence'.

However, after much deliberation Russia realised that the gains of working with China and the linking of the EEU and OBOR far outweigh the risks. On 8 May 2015, President Xi and President Vladimir Putin signed a joint statement formally linking OBOR with EEU and agreeing to create a 'joint economic space' in Eurasia.<sup>8</sup> Putin said that the integration of EEU and Silk Road projects 'means reaching a new level of partnership and actually implies a common economic space on the continent.'<sup>9</sup> Taking the cooperation further, China will invest \$5.8 billion to extend the Moscow-Kazan high-speed railway into China. As Shyam Saran puts it,

It is apparent that China has managed to secure the participation of Russia in the Eurasian component of the initiative, overcoming the earlier hesitations in Moscow about China muscling Russia aside in what the latter regards as its 'near neighbourhood'. China has attempted to fold OBOR into the Russian-led Eurasia Economic Union, which currently groups together Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan, as well as into the Shanghai Cooperation Organisation.<sup>10</sup>

### *Defence Ties*

Defence cooperation is the cornerstone of Sino-Russian bilateral ties. It is multi-dimensional and includes the supply of military equipment, technological cooperation and joint military drills. In 2015, this cooperation saw some unprecedented developments. First, President Xi was the guest of honour during the Victory Day celebrations in Moscow, on 9 May. (Leaders from Germany, France, the United Kingdom, and the United States did not attend.) Chinese troops also took part in the parade. Chinese troops also participated in Russia's International Army Games, which concluded in August. In a reciprocal gesture the Russian President attended the 3 September 2015 parade in Tiananmen Square commemorating the 70th anniversary of China's victory against Japan. Again the majority of the Western countries skipped the event. Russia's 154th commandant's regiment also participated in the parade.

Second, in August 2015, the SCO held its biggest joint military exercises ever in China's Inner Mongolia province. The SCO, which had conducted large-scale military exercises in the early years of its existence, of late appeared to be focusing more on economic and law enforcement issues. As the relations between the West and Russia are at their lowest ebb following the Ukraine crisis, the significance of the exercises has increased. Russian analyst Fyodor Lukyanov says, 'In the current situation, connected with the events around Ukraine, any Russia-Chinese exercises will certainly appear as a signal to the West.'<sup>11</sup>

Russia and China conducted their first-ever joint naval exercise in the Mediterranean Sea from 17 to 21 May 2015. The exercise, named Joint Sea 2015, involved nine ships.<sup>12</sup> Elizabeth Wishnick notes that it was 'the first major exercise

for China in such distant waters.<sup>13</sup> Three months later, Joint Sea 2015 II was held from 20 to 28 August in the Sea of Japan near Vladivostok. The exercise, involving dozens of warships, submarines, aircraft, and a large contingent of marines, took place in the Peter the Great Gulf, the waters off the Clerk Cape, and the Sea of Japan.<sup>14</sup>

Russia is China's most important supplier of weapons and military technology, though it is concerned about China's propensity to misuse these. Apart from the security concerns pertaining to Russia's Far East, China's reverse engineering of weapons such as the SU-27 multi-role fighter, the NORINCO T-90 tank and submarines has alarmed Russia and it has been reluctant to sell its most advanced weapons and platforms to China. At the same time, Russia needs revenues to support its military industrial complex.<sup>15</sup>

In April 2015, the two countries signed a deal for the supply of S-400 Triumph long-range (400 km) anti-aircraft missile systems. The S-400 would be effective against stealth and conventional fighters, bombers, cruise missiles and ballistic missiles. The contract value is estimated at about \$3 billion. It is the largest Sino-Russian arms deal in over a decade. Commenting on the importance of the deal, Director General of Russia's major arms exporting company Rosoboron export, Anatoly Isaykin said, 'China had become the first buyer of the cutting-edge air defence system.' He also stated that it underscores the strategic nature of Sino-Russian relations.<sup>16</sup>

Russia and China concluded an agreement in November 2015 for the delivery of 24 Su-35 fighter jets worth \$2 billion to China. Commenting on the deal, Director General of the high-technology state corporation Rostec, Sergey Chemezov said, 'China has officially become the first foreign contractor of the Su-35 aircraft. The contract has no precedents in the history of military aircraft deliveries.'<sup>17</sup> Hitherto, Russia was the only country whose air force was equipped with Su-35s.

In May 2015, the Helicopters of Russia holding company and the Aviation Industry Corporation of China (AVIC) concluded a framework agreement for cooperation in developing a heavy helicopter of the future in the presence of President Putin and President Xi. During the stand-off between Russia and Ukraine, Russian Deputy Prime Minister Dmitry Rogozin said that 'the engine for this new helicopter will be created in Russia, not in Ukraine, contrary to what was the case in the past.'<sup>18</sup> According to Rogozin, Russia's contribution in this effort would be technology and know-how and not cash.

According to an August 2015 *CSIS* report, 'Russian weapon systems and related technology have proven especially important for the development of China's naval surface warfare capabilities ... (they have) enabled China's maritime forces to significantly improve both their defensive and offensive capabilities.'<sup>19</sup> The

Russian Deputy Defence Minister Anatoly Antonov said last year, 'I think that it is the highest point of developing relations over the last years and I am convinced that this is not the limit.'<sup>20</sup>

### *Economic Ties*

Economic ties between China and Russia have been both a source of cooperation as well as conflict. Of late, however, the two countries have shown their intent to overcome the challenges in this sphere and grab the opportunities that come their way. Developments particularly over the last couple of years have reinvigorated the economic ties. The breakthrough was achieved when the Russian and Chinese Presidents signed a joint statement formally linking OBOR with EEU. According to Alexander Gabuev, 'There is a strong commercial logic for this plan, it's not just about geopolitics.'<sup>21</sup> The arrangement would significantly reduce the cost of shipping products from China to Europe, as it cuts down the number of tariff zones crossed in transit.

In May 2014, the Russian gas giant Gazprom and China National Petroleum Corp (CNPC) signed a 30-year agreement worth \$400 billion, for Russia to supply China with 38 billion cubic metres of gas annually from 2018 through the eastern route. Building on that deal, Gazprom came to an agreement with CNPC on 8 May 2015 about the main terms of providing gas via the western route as well. The western route would bring an additional 30 billion cubic metres of gas per year to China. On completion of the projects, the volume of Russian gas supply to China is likely to exceed the current volumes of its export to Europe, reducing Russia's dependence on its European partners.<sup>22</sup> On the progress made on this front, President Putin said, 'The Russian side has already started building the gas pipeline while work in Chinese territory starts in the near future.'<sup>23</sup>

During President Xi's visit to Russia in May 2015, the two sides signed several agreements aimed at strengthening their economic ties. These include:

- To launch a \$2 billion investment fund targeting agricultural projects.
- To allow Russia's Sberbank to open a \$966.43 million credit line with the China Development Bank.
- To create a joint Chinese-Russian company that could acquire 100 Sukhoi Superjet jumbos over a span of three years and lease them out in Asia. The deal is pegged at around \$3 billion.
- A \$25 billion deal to boost Chinese lending to Russian firms badly hit by the economic crisis aggravated by Western sanctions over Ukraine and weak global oil prices.<sup>24</sup>

In an interview with *TASS* in September 2015 President Putin said that Russia and China are moving towards the formation of a strategic energy alliance. The

implementation of the gas projects will be Russia's priority for the near future. Russia and China have also made rapid strides in other areas of energy cooperation like oil pipelines and bilateral nuclear energy cooperation. Putin said:

The first and second power units of the Tianwan Nuclear Power Plant, built by Rosatom, are demonstrating the best efficiency and security among all the nuclear power plants in China. We are currently involved in the construction of the third and fourth power units of the station, to be commissioned in 2018.... As you can see, Russian-Chinese energy cooperation has great potential.<sup>25</sup>

Notably, Russia overtook Saudi Arabia as the largest supplier of oil to China in May 2015. China imported 3.92 million tonnes of crude oil from Russia in May; in comparison, oil imports from Saudi Arabia totalled 3.05 million tonnes.<sup>26</sup>

Russia and China are also discussing how to increase cooperation in manufacturing. The two countries want to localise production of equipment for the energy and mining industries. The 12th meeting of the Russian-Chinese intergovernmental commission, co-chaired by the Russian Deputy Prime Minister Arkady Dvorkovich and the Chinese Vice Premier Zhang Gaoli, took place in China in November 2015 where these issues were discussed.<sup>27</sup> Russia in March 2015 announced its decision to join the AIIB. Meanwhile, China and Russia are jointly developing a new jumbo jet, the C929, capable of transporting up to 280 passengers. Its first flight is scheduled for 2021/2022. Development cost is estimated at \$13 billion.<sup>28</sup>

## **The Geopolitical Convergence**

Ever since the Ukraine crisis erupted and the US rebalancing efforts intensified, Russia and China are seen to be closely cooperating on various international issues. These include the Ukraine crisis, the Iran nuclear programme, the Syrian civil war, cyber security, and support to North Korea. Russia and China are the common denominators in five of the important multilateral forums, namely Asia-Pacific Economic Cooperation (APEC), BRICS, G-20, SCO and the UN Security Council.<sup>29</sup> Russia and China have a similar approach to key issues of the contemporary world and major international problems.

In April 2015, Foreign Minister Wang Yi visited Russia in connection with the preparations for the upcoming visit of President Xi to Russia on 9 May 2015. President Putin in his meeting with Wang Yi on 7 April waxed eloquent about the deepening ties between the two countries. Putin said, 'I believe there is no need to describe Russian-Chinese relations. They are truly at an unprecedentedly high level. Their quality meets the demands of the day and our national interests.'<sup>30</sup> The Chinese minister responded by saying:

I fully share your high assessment of Chinese-Russian relations. Over the last two years, based on our common interest ... you and President Xi Jinping have achieved

strategic leadership planned at the highest level for further promoting Chinese-Russian relations ... the comprehensive strategic cooperation and partnership is developing at a very high level and we are entering a new era.<sup>31</sup>

Talking about the progress made in the implementation of the agreements, the Foreign Minister said that according to preliminary data, in the last two years, Russia and China have entered into a total of 107 joint agreements on cooperation. Implementation of 55 projects has already been achieved while substantive progress has been made on 21 long-term construction projects and 31 other projects.

In April 2015, a Russian Foreign Ministry press release extensively talked about the converging Sino-Russian relations in the geopolitical sphere, as follows:

Bilateral cooperation in the international affairs constitutes one of the most important spheres of Russian-Chinese strategic partnership... Moscow and Beijing share equal or similar approaches to most international problems and plan to continue close coordination of their foreign policy efforts ... stress the importance of increasing the effectiveness of joint efforts in countering global and regional challenges.<sup>32</sup>

The release also noted the commitment and cooperation of Russia and China in different multilateral forums, particularly in BRICS, SCO, UN, RIC (Russia, India and China), G20, APEC and East Asia Summit.

On 25 May 2015, at the 11th round of China-Russia strategic security consultation, Chinese State Councillor Yang Jiechi and Russian Security Council Secretary Nikolai Patrushev reached a consensus on a wide range of regional and global issues. The two sides agreed to support each other's efforts to safeguard their sovereignty, territorial integrity and security. They appreciated each other's developmental efforts and expressed their strong opposition to external interference in their domestic affairs. While vouching for their deepening military ties, Russia and China notably called for a comprehensive and collective approach to security. The convergence of their security interests was most visible in their pledge to not protect their own security at the expense of the other's interests. Moreover, Russia and China will cooperate in Asia-Pacific. The priorities of the two countries at the international level include: rebuilding peace in Afghanistan, resolution of the Iranian nuclear issue, peace and stability in the Middle East and to find a political solution to the Ukraine crisis.<sup>33</sup>

In July 2015, Russia hosted two multilateral mega events in Ufa. The first was the 7th BRICS summit. The second was the SCO summit meeting on 9-10 July. Significantly, India and Pakistan were accepted as full members of the SCO, a regional grouping. The development can be interpreted both ways in the context of Sino-Russian relations. Positively viewed, it can be seen as an indicator of the growing understanding and trust between Russia and China. China was uncomfortable with the idea of making India a full member but Russia being

India's privileged and strategic partner made a concerted effort to accord India full membership. The reconciling of these conflicting positions by the two countries can be seen as a step towards an accommodation of each other's views. 'Though their primary goals for the SCO have differed in the past, Russia and China have both come to see the shared benefit of expanding the grouping in order to challenge the United States.'<sup>34</sup> Viewed negatively, the inclusion of India and Pakistan who are close to Russia and China respectively will require a clever balancing act by the two giants who have still not developed the levels of trust required for a durable and fruitful partnership.

On 5 August 2015 Foreign Minister Wang Yi met his Russian counterpart Sergey Lavrov on the sidelines of the ASEAN Foreign Ministers' Meeting in Kuala Lumpur. At the meeting, China expressed its willingness to cooperate with Russia on Asia-Pacific affairs and develop a strategic partnership on the issue. According to Shannon Tiezzi,

It's the latest indication that China is seeking to leverage Russia's growing military presence in the region to advance its own security and defence interests in the Pacific.... For China, a more active Russian approach toward the Asia-Pacific provides a useful counterweight to U.S. influence in the region.<sup>35</sup>

In yet another instance of their converging worldviews, the leaders of China and Russia condemned Western unilateralism and called for an equitable world order, at the 70th Session of the UN General Assembly in late September 2015.<sup>36</sup>

Russia and China have cooperated to help solve major international crises in the recent past. Both countries played a major role in the agreement for the removal of chemical weapons from Syria and the Iranian nuclear deal. In Syria, Russia stepped up its military operations in October last year. The Russian navy joined the air force in the operations targeting the Islamic State and terrorist groups; the United States believes Russia is actually targeting non-IS rebels. Though China has refrained from either supporting or criticising the Russian military action in Syria officially, the state media appear to be largely sympathetic to the Russian action, which is seen as a counterweight to US interventionism.<sup>37</sup> On the Syria issue, China and Russia have vetoed four separate UN Security Council resolutions since 2011. Some reports suggest that China is planning to join Russia in its air strike campaign in Syria by deploying the Shenyang J-15, a carrier-based fighter aircraft.<sup>38</sup>

Russia and China have common concerns relating to the US domination of the Internet. In January, Russia, China and a number of Central Asian countries jointly submitted a new proposal for an international code of conduct on information security to the UN General Assembly. At a recent Internet security forum in Russia, Russia and China called for a new approach to online security.<sup>39</sup> Meanwhile, the Russian government has approved a draft agreement with China



for cooperation in international information security. 'The agreement's purpose is to offer legal and organisational basis for cooperation between Russia and China in international information security... The agreement lists basic threats, offers directions, approaches, forms and mechanisms of cooperation in the sphere.'<sup>40</sup>

## **Areas of Divergence in Sino-Russian Relations**

The erstwhile USSR and China were natural partners in the heyday of the Cold War. Subsequently, they drifted apart and again at the dawn of this century Russia and China started reconciling their differences and paving the way for cooperation. The reasons that led to their drifting apart in the previous century may differ in terms of both magnitude and nature from the elements that have the potential to create a rift between the two countries almost half a century later; yet the potential exists. However, the year 2015 saw very little conflict of interest and differences of approach between the two countries. This section will try to put in perspective the likely areas of discord between the two countries in the near future.

### *Economic Issues*

Economic relations have been the weak link in the otherwise burgeoning relationship between the two countries. In 2015 they did not make much headway in this direction despite all the bonhomie and the announcements they made. Many of the announcements made in 2014 and 2015 have either made very little progress or in some cases even no progress at all. As Gregory Shtraks puts it:

China's FDI in Russia is currently a relatively measly \$8 billion (even after rising more than 250 per cent in 2014). Moreover, many of the funds China promised Russia at the signing of the \$400 billion gas deal in May 2014 have failed to materialise. Gazprom has reportedly lost hope of ever seeing the \$25 billion prepayment for the \$55 billion 'Power of Siberia' gas pipeline. There has also been no progress on the 'western' Altai pipeline linking Russia to Xinjiang that was promised by Li Keqiang during his visit to Moscow in November 2014. Meanwhile, the weak rouble, western sanctions, and Russia's Byzantine legal system have made Chinese financiers wary of investing money in mid-size business in Russia.... The last four months have shown that 'hot politics, cold economics' remains the best paradigm for understanding Sino-Russian relations.<sup>41</sup>

The year 2015 was not very promising for bilateral economic relations. Shannon Tiezzi writes: 'It's been a rough year for China-Russia relations, especially on the economic front. Thanks to China's economic slowdown, plunging global oil prices, and Russia's struggles with Western sanctions, bilateral trade over the first six months of 2015 dropped by 30 percent year-on-year.'<sup>42</sup>

Even more worrying is the asymmetry in the economic relationship between

the two countries, wherein China is the bigger partner and the gap between the two countries is ever growing. Russia's dependence on China became even more pronounced in 2015 in the wake of the sanctions by the West and the falling energy prices in the international market. Moreover, Chinese companies are worried about the likely fallout of US sanctions while doing business with Russian companies. Therefore, at a time when Russia is in dire need of Chinese help, the latter's cautious approach may alienate the former and sow seeds of discord between the two.

Chinese businessmen's propensity to arm-twist the Russians in their business dealings is also a potential cause for future rivalry. Alexander Gabuev writes, 'According to one of the advisors close to the Politburo Leading Small Group on foreign policy, Xi sent a strong message to corporate executives and officials to think long-term and avoid pushing Russians too hard in negotiations.'<sup>43</sup> He also quotes a Chinese interlocutor saying, 'It is stupid to kill the sheep which can give you wool and breed lambs in order to get a short-term profit.'<sup>44</sup>

Central Asia is the one region where the economic interests of the two countries have been in direct conflict. Although the year 2015 saw forward movement in the region following agreements over OBOR, the economic component of the relationship is yet to achieve lasting success.

### *Central Asia Brinkmanship*

Sino-Russian economic relations do not converge much in Central Asia. The competition for influence is quite visible. Russia's clout as the economic saviour of the region is facing a severe challenge from China, which is better placed to take on Russia's role. China is the biggest trading partner of four of the region's five countries, except Uzbekistan. As a part of its growing economic ties with Central Asia, China has plans to create a \$16.3 billion fund to finance railways, roads and pipelines across the region. China's main reasons for investing in Central Asia are the opportunities it offers the Chinese market to connect with the European market as well as greater access to the oil and gas resources of Central Asia.<sup>45</sup> Christopher Hartwell analyses the Sino-Russian relations in Central Asia as follows:

While Ukraine may showcase common interests between Russia and China, there is a marked divergence of economic and geopolitical interests in relation to the landlocked and politically immature countries of Central Asia ... there is more potential for friction between the two countries in each other's backyards. Moscow should rightly regard Beijing as a competitor in Central Asia for several reasons, with the biggest one related to economics. In regard to security issues, Russia and China also display some disagreements, although they have not been as pronounced.... In particular, Russia and China are in agreement about the rise of Islamic terrorism in the region, but there is also some divergence on the strategies....

Given these broad divergences, it appears that China and Russia will remain frenemies for the foreseeable future. Russia no longer has the economic or military clout to compel Beijing along with all of its schemes, and China will continue to blaze its own path.<sup>46</sup>

Similarly, Tao Wang analyses the areas of potential friction in China-Russia relations in Central Asia as follows:

Another challenge stems from the geopolitical circumstances under which this partnership was formed. The potential competition for natural gas market share in China between Russia and Central Asia is another potential risk to sustaining this partnership over the long term. Finally, there are risks in further engaging Central Asia. This region has enormous security challenges, among them narcotics trafficking, religious radicalism, weak governance, and the threat of terrorism. There are also growing concerns over the successors to the ageing leaders of the region's authoritarian regimes. Russia has been the key security partner for these post-Soviet states, but China risks becoming more directly involved politically with a continued deepening of economic relationships.<sup>47</sup>

The fear that English and Chinese will replace the Russian language is another major area of concern for Russia in Central Asia. China's dissemination of its culture and language through Confucius Institutes has irked Russia. For Russia, Central Asia is part of its near abroad and should be in its sphere of influence. On the other hand, China attaches great importance to the region and has been making significant inroads, both economic and political. As one analyst puts it, 'While Russia may accept Chinese economic development in the region, it may react negatively to any Chinese military engagement or posture to protect its core economic interests.'<sup>48</sup>

### *Foreign Policy Goals*

Despite its support to Russia over Ukraine, China has so far been unable to gain Russian support in the South China Sea disputes. China's land reclamation activities in the disputed areas have not been accepted by the ASEAN countries, Japan and the United States. Russia has remained a passive onlooker of the events unfolding there. It has sold six Kilo-class submarines to Vietnam, one of the claimants to the islands in the South China Sea. The sale follows a deal signed by the two sides in 2009 for \$2 billion. The Project 636 Kilo-class diesel-electric submarines to be delivered to Vietnam are considered to be one of the quietest diesel submarines in the world.<sup>49</sup> Vietnam expects to receive all six boats by 2016. Analysts like Carlyle Thayer have explained how Vietnam may use the submarines to counter Chinese naval capabilities in the South China Sea.<sup>50</sup>

It was quite ironical to see the Chinese response, post the downing of a Russian aircraft by Turkey in November 2015. The Chinese Foreign Ministry spokesperson Hong Lei said, 'China is deeply concerned about this issue.... The situation needs

to be further clarified.<sup>51</sup> This perfunctory statement is far from what was expected by Russia from a close ally like China. The Turkish action may escalate into a serious military standoff between the West and Russia in which China will have to take a position. The Chinese response to the crisis is also indicative of the limits of the partnership under testing circumstances.

## **Conclusion**

Russia and China have demonstrated that they have similar approaches to key issues in the contemporary world order and major international problems. Their opposition to American hegemony is the most powerful driver for bringing them together. US-Russian tensions over Ukraine and America's concerted efforts to assert its supremacy in Asia-Pacific and contain China's rise are the only issues driving the two countries closer. Many strategic analysts believe that the two countries are in the process of entering into a military alliance, the prospect of which has, however, been ruled out by leaders of both countries as they believe that their current level of 'unprecedented and comprehensive' partnership suits them best.

Sino-Russian economic relations have been the weak link in the overall comprehensive partnership. However, despite the economic woes of 2015, the two sides showed the resolve to overcome their differences and jointly sail through the troubled times, which were also viewed by them as an opportunity to further cement their ties. China and Russia have ample geopolitical and strategic reasons to put up a united show.

One often repeated criticism of the burgeoning Sino-Russian relationship is the trust deficit between the two countries. Alexander Korolev argues that trust is not the determining factor in international relations: what defines a strategic partnership is the congruity of interests, which is very strong in the case of China-Russia relations.<sup>52</sup> However, trust is not lacking in the Sino-Russian relationship. Alexander Gabuev argues that the personal relationship between the two top leaders of Russia and China has led to the building of trust and the forging of a closer partnership. Russia has accommodated many of the Chinese concerns and vice versa and the year 2015 witnessed major breakthroughs being achieved. President Xi and President Putin held five meetings in 2015, which is unprecedented.<sup>53</sup> Recent public opinion surveys also support the view that the level of trust between the two countries has improved significantly.<sup>54</sup>

The bonhomie shown by them on the occasion of events in each other's countries to commemorate their triumph in World War II sufficiently exemplifies the rising levels of trust and understanding between the two countries. Although fears of Chinese expansion into Russia's Far East, competition in Central Asia and Chinese historical grudges remain, the unprecedented levels of engagement

between the two countries in 2015, that witnessed many 'firsts' in bilateral relations, only buttress the claim that the two countries are gearing up to become the saviours of the post-World War II international system.

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# 19

## China-Japan Relations: Deciphering the 70<sup>th</sup> Anniversary Course

*Titli Basu*

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2015 will be documented in history as an important year in China-Japan relations. The significance of 2015 for China and Japan is not limited to the 70<sup>th</sup> anniversary of the end of World War II and the aggressive historical baggage which fuels nationalism in East Asia—a region that continues to remain hostage to the scars inflicted by Imperial Japan. Beyond the diplomatic symbolism and exchanges, in 2015 the international community witnessed these two Asian powers engaging in fierce contest in the geo-economic and geo-political space. Even as the bilateral relations navigated through rough waters following the landmark Xi-Abe Summit in 2014 November, on the sidelines of APEC Summit, key developments in 2015 including the institutionalising of the Asian Infrastructure Investment Bank (AIIB), Japan's departure from post-war pacifism, and occurrences in the critical maritime space including the East and South China Seas, which prompted each country to adjust its political, security and strategic postures to cater to its respective national interests and regional ambitions. This paper is an attempt to capture the critical developments of 2015, examine some of the internal debates, and analyse their implications on the bilateral relations landscape.

### **Battle for Asian Infrastructure**

2015 witnessed a race between China and Japan to boost investments in Asian infrastructure. The goal is to expand their regional influence by catering to the voracious infrastructure appetite of the emerging Asian economies. Japan and the U.S. intensified their campaign against several Chinese initiatives including the AIIB, arguing the case of dilution of well-established governance standards and attempting to challenge the Bretton Woods Institutions including the World

Bank (WB), the International Monetary Fund (IMF) and regional development banks like the Asian Development Bank (ADB). Since the U.S. refused to accommodate the views of emerging economies and the interests of China in the existing international financial institutions, Beijing opted to respond to the U.S. call of being a “responsible stakeholder”<sup>1</sup> and floated the AIIB to acquire greater influence in the governance of the global economy. Realising the impact of AIIB, Prime Minister Shinzo Abe in May instituted the *Partnership for Quality Infrastructure* during the 21st International Conference on the Future of Asia and underscored that Japan in cooperation with the ADB will deliver “high-quality and innovative” infrastructure to Asia and committed \$110 billion over five years,<sup>2</sup> representing a 30 per cent northward movement from the earlier funding.<sup>3</sup> However, this \$110 billion commitment and a sustained campaign by the U.S. to discourage allies from joining China-led AIIB had little impact. Fifty Prospective Founding Member nations signed the China led AIIB’s Articles of Agreement in the Great Hall of the People in June<sup>4</sup> with China as the largest shareholder with stake of 30.34 per cent and voting rights of 26.06 per cent.

Domestic debate over AIIB intensified in Japan<sup>5</sup> following the diplomatic failure of the Obama administration<sup>6</sup> to deter U.S. allies, including South Korea, Britain and Australia, from joining the AIIB. There is a school of thought that argues that Japan needs to think smartly about joining the AIIB, because it will give it the space to influence the governance structure from within, and further help Japan’s infrastructure business by retrieving information from within the AIIB.<sup>7</sup> Japan has to be practical and grasp the reality that it has limited political clout to upset the new bank. Japanese scholars who have engaged in scenario building have weighed the prospects of Japan joining the AIIB, which will in turn decline China’s share.<sup>8</sup>

Japan and European countries may together have a greater share and if the U.S. also joins subsequently, then the Chinese clout will be further reduced. Furthermore, there are arguments that make the case regarding Japan’s obligation, as a major Asian country, to become a member, to ensure that the AIIB delivers on regional economic development.<sup>9</sup> As the AIIB evolved and got institutionalised, ADB President Takehiko Nakao, on several occasions argued, that cooperation, including co-financing, rather than competition with the AIIB will enable a win-win formulation and facilitate the objective of infrastructure funding in Asia.<sup>10</sup>

The establishment of AIIB, underscored the need to review the reformation of the international financial order designed by the U.S. The emerging economies have long articulated their several concerns, including the necessity to expand international financial institutions’ loan capabilities and rationalise their operations. In this respect, the ADB promised to increase its lending capacity to \$20 billion; agreed to combine the Asian Development Fund and Ordinary Capital

Resources by 2017 to increase its annual lending and grant approvals; encourage public-private partnership investments by collaborating with governments and private banks; and reducing ADB's internal processing time in May 2015.<sup>11</sup> Besides, there is a school of thought in Japan which argues that the current international institutions need to allow more space to emerging countries in keeping with their growing economic influence and that the inability to do so will raise doubts about the relevance of these institutions.<sup>12</sup> Few have stressed the point of admitting the value of Chinese efforts and contributing from inside to shape its development and capitalise on its benefits for Japan instead of disapproving AIIB.<sup>13</sup> Takehiko Nakao argues that governance reforms ought to be deliberated more earnestly in the backdrop of AIIB and the BRICS bank and that the failure of the present international organisations to embark on internal reforms will impact their influence in the global community. Nevertheless, he emphasised that while emerging economies are demanding more space, Japan's share in the capital of the World Bank and the IMF did not increase, despite its escalating economic influence in the 1970s and 80s.<sup>14</sup> Several suggestions emerged, including the need for the U.S. to garner domestic support for IMF reforms and the ADB, to reassess its quota and voting rights.<sup>15</sup>

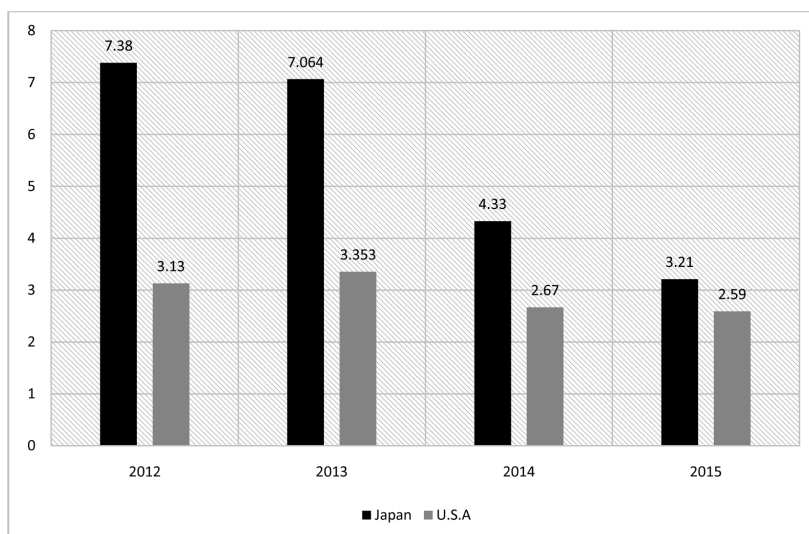
A 2009 ADB-ADB report *Infrastructure Seamless Asia* estimates that Asia needs to invest about \$8 trillion in the overall infrastructure between 2010 and 2020.<sup>16</sup> 2015 saw an intense race between China and Japan for infrastructure projects such as the \$5bn high-speed rail project in Indonesia in September, the \$15bn *Shinkansen* project in India in December as well as the contest for the Singapore-Malaysia bullet train and so on. The competition between China and Japan was evident during the Association of South East Asian Nations (ASEAN) Summit in Kuala Lumpur. While China committed \$10 billion<sup>17</sup> targeted at regional infrastructure improving connectivity along with \$564 million in grants to Cambodia, Laos, Myanmar and Vietnam, Japan agreed to ease loan related restrictions and provide quality infrastructure expertise.<sup>18</sup>

## **Interwoven Economies**

Even as China and Japan are locked in intense competition to maximise their regional political and economic influence, they are tightly interwoven, economically. This is not just due to the huge bilateral trade and investment, but also because of the integrated supply chain networks and trade and investment flows to third nations, especially since a large amount of Japanese investment in South East Asia depends on China for assembly and value addition.<sup>19</sup> While China is the largest trading partner of Japan, Japan is China's second largest single-country trading partner.<sup>20</sup> The 2014 *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies* has recognised China as the third most

promising destination for business activities in the medium term, followed by India and Indonesia.<sup>21</sup> Japanese investments have provided jobs, technology, and capital to China, and Japanese technological pre-eminence is very important for China. Japan's accumulated investment in China by May 2015 had touched \$100.4 billion.

**Graph 1: Statistics of Japanese and U.S. FDI as per Actual Input of Foreign Capital in China (US\$ billion)**

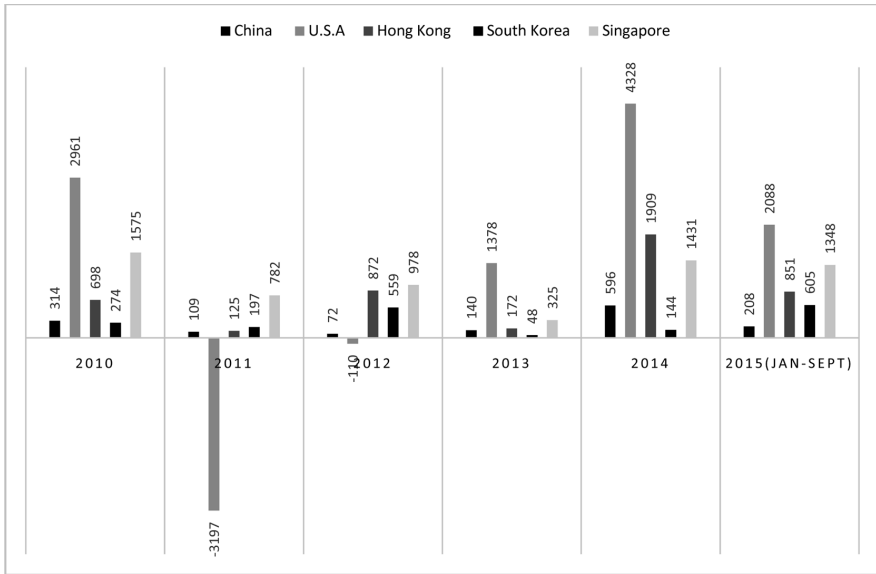


*Source:* Prepared by the author with the data from the Ministry of Commerce, People's Republic of China.<sup>22</sup>

Nevertheless, several Japanese corporations halted production in China in 2015. For example, Panasonic halted production at its Chinese plant in Shandong Province<sup>23</sup> and the Citizen Watch Company shut down its Guangzhou factory. Since 2012, Japanese investment in China has seen a southward movement and escalating labour costs have upset the profitability.<sup>24</sup>

The China-Japan bilateral trade in 2015 shrunk by 11.8 per cent to \$303.3 billion compared to the same period in 2014. JETRO data shows that exports reduced by 12.3 per cent to \$142.7 billion and imports declined 11.3 per cent to \$160.6 billion. Exports diminished owing to the ongoing depreciation of the yen. Exports of electronic equipment declined in spite of an increase in integrated circuits and communication devices. With regard to transportation equipment, passenger cars reduced from a 22.2 per cent increase in the preceding year to a 19.9 percent decline. General machinery plunged through all categories, excluding computers. With regard to imports, electronic equipment, which accounts for the biggest segment of imports, witnessed an 11.4% decline from a small

**Graph 2: Japan's Inward FDI**  
(Balance of Payment Basis, Net and Flow) Unit: US\$ million

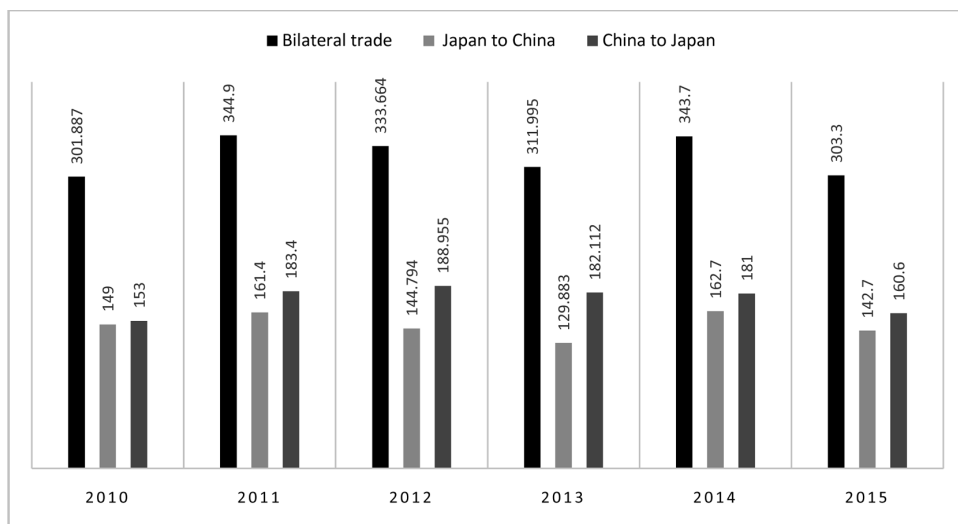


Source: Prepared by the author with data drawn from Japanese Trade and Investment Statistics, Japan External Trade Organisation (JETRO).<sup>25</sup>

improvement in the preceding year, mostly owing to a drop in communication devices and photo-electric cells. Japan's trade deficit with China stands at \$17.9 billion. In a major development in August 2015, China's Central Bank devalued the Yuan which triggered serious concerns in Bank of Japan and for Abenomics as it was expected to hit exports and exert upward pressure on the Yen. Following the devaluation, Prime Minister Abe's advisor argued that devaluation of the Yuan could be counterbalanced by monetary policy easing.<sup>26</sup>

The leadership of both countries have appealed for the economic rationale to prevail and encouraged the business community to strengthen the economic roots, based on the opportunities in each other's development. In June, Beijing hosted the fifth Japan-China financial dialogue after three years<sup>28</sup> where the Japanese Finance Minister Taro Aso and his Chinese counterpart Lou Jiwei, discussed the challenges of the international economy, tax and fiscal systems, the threats posed by unstable commodity prices and the economic policy spillover of the developed economies. Both countries acknowledged the need for economic restructuring and committed to strengthen communication and coordination in respect of macroeconomic policies and cooperation to deal with external risks and uncertainties. Both leaders stressed the need to reinforce cooperation in the

Graph 3: China-Japan Trade (unit: US\$ billion)



Source: Prepared by the author from the annual Japan External Trade Organisation Data 2010, 2011, 2012, 2013, 2014 and 2015.<sup>27</sup>

G20 to push for the vigorous implementation of former agreements. They decided to endorse Asia's infrastructure development by coordinating with financial institutions on the basis of common interests.<sup>29</sup> The last Japan-China financial dialogue had taken place in April 2012, which was later suspended following the escalation of tensions in the bilateral relations. The next round of the Japan-China financial dialogue is scheduled to be hosted by Tokyo in 2016.<sup>30</sup> In November, Chinese Premier Li Keqiang called upon 200 Japanese business leaders affiliated with the Japan Business Federation, the Japan-China Association on Economy and Trade and the Japan Chamber of Commerce and Industry to help improve China-Japan relations which are navigating through difficult times. Premier Li Keqiang reiterated that China will continue making structural reforms and adjustments and that China is open to the idea of working with its Japanese counterparts for expanding production-capacity.<sup>31</sup>

### China's Predicament with an Increasingly 'normal' Japan

The year 2015 commemorated the 70<sup>th</sup> anniversary of the end of World War II. Sentiments ran high in East Asia which continues to remain hostage to history. Regional perceptions regarding Japan's lack of sincerity in facing history squarely, continue to delay the reconciliation process. Two key developments in 2015 will shape the future trajectory of China-Japan relations in the coming years. First, the *Abe Statement* which was criticised by China and the Korean Peninsula; and

secondly, the new security legislation enacted in September by the Japanese Diet following an intense national debate and the revised US-Japan Security Guidelines. The Chinese leadership, including President Xi Jinping, have repeatedly been urging Japan to squarely face the historical issue 70 years after the War, but the *Abe Statement* of August 14 failed to measure up to the 1995 landmark *Murayama Statement*. Moreover, in the following month Japan enacted a new security legislation and amended a few existing ones enabling it to exercise the right to collective self-defence. This has certainly raised concerns in China which interprets Japanese Prime Minister Shinzo Abe's security vision, as a revisionist ambition. China has systematically articulated that Abe has engineered a China Threat Theory to justify these policy shifts to the electorate. This section proposes to analyse the implications of the above mentioned developments for China-Japan relations and what they entail for regional security.

*The thorn of history:* Seventy years after the war, one of the key variables shaping Japan's relations with the important regional powers is history. Even as Japan suffers from an apology fatigue, overcoming the trust deficit prevalent in the region, is a monumental challenge. In keeping with the convention of war anniversary statements, Prime Minister Abe delivered the much anticipated statement on August 14, 2015, a day marking Japan's acceptance of the Potsdam Declaration. As the statement did not include Abe's personal apology, the Chinese foreign ministry articulated discontentment stating that Japan should have offered an unambiguous message regarding the nature of the war of militarism and aggression and categorically accepted its responsibility for the war.<sup>32</sup> The cabinet approved *Abe Statement* marked a departure from the 1995 *Murayama Statement*, made on the 50<sup>th</sup> anniversary and the 2005 Junichiro *Koizumi Statement* made on the 60<sup>th</sup> anniversary of the war.

The most significant departure Abe made from the *Murayama* and *Koizumi* statements, and which constituted the key essence of his message, was his articulation of uneasiness regarding subjecting the future generations of Japanese, "who have nothing to do with that war, be predestined to apologise".<sup>33</sup> This underscored the apology fatigue which is well established in Japanese discourse. The landmark 1995 *Murayama* apology which is considered to be "the first time a Japanese has clearly apologised for Japan's aggression against China"<sup>34</sup> has served as the yardstick to measure Abe's earnestness. Compared to the *Murayama Statement* that had been well received in China,<sup>35</sup> Prime Minister Abe's account is described as "revisionist-laden statement"<sup>36</sup> and lacking in sincerity.<sup>37</sup> To break away from the previous militarist aggression, China expected Abe's honest apology.<sup>38</sup> The Chinese media conducted systematic campaign prior to the announcement of the statement urging Prime Minister Abe to offer his heartfelt apology for war time atrocities. However, Abe was judged for his haste "to shut

out the past” by the *China Daily* which cautioned that “it would be naive to think the tensions paralysing East Asia will thus be gone”.<sup>39</sup> Following the statement, Executive Vice Foreign Minister, Zhang Yesui summoned the Japanese Ambassador Masato Kitera in Beijing to register China’s displeasure.

Prime Minister Abe had the responsibility of balancing the expectations of Japan’s neighbours and catering to his domestic constituency, particularly the influential right wing. It needs to be noted that the statement did reflect few attempts to pacify the neighbours when he referred to developments, for instance, recognising the kindness of those Chinese who took care of the few thousand Japanese children left behind after the war; underscored that the “position articulated by the previous cabinets will remain unshakable into the future”;<sup>40</sup> and mentioned about one of the most controversial subject of ‘comfort women’ in the “battlefields whose honour and dignity were severely injured”.<sup>41</sup>

Commemorating 70th anniversary of end of World War II on August 15, three cabinet ministers visited the controversial Yasukuni shrine in Tokyo. The Internal Affairs and Communications Minister, Sanae Takaichi; Chair of the National Public Safety Commission Eriko Yamatani; and Women’s Empowerment Minister Haruko Arimura<sup>42</sup> visited the Yasukuni shrine, which honours Class-A World War II criminals, among the war dead. Besides, 161 lawmakers across political party affiliations, also reportedly visited the shrine.<sup>43</sup> While Prime Minister Shinzo Abe refrained from visiting the controversial Yasukuni shrine in person, he sent an offering. Region has severely criticised the development. The Chinese Foreign Ministry articulated its disappointment stating that this echoes the incorrect Japanese attitude towards history.<sup>44</sup>

Meanwhile, on September 3, China observed *70th Anniversary of The Victory of the Chinese People’s War of Resistance against Japanese Aggression and The World Anti-Fascist War* where President Xi stressed that the victory of the Chinese People destroyed the scheme of Japan “to colonise and enslave China” and prevented a “national humiliation”.<sup>45</sup> Japanese scholars have argued that the military parade of September 3 was aimed at demonstrating President Xi Jinping’s complete control over both the military and the party in the midst of the anti-corruption campaign and attempts by nonconformist factions within the party to interfere in political decisions.<sup>46</sup> As China invested much energy in meticulously planning and ensuring the success of the event, 23 heads of state<sup>47</sup> including Russian President Vladimir Putin and South Korean President Park Geun-hye besides UN Secretary-General Ban Ki-moon attended the ceremony. Prime Minister Abe refrained from attending the celebrations citing the Diet<sup>48</sup> agenda and the then ongoing national debate on security bills.<sup>49</sup>

Earlier in 2014, the National People’s Congress had designated September 3 and December 13 as the victory day of the Chinese people’s war of resistance



against Japanese aggression, and as a National Memorial Day respectively to commemorate those killed by Japanese aggressors during the Nanjing Massacre in the 1930s to demonstrate the strong Chinese resolve to oppose aggression.<sup>50</sup> Meanwhile, Nanjing Massacre documents including movies, pictures, memoirs and trials of war criminals, have been added to UNESCO Memory of the World Register in 2015.<sup>51</sup> This triggered a heated response<sup>52</sup> from Japan as the Chief Cabinet Secretary Yoshihide Suga argued for deliberating on discontinuing or cutting down financial contributions to UNESCO.<sup>53</sup> Besides, prior to the National Memorial Day, China published 15 out of the 2,784 files related to the war crimes investigation into Nanjing Massacre.<sup>54</sup>

*Shifts in Japanese post-war security policy and the Chinese dilemma:* As China celebrated *The Victory of the Chinese People's War of Resistance against Japanese Aggression and the World Anti-Fascist War* on September 3, the Japanese Upper House enacted the contentious security legislation signifying a departure from post-war pacifism and undoing the restrictions on Self-Defence Forces on September 19. The intense national debate on Article 9 of the pacifist constitution following Prime Minister Abe's return to power in December 2012, the subsequent re-interpretation of the pacifist clause in the July 2014 Cabinet Decision and the ensuing debate especially in the Upper House of the Diet, culminated in the new security law enacted in September. A new permanent legislation was formulated and ten existing legislations were amended to enable a greater role for the SDF in overseas missions including limited collective self-defence, logistical support, asset protection and peacekeeping operations.<sup>55</sup> Japan in its Defence White Papers<sup>56</sup> and Diplomatic Blue books<sup>57</sup> has consistently argued the case for an increasingly threatening security situation surrounding Japan. The 2013 National Defence Programme Guidelines<sup>58</sup> underscored the threats emanating from an 'assertive' China and a 'destabilising' North Korea. Escalating tensions over territorial claims related to the Senkaku/Diaoyu Islands and the prevailing fear of entrapment in a section of the US strategic community, made Japan seriously weigh its policy alternatives. Besides, Chinese defence modernisation and issues related to transparency in defence budget continued to find space in Japanese Defence White Papers and policy articulations in 2015 and faced severe resistance from Chinese authorities.<sup>59</sup>

A "normal" Japan is certainly not a pleasant development for China, especially when the territorial issues are far from being resolved. The Chinese defence ministry argued that this is essentially a Japanese shift from exclusive defence to active attack and will have a significant implication for the regional security environment.<sup>60</sup> China's White Paper on Military Strategy 2015 underscored the Japanese eagerness to move away from the post-war mechanism which sparks "grave concerns among other countries in the region".<sup>61</sup> The Chinese Foreign

Ministry described this development as “unprecedented” and stressed that Japan’s military build-up and shift in security policy deviates from peaceful development. China, in its policy prescription to Japan, urged it to “act with discretion on military and security issues and do more to promote regional peace and stability, rather than the opposite”.<sup>62</sup>

Prime Minister Abe is investing his energy in restoring international confidence in Japan and refurbishing Japan’s standing in the international community. This required undoing the limitations that were imposed on Japan in the post-war period, including the constitutional restrictions, especially the pacifist clause. It is however, premature to be alarmed about Japan’s shifting security posture, since its potential re-militarisation is not likely to have any similarities with Imperial Japan.

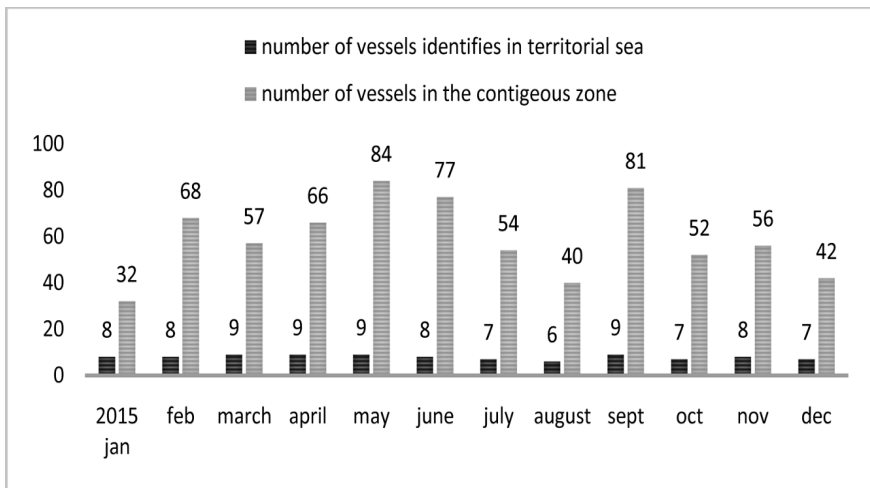
### **Turbulent Waves in the Maritime Canvas**

*East China Sea:* Yokohama hosted the third high-level China-Japan consultation on marine affairs from January 21-23<sup>63</sup> where both countries agreed to expedite the establishment of Maritime and Air Liaison Mechanism involving the two defence ministries. Moreover, the Chinese Border Control Bureau and Japanese Coast Guard agreed to work together in managing maritime challenges including smuggling and human trafficking. Both the Chinese and Japanese coast guards concurred that a dialogue channel between the two headquarters must be opened. They decided to deepen cooperation in search and rescue, science and technology, and environment in accordance with the relevant international laws and discussed the establishment of a China-Japan Maritime Search and Rescue Agreement.<sup>64</sup> In March, Tokyo hosted the 13<sup>th</sup> round of the Japan-China Security Dialogue where both countries underscored the significance of early establishment of the Maritime and Aerial Communication Mechanism between defence authorities.<sup>65</sup> At the defence ministers working-level talks held in June in Beijing, the Japanese and Chinese defence ministries reportedly have arrived at an understanding of the technical difficulties involved in the maritime communication mechanism. Several other matters together with agreement on communicating in English in case of an crisis and setting up hotlines linking the chiefs of their naval and air forces<sup>66</sup> were considered. In December, Chinese and Japanese bureaucrats and defence and coast guard officers engaged in the next round of high level consultation in Xiamen (China) for early institutionalisation of the Maritime and Aerial Communication Mechanism among the defence officials of the two countries aimed at averting accidental clash at sea.<sup>67</sup>

With regard to East China Sea issue, the Japanese Foreign Ministry in July presented a map together with a few photographs indicative of the positions of the Chinese offshore platforms connected to the gas field development. Yoshihide

Suga, the Japanese Chief Cabinet Secretary confirmed that thus far there were 16 structures, together with the 12 structures that were recognised in June 2013. While the structures are on China's side of the median line, the Japanese argue that it is a unilateral development given that the boundaries are yet to be demarcated and there are serious apprehensions that these offshore platforms can be altered to support military functions.<sup>68</sup> China and Japan also did not agree on the East China Sea boundary which has a 200-mile EEZ overlap.

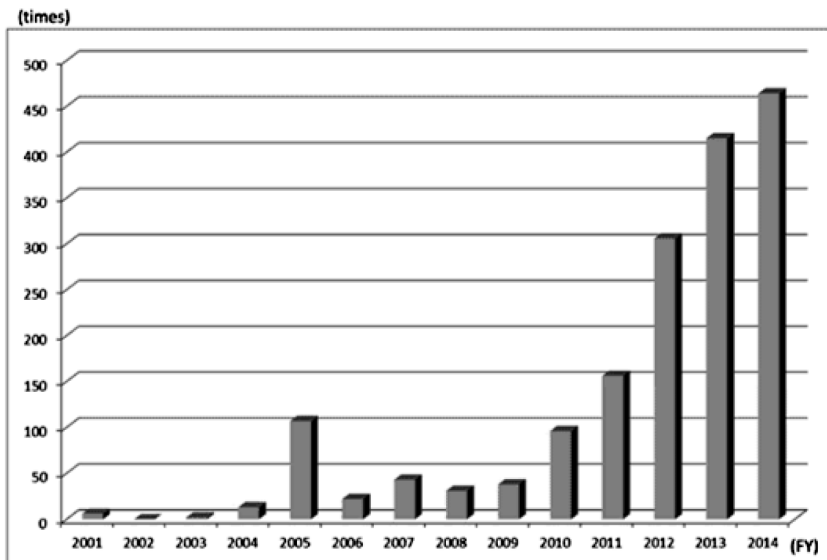
**Graph 4: Alleged Violation of Japan's Contiguous Zone and Territorial Sea Surrounding the Senkaku Islands by Chinese Vessels**



Source: Prepared by the author based on the data from Ministry of Foreign Affairs, Japan.<sup>69</sup>

Meanwhile, in order to manage Chinese activities near the contested Senkaku/Diaoyu Islands in the East China Sea, Japan in March, increased tightened patrolling by sending six large Japan coast guard patrol vessels, in addition to the six existing patrol ships in the area. Besides, Japan also decided to position coastal observation personnel and strengthen the defence around the Yonaguni Island (Okinawa).<sup>70</sup> Furthermore, in defence of the south-western remote islands, Japan decided to station 500 Ground Self-Defence Forces (GSDF) in Ishigaki Island. Authorities are considering the option to set up a unit that can operate surface-to-air and surface-to-ship missiles during the next five-year medium-term defence expansion programme from 2019.<sup>71</sup> Japanese statistics on scrambles through the third quarter of FY 2015 reflects that Air Self-Defence Forces (ASDF) fighter aircraft scrambled 373 times against Chinese jets.<sup>72</sup>

Graph 5: Scrambles against Chinese Aircrafts



Source: MOD Japan website.<sup>73</sup>

*Diplomatic contest over South China Sea:* While diplomatic symbolism was on display on the sidelines of several multilateral frameworks such as the Asian African summit, the UN Climate Change Conference, and the much awaited resumption of the sixth China-Japan-South Korea trilateral summit (first time since 2012), but China and Japan clashed over the developments in South China Sea at various regional forums including the East Asia and ASEAN summits in 2015. China has strongly argued that Japan is not a party to the South China Sea issue and that Japan is intentionally interfering in the issue which has “driven a wedge among regional countries” and severely dented the bilateral political and security trust and hindered the spirit of improving China-Japan relations.<sup>74</sup> As Prime Minister Abe weighed the pros and cons of joint patrols with the U.S. in the South China Sea and the strengthening of Japan’s strategic partnership with key stakeholders in the dispute, he smartly utilised Japan’s space in several international and regional meetings to argue his position on the developments in South China Sea.

At the 18<sup>th</sup> Japan-ASEAN summit meeting, Abe articulated his serious concerns and stressed that the reclamation activities of China in the South China Sea were unilateral actions which can escalate regional tensions.<sup>75</sup> Moreover, at the 10<sup>th</sup> East Asia summit meeting, Prime Minister Abe underscored the importance of freedom of navigation and over flights at sea and further stressed that China must demonstrate its claims of not militarising the outposts in the

South China Sea by tangible actions. Japan reiterated its support for the Philippines decision to seek arbitration for settling maritime disputes in a peaceful manner.<sup>76</sup> Further, at the G7, Japan stressed that China's unilateral actions are designed to alter the status quo in the South China Sea and "must not be overlooked".<sup>77</sup>

### **Diplomatic Parleys in the Trilateral Framework**

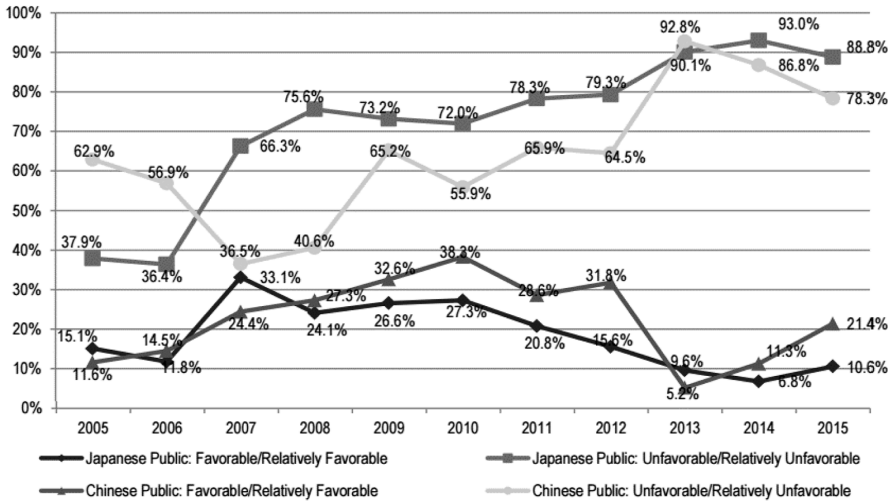
One event that captured regional attention in 2015 was the much awaited resumption of the sixth trilateral China-Japan-South Korea summit in November in Seoul after a three year hiatus. Premier Li Keqiang met with Japanese Prime Minister Shinzo Abe and South Korean President Park Geun-hye and following the summit meeting several joint statements were issued including on: peace and cooperation in North East Asia; environmental cooperation; economy and trade cooperation; customs cooperation on trade facilitation; agricultural cooperation; and education cooperation.<sup>78</sup> Earlier in March, the seventh trilateral foreign ministers meeting was hosted in Seoul after nearly three years.<sup>79</sup> The joint declaration underscored the importance of repairing bilateral relations which "constitute an important foundation for trilateral cooperation, and that the deepening of trilateral cooperation, in turn, contributes to each bilateral relations and to the peace, stability, and prosperity of the Northeast Asian region".<sup>80</sup> Scholars argued that the resumption of the summits involving these three leaders is an accomplishment in itself, since none of the problems that had originally interrupted this annual meeting, have been resolved.<sup>81</sup>

### **Popular Perception**

In keeping with tradition, the annual public opinion survey conducted jointly by China International Publishing Group and the Japanese Genron NPO was published in October. The top three reasons for the Japanese to harbour unfavourable attitude towards China are: first, criticism over history issues; secondly, China's selfish conduct in securing resources, energy and food; and thirdly, Chinese activities are incompatible with international system. The survey reflects that the top reason for Chinese hostility towards Japan are: first, the lack of an appropriate apology and remorse over the history of invasion and second, the buying of the Diaoyu Islands.

Despite the heated politics and largely hostile sentiments toward each other, it is interesting to note that the numbers of Chinese visitors to Japan saw a northward movement in 2015 compared to previous years. Despite the heightened nationalist sentiments on the 70<sup>th</sup> anniversary of the War, data reflects that a weaker yen and the hassle-free visa regime for Chinese nationals, which became effective from January encouraged Chinese visitors to opt for Japan. The Chinese media reported that during the Golden Week (October 1-7), Chinese visitors

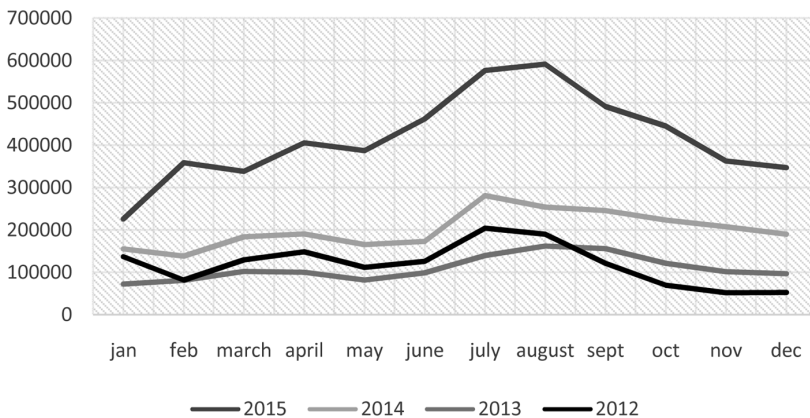
Graph 6: China and Japan's Perception of each other



Source: 11th Japan-China Joint Opinion Poll Analysis Report on the Comparative Data 2015.<sup>82</sup>

spent \$ 830 million, while shopping in Japanese malls, and the most popular items were luxury goods, household products, and medicines. Medical tourism in Japan is also flourishing.<sup>83</sup>

Graph 7: Chinese Visitors to Japan



Source: Prepared by the author following the data drawn from Japan National Tourism Organisation<sup>84</sup>

### Summing Up

China's emergence as a major power in international politics is altering the existing regional balance of power in Asia. Japan is essentially reacting to the asymmetrical

power politics and Abe argues that “Japan is not, and will never be, a Tier-two country”.<sup>85</sup> The contest for expanding regional influence between these two Asian powers will continue in the coming years. In few areas, constructive competition between Asia’s two biggest economies is welcome, as for instance, in the infrastructure sector because it will ultimately serve the larger objective of enabling the emerging economies of Asia to fuel their national growth engines and boost Asia’s overall ability to compete in the global economy. Moreover, as China attempts to move up the manufacturing value chain, innovation and technology will be the key determinants, and this is where Japanese technological proficiency can play a crucial role.

The year 2015 witnessed a fair degree of high level interaction between the two countries but one of the biggest challenges in China-Japan relations is the trust-deficit. The future depends on the resolve of the leadership to demonstrate pragmatism, and move beyond the narrow compulsions of their domestic constituencies and focus on creating space for peaceful dialogue and invest in confidence building measures. Japan is headed for Upper House election in July 2016, the outcome of which may further shape the debate on Constitutional revision. While contentious questions like the Senkaku/Diaoyu Islands, the history issue and the intense nationalism will continue to keep the political relations volatile, but both Japan and China, in 2016, will do well to take small, yet sincere steps, to mend ties within the bilateral, trilateral, regional and international frameworks. One such opportunity will present itself when Japan hosts the trilateral Japan-China-South Korea summit in May, where each party can reinforce the resilience in their relationship.

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## V. REGIONAL OUTREACH

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# 20

## China and South Asia: Deepening of Engagement\*

*Prashant Kumar Singh*

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A review of the year 2015 with reference to China-South Asia relations underscores the fact that China's economic presence in the region is deepening. In the context of China's One-Belt, One Road (OBOR) initiative, it is likely that it will only increase in the coming years. A review of the year confirms that while the strategic implications of Chinese robust economic presence for India cannot be ruled out, any uniformity in China's relations with South Asian countries apropos India would be difficult to find. There are diverse shades in China-South Asia relations underlining the distinct individuality of the country in question. As for India itself, as the biggest South Asian entity, the year provided another reminder that progress in their bilateral relations has reached the stage that requires new frameworks and directions for the future.

This chapter begins with a status report of China's economic engagement with South Asia in the year 2014 for which latest and adequate data is available. A comprehensive picture of the economic relations between the two sides is required to fully appreciate the strategic dimensions of the relationship. The discussion on economic relations is followed by reviews of China's relations with individual South Asian countries in 2015. While the reviews focus on China's relations with individual countries in their own right, they also take into account, the India dimension of the relationship.

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\*This chapter will be further developed and included as a chapter in the author's forthcoming project on 'Foreign Relations and Security in Xi Jinping's Chinese Dream'.



## **China's Deepening Economic Engagement with South Asia**

This section offers a broad overview of China's Outward Foreign Direct Investment (OFDI) and its bilateral trade, in and with, and defence export to, South Asian countries. Chinese OFDI has gained prominence in recent years as China has emerged as the third largest source of OFDI worldwide after the US and Japan. The \$120 billion Chinese OFDI in 2014 has perhaps surpassed the volume of FDI into China. As OFDI is a critical component of China's One Belt, One Road (hereafter OBOR or the Belt and Road) initiative, it needs to be properly examined in the context of South Asia as well, as most South Asian countries have endorsed the initiative. Although China has been the number one trading partner of all South Asian countries, a status-check reveals stagnation in the India-China bilateral trade, and an increase in the trade with countries such as Pakistan. The section also briefly discusses China's defence exports to some of these countries, since India views this export with a concern.

### *Chinese OFDI in the Region*

On the whole, Chinese OFDI has been on the rise for the last many years. It is believed that Chinese OFDI finally surpassed the FDI into China in 2014. The OFDI has emerged as an important instrument of China's economic engagement with the world, and it might have diplomatic implications as well, in certain scenarios. The increase in Chinese OFDI is reflected in its OFDI in South Asia too. The year 2014, saw an increase of Chinese OFDI flows into Pakistan, India, Nepal and Sri Lanka. Bangladesh and Maldives recorded a significant dip in Chinese OFDI in 2014 compared to 2013. Nepal saw a normal increase in OFDI; while there was an impressive doubling of the OFDI into India. But it was in Pakistan that there was a quantum jump in Chinese OFDI in 2014. Although Maldives registered the decline, Chinese FDI started flowing into Maldives as late as 2013 only, as per the official statistics available. Bhutan has had no Chinese OFDI flows. In this chapter of China Yearbook, the author has used the OFDI data provided by the Chinese government. The data provided by the recipient countries may vary.

In South Asia, Pakistan has been the number one destination for Chinese OFDI. It received \$ 1,014.26 million as OFDI from China in 2014 when it had OFDI stocks of \$ 3,736.82 million. Inflows indicate FDI received in a particular year, whereas stocks mean accumulated FDI in that year. India was second on the list for receiving Chinese OFDI in 2014 with inflows amounting to \$ 317.18 million and had stocks of \$ 3407.21 million in the same year. Sri Lanka, Nepal, Bangladesh and Maldives were a distant third, fourth, fifth and sixth with \$ 85.11 million, \$ 45.04 million, \$ 25.02 million and \$ 0.72 million as OFDI inflows respectively. Sri Lanka maintained its third rank in terms of holding ODFI stocks

**Table 1: China's Outward FDI Flows in South Asia by Country, 2010-2014**  
(Millions of USD)

Country	2010	2011	% Change	2012	% Change	2013	% Change	2014	% Change
India	47.61	180.08	278.23	276.81	53.72	148.57	-46.32	317.18	113.48
Pakistan	331.35	333.28	0.58	88.93	-73.31	163.57	83.93	1,014.26	520.07
Nepal	0.86	8.58	897.67	7.65	-10.83	36.97	383.26	45.04	21.82
Bhutan	—	—	—	—	—	—	—	—	—
Bangladesh	7.24	10.32	42.54	33.03	220.05	41.37	25.24	25.02	-39.52
Sri Lanka	28.21	81.23	187.94	16.75	-79.37	71.77	328.47	85.11	18.58
Maldives	—	—	—	—	—	1.55	N.A.	0.72	-53.54

Source: From Table 1, p. 131-35 in 2014 Statistical Bulletin of China's Outward Foreign Investment, By Ministry of Commerce-National Bureau of Statistics-State Administration of Foreign Exchange of China

Table 2: China's Outward FDI Stocks in South Asia by Country, 2010-2014  
(Millions of USD)

Country	2010	2011	%Change	2012	%Change	2013	%Change	2014	% Change
India	479.80	657.38	37.01	1169.10	77.84	2446.98	109.30	3407.21	39.24
Pakistan	1,828.01	2,162.99	18.32	2,233.61	3.26	2,343.09	4.90	3,736.82	59.48
Nepal	15.94	24.80	55.58	33.58	35.40	75.31	124.27	138.34	83.69
Bhutan	—	—	—	—	—	—	—	—	—
Bangladesh	67.58	76.68	13.46	117.25	52.90	158.68	35.33	160.24	0.98
Sri Lanka	72.74	162.58	123.50	178.58	9.84	292.65	63.87	363.91	24.34
Maldives	—	—	—	—	—	1.65	N.A.	2.37	43.63

Source: From Table 2, p. 136-40 in 2014 Statistical Bulletin of China's Outward Foreign Investment, By Ministry of Commerce-National Bureau of Statistics-State Administration of Foreign Exchange of China; For Bangladesh and Pakistan, as the bulletin informs, the Stock for 2014 are recomputed after adjustment of historical Data.

in 2014 too, with \$ 363.91 million. However, Bangladesh, which was fifth on the list of inflows, was at number four with its stocks of Chinese OFDI at \$ 160.24 million. Then came Nepal with \$138.34 million of OFDI stocks. Maldives's stocks of Chinese OFDI stood at \$ 2.37 million. Except for 2012, Pakistan has led the pack in receiving Chinese OFDI. In fact, in 2014, it figured in the list of top 20 destinations for Chinese OFDI while India was missing.<sup>1</sup> The difference between the India and Pakistan stocks of Chinese OFDI was \$ 329.61 million in 2014. Pakistan received \$ 1,014.26 million as Chinese OFDI inflows in 2014, whereas India received \$ 317.18 million in the same year. The year 2012 recorded a dip in Chinese OFDI to Pakistan, Nepal and Sri Lanka, while in 2013 Chinese OFDI saw a decline only in India. Other countries recovered their share of Chinese OFDI inflows substantially in 2013. The OBOR was announced in 2013. The year 2014 – the year following the announcement – recorded impressive inflows of Chinese OFDI into Pakistan and India. There was a 520.07 per cent increase in Chinese OFDI to Pakistan in 2014 compared to 2013. This figure stood at 113.48 per cent for India during the comparable period. In the case of Sri Lanka, Bangladesh and Nepal, firstly, the base figures are comparatively low and the percentage fluctuation is very sharp in terms of OFDI inflows since 2010. Table 1 and Table 2 show that Pakistan and India corner most of Chinese OFDI into South Asia. Chinese OFDI in the backdrop of OBOR is likely to further increase in these two countries, particularly in Pakistan. Sri Lanka, Bangladesh and Nepal are likely to receive considerably lower Chinese OFDI at least in coming few years. Maldives is the newcomer in Chinese OFDI market and is relatively a very small player. Bhutan remains inaccessible for Chinese OFDI (see Tables 1 and 2).

### *China's Bilateral Trade with South Asian Countries*

In 2014, China's trade with South Asia countries stood at \$105.56 billion. In recent years, the trajectory of China's trade with South Asia has generally been on the rise. There was a sharp jump of 20 per cent from \$80.3 billion in 2010, to \$97.11 billion in 2011. After that, there was a moderate correction in 2012 and it declined by 4.71 per cent to \$92.53 billion. However, it recovered in 2013 with a 3.59 per cent increase, to \$95.86 billion. The year 2014 again registered a significant jump. The trade recorded 10.11 per cent increase and crossed the \$100 billion figure reaching \$105.56 billion. In 2014, India, Pakistan and Bangladesh continued to be the three leading trade partners of China in South Asia with \$70.57 billion, \$15.99 billion and \$12.54 billion worth of trade respectively. Sri Lanka and Nepal remained below the threshold of \$5 billion with \$4.03 billion and \$2.32 billion in 2014 respectively. The bilateral trade figures involving Maldives and Bhutan continued to be insignificant in 2014 too. China enjoys a trade surplus with every South Asian country, primarily because these countries export primary goods to China and import value added

goods. India being China's largest trade partner also incurs the largest trade deficit. In 2014, India had a \$37.87 billion of trade deficit with China. Other countries also have their share of a trade deficit with China. However as the base of their trade is low, so is their trade deficit. What is noticeable is that growth in China's trade with South Asia is coming from countries other than India. The China-India trade seems to have plateaued. It is struggling to maintain the figure of around \$70 billion since 2011. In fact, during these years, 2012 and 2013 saw a drop in the absolute numbers of the trade figures. On the other hand, the trade graph with other South Asian countries has been rising steadily since 2010, albeit at a different pace. Their export, as well as import volumes have increased, though the trade balance favours China. On the other, India's exports to China have fallen given the somewhat stagnant trade figures. Importantly, China-Pakistan trade relations appear to be gaining salience. Their bilateral trade has doubled since 2010, from \$8.66 billion in that year to \$15.99 billion in 2014. This growth along with the galloping Chinese investment in Pakistan warrants a closer monitoring and evaluation of China-Pakistan relations in the years to come (see Tables 3, 3a, 3b and 4).

### *China's Defence Export to South Asian Countries*

In 2014, Pakistan placed orders to buy eight IBIS-150 worth \$40 million; 150 LY-80 SAM, and three LY-80 SAM worth \$226 million; and six Type 041/Yuan submarines. This is in addition to deliveries what Pakistan continued to receive under its various long-standing contracts with China for defence purchases. Incidentally, the media quoted Pakistan's Minister for Defence Production Rana Tanveer Hussain as having said that China would build four of eight submarines, to be sold to Pakistan, in Karachi. Though not much known about the specifications of the submarines, they are supposedly 'Yuan-class Type-041 diesel-electric submarines equipped with AIP systems.'<sup>2</sup> By the end of 2014, Bangladesh had received 205 Type-59G tanks, out of the total order of 300 placed in 2009. China supplied 20 C-802/CSS-N-8 anti-ship missiles, two Type-053H2/Jianghu-3 frigates, nine K-8 Karakorum-8 trainer/combat air craft, 8 WS-22 122MM Self-propelled MRL and 8WS-22 122MM Self-propelled MRLs to Bangladesh in 2014. Bangladesh placed orders for anti-ship missiles and Type-053H2 frigates in 2012 and for trainer/combat aircraft carriers and MRLs in 2013. China is to deliver two Type-056/Jiangdao Frigates and two Type-035G/Ming submarines in 2015. Bangladesh had placed orders for these weapons in 2012 and 2013 respectively. According to SIPRI there have not been any arms transfers to Sri Lanka after 2010 and Nepal last received arms from China in 2005.<sup>3</sup>

Table 3: China's Trade with South Asian Countries (billion, USD)

Year	India			Pakistan			Bangladesh						
	E	I	T	E	I	T	E	I	T	G%	T.B.	G%	T.B.
2010	40.91	20.84	61.75	6.93	1.73	8.66	6.78	.26	7.04	—	+5.2	—	+6.52
2011	50.53	23.37	73.90	8.43	2.11	10.54	7.81	.44	8.25	17.18%	+6.32	21.70%	+7.37
2012	47.67	18.79	66.46	9.27	3.14	12.41	7.97	.47	8.44	2.30%	+6.13	17.74%	+7.5
2013	48.43	16.97	65.40	11.01	3.19	14.2	9.70	.60	10.3	22.03%	+7.82	14.42%	+9.1
2014	54.22	16.35	70.57	13.24	2.75	15.99	11.78	.76	12.54	21.74%	+10.49	12.60%	+11.02

Source: UNCOMTRADE, at <http://comtrade.un.org/db/>

Table 3.a: China's Trade with South Asian Countries (billion, USD)

Year	Sri Lanka				Nepal					
	E	I	T	G%	T.B.	E	I	T	G%	T.B.
2010	1.99	.10	2.09	—	+1.89	0.73	.011	0.74	—%	+0.071
2011	2.98	.15	3.13	49.76%	+2.83	1.18	.013	1.19	60.81%	+1.16
2012	3.00	.16	3.16	0.95%	+2.84	1.96	.029	1.98	66.38%	+1.93
2013	3.43	.18	3.61	14.24%	+3.25	2.21	.043	2.25	13.63%	+2.16
2014	3.79	.24	4.03	11.63%	+3.55	2.28	.047	2.32	3.11%	+2.23
2013	3.43	.18	3.61	14.24%	+3.25	2.21	.043	2.25	13.63%	+2.16
2014	3.79	.24	4.03	11.63%	+3.55	2.28	.047	2.32	3.11%	+2.23

Source: UNCOMTRADE, at <http://comtrade.un.org/db/>

Table 3.b: China's Trade with South Asian Countries (billion, USD)

Year	Maldives				Bhutan					
	E	I	T	G%	T.B.	E	I	T	G%	T.B.
2010	.06	.00005	.06	—	+0.05995	.001	.00001	.001	—	+0.00099
2011	.09	.00014	.09	50%	+0.08986	.017	.00008	.017	1600%	+0.01692
2012	.07	.00019	.07	-22.22%	+0.06981	.015	.00001	.015	-99.91%	+0.01499
2013	.09	.00042	.09	28.57%	+0.08958	.017	.00001	.017	13.33%	+0.01699
2014	.10	.00038	.10	11.11%	+0.09962	.011	.0001	.011	-34.70%	+0.0109

Source: UNCOMTRADE, at <http://comtrade.un.org/db/>

Table 4: China's Trade with South Asia (billion, USD)

<i>Year</i>	<i>Volume</i>	<i>G%</i>
2010	80.34	—
2011	97.11	20.87
2012	92.53	-4.71
2013	95.86	3.59
2014	105.56	10.11

*Source:* Author's Own on the basis of UNCOMTRADE data, at <http://comtrade.un.org/db/>

*Legends:* E: Export, I: Import, T: Total, G: Growth, T.B.: Trade Balance, +: China's Trade Surplus, - China's Trade Deficit

## China's Bilateral Relations in South Asia

South Asia has traditionally enjoyed significance for China in view of the sub-continent's borders with China's Tibet and China's balance of power interest vis-à-vis India, particularly in Pakistan. Its importance for China seems to have further grown in recent years in the context of OBOR. It is the meeting point for China's land and maritime Silk Roads (OBOR). The China-Pakistan Economic Corridor (CPEC) and the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor connect China with Arabian Sea and the Bay of Bengal.<sup>4</sup> In 2015, India and China built relations on the goodwill created in 2014. The single most important event of the year was Prime Minister Narendra Modi's visit to China in May 2015. The two countries seem to be working on finding new frameworks for their relations. However, differences over complicated issues such as the boundary dispute and Pakistan's shelter for terrorists targeting India persist. The massive investment announced during President Xi Jinping's visit to Pakistan in 2015 will further strengthen the China-Pakistan relationship. Nepal appeared to be attempting to reduce its reliance on India by further deepening its relations with China. The political crisis that erupted in Nepal's Tarai region in September 2015 appeared to bring China and Nepal closer. The China and Bangladesh relations revolved mainly around the commercial and economic realms during the year. Sri Lanka drove home the message that China's relations with South Asian countries cannot be seen only through the prism of India-China relations. The year saw China's interests in the Maldives taking root.<sup>5</sup>

### *China and India: Looking for New Frameworks*

In 2014-15, China and India, under President Xi Jinping and Prime Minister Narendra Modi's stewardship, have completed the familiarisation process with regard to each other. Xi Jinping took over as China's President in March 2013, and Modi took over as Prime Minister in May 2014. Since early June 2014 when



Foreign Prime Minister Wang Yi became one of the first foreign dignitaries to visit New Delhi after the new government assumed office, the top leaders and ministers of the two sides have been visiting each other's countries. In the process, they appeared to have developed considerable personal chemistry and are seen attempting to opening new vistas for people-to-people relations. As 2014 saw President Xi Jinping and Foreign Minister Wang Yi visiting India, it was India's turn to reciprocate in 2015.<sup>6</sup>

**Narendra Modi's China Visit:** The most important event in China-India relations in 2015 was Prime Minister Narendra Modi's visit to China from May 14 to 16, 2015. President Xi Jinping had visited India in September 2014. The two leaders demonstrated great personal warmth for each other during these visits. Prime Minister Modi had received President Xi in his hometown, Ahmedabad in Gujarat. President Xi also reciprocated the sentiment by receiving the visiting Prime Minister in his hometown of Xian where the two leaders held delegation-level meetings. The choice of Xian had a symbolic value too since Xuanzang, who travelled to India in seventh century, belonged to a monastery in Xian. In fact, the Modi government in India is seeking to redefine the cultural framework of its relations with East Asian countries. The cultural heritage of India and China was evoked to underline the closeness and significance of China-India relations. Prime Minister Modi was accorded an ancient Tang dynasty style grand welcome. He visited the Buddhist temple of Da Xingshan, and gifted a 'replica of the casket that contained the sacred relics of Bhagwan Buddha' to President Xi. The majority of the 24 bilateral agreements concluded during his visit were about promoting people-to-people relations. The visit saw the Indian Prime Minister articulating his vision for an interconnected Asia. He argued that the realisation of the 21<sup>st</sup> century as Asian century is contingent upon the quality of India-China bilateral relations.<sup>7</sup>

India's decision to issue e-visas to Chinese tourists and businessmen, the MOU between India's ICCR and China's Fudan University, the MOU for establishing a Yoga College in Kunming, and several MOUs for sister-city cooperation involving various cities of the two countries are some examples of the 22 agreements. Prime Minister Modi highlighted his government's 'Make in India' campaign during his visit. The MOUs between India's NITI Aayog and China's Development Research Centre and between the two countries' railway administrations were important agreements in the economic field. The visit saw the signing of over 20 business deals worth around \$ 22 billion. The MOU on the states/provincial leaders' forum bore the imprimatur of Prime Minister Modi's stress on cooperative federalism. He advocates freedom for states to make direct contact with foreign countries in economic and cultural fields. He and Premier Li Keqiang chaired the First Forum of Leaders of the Regions held in Beijing on

May 15. The chief ministers of Gujarat, Maharashtra along with six governors and mayors participated in the forum.

During his visit, Modi emphasised that the two countries should fight terrorism together as it is a common challenge. He took up the long-standing boundary issue with the Chinese leadership saying that its resolution was 'a shared responsibility to the future'. He underscored the significance of an early resolution of the dispute. He raised the issue of demarcation of Line of Actual Control (LAC). This was important as the LAC issue has hit an impasse. The two sides had not talked about this issue for many years. During his visit, Modi gave the impression of being forthcoming and direct in his approach. He is reported to have conveyed India's sentiments about China's issuing stapled visas to the Indians of Arunachal Pradesh and the China-Pakistan Economic Corridor (CPEC) agreement that involves massive investments in Pakistan Occupied Kashmir (POK).

**Other Important Visits and Notable Developments:** The year 2015 began with the Indian Foreign Minister Sushma Swaraj's visiting China at the beginning of February. The visit was important as it was a preparation for Prime Minister Modi's visit. Swaraj proposed six points to determine the future direction for Sino-Indian relations. They were as follows:

1. Action-oriented approach
2. Broad-base bilateral engagement
3. Convergence on common regional and global interests
4. Developing new areas of cooperation
5. Expanding strategic communication
6. Fulfilling common aspirations to usher 'Asian Century'<sup>8</sup>

These points resonated during the Prime Minister's visit later in May.

During this visit, she met with President Xi Jinping and the Foreign Minister Wang Yi. During the foreign ministers' meeting, the two discussed the opening of an additional route to Kailash Mansarovar through the Nathula Pass in Sikkim. It should be noted that China's willingness to open this route was an outcome of Xi's India visit in 2014. During the visit, Swaraj attended the 2<sup>nd</sup> India-China Media Forum, in Beijing. During her visit, she sold India's 'Make in India' initiative to China and stated that two Chinese industrial parks in India, announced during Xi's 2014 visit to India, were China's contribution to 'Make in India'. The two countries had observed 2014 as the Year of Friendly Exchanges. Carrying this forward, Swaraj launched '2015: Visit India Year' in China to promote Chinese tourism in India. Pushing India's public diplomacy, Swaraj released the Chinese version of the *India Perspective*—a flagship publication of the Indian Ministry of External Affairs. Finally, the visit also had a multilateral content as the Indian

foreign minister attended the 13<sup>th</sup> Foreign Ministers' Meeting of the Russia-India-China Trilateral in Beijing during her visit. At the forum, she met with Russian Foreign Minister Sergei Lavrov. Importantly, the trilateral joint communiqué pledged support for India's entry into Asia-Pacific Economic Cooperation (APEC). While Sushma Swaraj chalked out a programme for the future during her visit, she reiterated India's concerns about the discrimination against Indian companies in China to the Chinese leadership. She made it clear that India prefers an early resolution of the boundary dispute between the two countries.<sup>9</sup>

Between the two visits came Chinese Foreign Minister Wang Yi's statement on March 8, 2015 regarding the border dispute. Although the statement put across the Chinese position only, it was important for its wording and timing. Wang Yi emphasised that the dispute had been "contained" and "the going (resolution) is tough and that is only because we are on the way up" comparing the difficulties of dispute resolution to 'climbing mountain'.<sup>10</sup> The statement might have been China's reassurance that the previous military standoffs that had taken place due to the Chinese military's incursions into India – first, on the eve of Premier Li Keqiang's India visit in 2013, and then again right when President Xi Jinping was in India in 2014, would not recur during Prime Minister Modi's China visit in May 2015. The visit indeed did not see any such unfortunate incidents. The statement actually came on the heels of the talks between National Security Advisor Ajit Doval and China's State Councillor Yang Jiechi on March 23, in New Delhi. The two Special Representatives (SRs) discussed bilateral, regional and global issues and assessed the follow-ups of President Xi Jinping's India visit in 2014. They agreed that peace and tranquillity in the border regions was a precondition for good bilateral relations, and appreciated the increasing communication between two countries' armies deployed at the border.<sup>11</sup> Wang Yi's statement might also have been made to reassure the Indian leadership which has repeatedly conveyed that it wants an early resolution of the dispute, since Mr. Modi's taking over as the PM. In addition to these visits, the visit by Zhang Dejiang, the Chairman of the Standing Committee of the National People's Congress (NPC), in June was also important as it was the first top-level parliamentary visit from the Chinese side in the last 14 years.<sup>12</sup> As the year 2015 drew to a close, Home Minister Rajnath Singh went to China for a six-day visit in the second half of November. He was the first home minister to visit China since 2005. The fight against terrorism and other transnational crimes were on the agenda for his visit.<sup>13</sup>

## **Defence Exchanges**

The November 2015 visit by General Fan Changlong, Vice Chairman, the Central Military Commission, was another example of ongoing high-level defence

exchanges between the two countries.<sup>14</sup> The Working Mechanism for Consultation and Coordination on India-China Border Affairs (WMCC) met in Beijing to discuss the situation in the border areas. The meeting was attended by foreign and defence ministry officials from both sides. Pradeep Kumar Rawat, Joint Secretary, East Asia at the MEA, and Ouyang Yujing, Director General of the Department of Boundary and Ocean Affairs of the Chinese Foreign Ministry, led the two sides.<sup>15</sup> The Indian and Chinese militaries undertook a Hand-in-Hand anti-terrorism military exercise in Kunming in October 2015.<sup>16</sup> In an important first, the Chinese People's Liberation Army (PLA) and an Indian Army delegation held a meeting in the Daulat Beg Oldie (DBO) area along the Line of Actual Control (LAC) in the Ladakh sector.<sup>17</sup> In Arunachal Pradesh, an Indian military delegation crossed the border to hold a Border Personnel Meeting (BPM) with their Chinese counterparts.<sup>18</sup> The first India-China consultation on disarmament, non-proliferation and arms control held in April 2015 was a new development in the India-China dialogue architecture. Amandeep Singh Gill, Joint Secretary, Disarmament and International Affairs of the Ministry of External Affairs (MEA) and Wang Qun, Director General, the Arms Control Department of the Ministry of Foreign Affairs led these consultations.<sup>19</sup>

### **Cultural Front**

In the run up to the first UN Yoga Day on June 21, the Minister of State for External Affairs VK Singh inaugurated an India-China Yoga College at Yunnan Minzu University in Kunming.<sup>20</sup> This was in line with the decision to include a cultural element into the bilateral relations, taken during Prime Minister Modi's visit to China.

### **On a Realistic Note**

The year 2015 saw substantial forward momentum in people-to-people relations as per the joint declarations made during Prime Minister Modi's visit to China. However, this should not divert our attention away from hard realities of India-China relations. Prime Minister Modi's forthright and direct approach, on the boundary issue is yet to produce any tangible gains for India. China is yet to respond positively to his proposal for demarcation of the Line of Actual Control. Disregarding India's concerns and sentiments, China vetoed India's bid in the UN to sanction Syed Salahuddin, the chief of the Hizbul Mujahideen, and Zakiur Rehman Lakhvi, the key conspirator behind the 26/11 Mumbai attack in 2008, in May 2015 and June 2015 respectively. China, as the permanent member of the UNSC, vetoed Indian attempts citing supposedly insufficient and weak evidence and some other procedural reasons. Foreign Minister Swaraj conveyed India's anguish to her Chinese counterpart Wang Yi on June 25, 2015 in

Kathmandu on the sidelines of an international donors' conference. Later, Prime Minister Modi himself raised this issue with President Xi at the BRICS Summit in Ufa in Russia on July 8, 2015. However, India could not elicit any positive response on this count.<sup>21</sup> National Security Advisor Ajit Doval during his Rustamji Memorial Lecture in May 2015 said that 'settling the boundary dispute was 'critical' for India-China relations' ... 'China's stance was in 'complete contravention of accepted principles' ... the Chinese 'have accepted the McMahon Line while settling the border with Myanmar and then they say that the same line is not acceptable in case of India, particularly in Tawang.' This only reveals the intractability of the boundary issue.<sup>22</sup> This statement was important because it came a few days after Prime Minister Modi's otherwise successful China Visit. Finally, the joint India-US reiteration of freedom of navigation in the South China Sea revealed a deep divergence in the security understanding between India and China.<sup>23</sup>

### *China and Pakistan: Building a Community of the Common Destiny*

The most significant event in China-Pakistan relations in the year under review, was President Xi Jinping's visit to Pakistan in April. The visit was earlier scheduled for September 2014, as part of the President's South Asia tour, but was dropped from the itinerary due to political turmoil in Pakistan – incidentally, the cancellation raised hopes in India that China had finally de-hyphenated India and Pakistan as it was the first time that any Chinese President was visiting India without going to Pakistan. However, Xi Jinping's announcement of a \$ 46 billion investment in Pakistan under the China-Pakistan Economic Corridor (CPEC)<sup>24</sup> elevated the China-Pakistan *all-weather friendship* to newer and higher levels of strategic partnership. Also, as the year progressed, the Chinese vetoes against India's moves to get some terrorists sanctioned by the UN revealed, that the de-hyphenation theory was too pre-mature.

During his meeting with Prime Minister Nawaz Sharif on April 20, 2015 and in his address to the parliament of Pakistan, President Xi Jinping put forward a five-point proposal for enhancing the bilateral relations. The five-points underscore the continuing high-level exchanges and broadening governmental, parliamentary and military contacts; focus on '1+4' cooperation pattern (CPEC as the key with focus on Gwadar port, transportation infrastructure, energy and industry); enhancement of security cooperation; promotion of comprehensive people-to-people relations and better coordination in multilateral organisations for issues of global interests. Incidentally, in November 2015, the Chinese foreign ministry confirmed the media reports of Chinese company taking management control of Gwadar port.<sup>25</sup> The year 2015 was the China-Pakistan Year of Friendly Exchanges. The joint statement on entering into an All-weather Strategic Partnership of Cooperation and the more than 50 bilateral agreements signed

and concluded during the visit, bore the imprimatur of these points.<sup>26</sup> President Xi Jinping saw Prime Minister Sharif's 'Asian Tiger Dream' converging with his own notion of China and Pakistan having a shared destiny. As a follow-up, China and Pakistan concluded 20 agreements, worth 10.35 billion yuan (\$1.6 billion) on August 12, 2015 in Urumqi. The two sides released the 'Karamay Manifesto' on the CPEC, a major project in China's Belt and Road Initiative' on the occasion—Karamay is a city in the northern Xinjiang in China.<sup>27</sup>

President Xi Jinping reiterated the importance China attaches to Pakistan in the fight against terrorism and for regional peace. In his speech in the Parliament, he said, 'it [Pakistan] has made tremendous efforts, endured enormous sacrifice, and made outstanding contribution to upholding peace and stability of our region and the world.' In addition to OBOR and CPEC, it was Afghanistan that predominantly figured in China-Pakistan interactions in 2015. Assistant Foreign Minister Liu Jianchao participated in the first round of the China-Afghanistan-Pakistan Trilateral Strategic Dialogue held in Kabul on February 9, 2015. In the dialogue, Deputy Foreign Minister Hekmat Khalil Karzai and Foreign Secretary Aizaz Ahmad Chaudhry represented Afghanistan and Pakistan respectively. In the trilateral, China supported an 'Afghan-led and Afghan-owned' approach for peace and reconciliation in Afghanistan. The three countries underscored the need and importance of deepening counter-terrorism and security cooperation. During the dialogue, China invited five types of delegations from Afghanistan and Pakistan in 2015. The invited five delegations were of senators, media, diplomats, friends and think-tanks. In the dialogue, China promised financial and technological support for connectivity projects between Afghanistan and Pakistan such as the Kunar Hydroelectric Dam.<sup>28</sup> Later, when President Xi, met Prime Minister Sharif in Ufa in Russia on July 10, 2015, he praised Pakistan for promoting peace in Afghanistan and expressed China's desire to coordinate with Pakistan for 'national reconciliation and peace in Afghanistan.' Welcoming Pakistan's entry into the SCO, he promised Chinese cooperation to Pakistan in the SCO.<sup>29</sup> Similarly, Foreign Minister Wang Yi endorsed the view that 'Pakistan plays an irreplaceable and unique role in the process of Afghan peace talks' in his meeting with the Adviser to the Pakistan's Prime Minister on National Security and Foreign Affairs, Sartaj Aziz on August 5, 2015. It should be noted that Pakistan chaired the Afghan government's first round of peace talks with Taliban.<sup>30</sup> On September 8, 2015, Wang Yi held a telephonic conversation with Aziz and Mohammad Hanif Atmar, National Security Adviser to the Afghan President, about the peace process.<sup>31</sup> In fact, Foreign Minister Wang remained involved in the Afghan issue during the year. In December 2015, he had the 2+2 (Afghanistan, Pakistan, and China, the US) meeting with President Ashraf Ghani, Prime Minister Nawaz Sharif of Pakistan and Deputy Secretary of State Antony Blinken

of the US, on the sidelines of the 5<sup>th</sup> Foreign Ministerial Conference of the Istanbul Process on Afghanistan in Islamabad on December 9, 2015. Both Sharif and Ghani held a trilateral meeting with Wang before the 2+2 meeting.<sup>32</sup> During the visit, Wang Yi had separate meetings with Sartaj Aziz and the Chief of the Army Staff Raheel Sharif, with whom he had discussions on Afghanistan and the China-Pakistan community of shared destiny.<sup>33</sup> In the meetings, China endorsed the principles of 'the sovereignty, independence and territorial integrity of Afghanistan' and the 'Afghan-led and Afghan-owned' approach.<sup>34</sup>

In fact, the month of December saw quite a bit of activity. Both President Mamnoon Hussain and Prime Minister Nawaz Sharif visited China and President Hussain met President Xi Jinping on December 16, in Wuzhen in the Zhejiang Province.<sup>35</sup> Premier Li Keqiang held discussions with Prime Minister Sharif on December 15, 2015 in Zhengzhou where Sharif had gone to attend the 14th Prime Ministers' Meeting of the SCO member states.<sup>36</sup> These leadership level meetings took stock of the progress made in bilateral relations in 2015. The leaders were satisfied with the response the CPEC and '1+4' cooperation pattern had received from various stakeholders throughout the year.

Separately, China and Pakistan continued with their regular and official-level meetings in 2015. Assistant Foreign Minister Liu Jianchao and Foreign Secretary Aizaz Ahmad Chaudhry co-chaired the 6<sup>th</sup> round of China-Pakistan Strategic Dialogue in Islamabad on July 30, 2015.<sup>37</sup> The Director General of the Department of Arms Control of the Foreign Ministry Wang Qun, and Additional Secretary of the Ministry of External Affairs Tasnim Aslam, led the China-Pakistan consultation on arms control and non-proliferation in Beijing on February 17, 2015.<sup>38</sup> Pakistan's Air Staff Marshal Sohail Aman paid an official visit to China in June 2015.<sup>39</sup> The Assistant Foreign Minister Liu Jianchao met the visiting joint press delegation from Pakistan and Afghanistan in the Ministry of Foreign Affairs on August 6, 2015. China had invited a joint Pak-Afghan press delegation to visit China at the China-Afghanistan-Pakistan Trilateral Strategic Dialogue, earlier in February.<sup>40</sup> Incidentally, in an important statement Pakistan's President Mamnoon Hussain told President Xi during his visit to China in September 2015, 'almost all members of the Uighur militant group the East Turkestan Islamic Movement (ETIM), and have been eliminated from Pakistan.' China accuses ETIM of creating unrest and spreading violence in its Xinjiang province.<sup>41</sup>

The air forces of the two countries organised the fourth Shaheen-IV (Eagle-IV) air drill in early September.<sup>42</sup> Two Pakistani naval ships paid a week long port visit to the Wusong naval port in Shanghai in the last week of December 2015 and first week of January 2016. On this occasion the navies of the two countries carried out a two-day naval exercise.<sup>43</sup>

*China and Nepal: A Friend in Need is a Friend Indeed*

China-Nepal cooperation in 2015 developed in the backdrop of the massive earthquake in April 2015, and the political ripples that followed the promulgation of its new Constitution in September 2015. The political tremors brought China-India strategic equations in Nepal to the fore.

Nepal suffered the trauma of the massive devastation caused by the earthquake in April 2015. The international community rushed humanitarian assistance to Nepal. China being a neighbour played a significant role in providing assistance to the earthquake hit nation. It gave 60 million yuan (\$9.7 million) in humanitarian aid to Nepal along with about 1300 tons of relief material, and sent a 62-member Chinese search and rescue team to Nepal. It dedicated four Ilyushin IL-76 transport planes for rescue efforts. Chinese citizens were trapped 'at a hydropower station construction site in Nepal.'<sup>44</sup> Later too, in August around 100 armed police officers and 30 excavators were sent across the border into Nepal to repair the China-Nepal Highway damaged by heavy rains.<sup>45</sup> In July 2015, Chinese Foreign Minister Wang Yi pledged three billion yuan (around \$500 million) worth assistance for the devastated nation's reconstruction. He, on behalf of his country, made this pledge when he attended international donors' conference on Nepal's reconstruction convened in Kathmandu. He said that the assistance provided by provincial governments in China also formed part of this pledge.<sup>46</sup> China also announced cash assistance of \$10 million for Nepal under the Post-Disaster Reconstruction Aid Project Plan. Zhang Xiangchen, vice negotiation representative for international trade of Ministry of Commerce (MOC) and the Nepalese Finance Secretary Suman Prasad Sharma signed an MOU in this regard.<sup>47</sup> Incidentally, Chinese commentators took pains to clarify that China is not in any competition with India with regard to relief work in Nepal. Typical in this regard is the former Chinese Ambassador to Pakistan Zhang Chunxiang's response that, 'there is no competition in quake relief efforts. Nepal is our close neighbour. It is very important for China to extend a very helping hand. It is our bounden duty.'<sup>48</sup>

Seeing any China-India competition in the relief work in Nepal was certainly an over-reading on the part of some media commentators. However, the political crisis that erupted in Nepal in the wake of the promulgation of its first republican constitution revealed that India and China are not on the same page when it comes to political issues in Nepal. The crisis also made Nepal more desperate to achieve better connectivity with China to assert its autonomy in international relations.

Nepal ratified its new constitution in September 2015. While China welcomed it, India's response was more guarded in view of the resentment in Nepal's Madhesh or the Tarai region bordering India, against some of the constitutional provisions.



The Madheshi people complained that the constitution had not addressed their aspirations for a fair representation in the Nepalese Parliament. This was the major grievance among others. They began a movement against the government on this issue and blocked supplies from India into the Nepalese hinterland causing considerable hardship to people there. Petroleum supply took a serious hit and resulted in an energy crisis and severely impacted transportation. Nepal accused India of engineering the unrest and 'blockade'. The chairman of CPN-UML KP Sharma Oli, who later became the Prime Minister of Nepal in October 2015, admitted to 'visible cracks in the relationship'<sup>49</sup> while the veteran politician and diplomat Ramesh Nath Pandey argued that, the 'blockade' had helped people to see China as alternative to India more clearly.<sup>50</sup> The Deputy Prime Minister Bamdev Gautam stated that his government was capable of ensuring alternative supply routes via China.<sup>51</sup> The Nepalese Ambassador Deep Kumar Upadhyay asked India to resolve the issue at the earliest otherwise '[Nepal] will be forced to approach other countries.'<sup>52</sup> All these statements highlighted the bitter anti-India feelings in Nepal. These statements also underlined Nepal's strategic option to strengthen its relations with China as a countervailing force vis-à-vis India. It should be noted that Nepal is a land-locked country buffering India and China in the Himalayas. All of its viable supply routes linking it with the international market are through India. In November 2015, the two countries agreed to re-open their main trade route of Khasa-Tatopani border point, which was damaged by the earthquake in April 2015. 25 per cent of Nepal's total trade with China passes through this point. The Nepalese official engaged in the talks underscored its significance in view of the 'blockade', which they attributed to India.<sup>53</sup> Incidentally, separate from the 'blockade issue', the Nepali Parliament also objected to the India and China agreement on border trade via Qiangla/Lipu-Lekh Pass. The Parliament said that the agreement was 'against international norms and values at a time when Nepal and India are working to resolve the boundary issues.' Nepal had objections because the pass is very close to Nepal.<sup>54</sup>

Amidst the crisis, China and Nepal signed two separate agreements under which China would give 'a one-off 1000 metric tonnes of petroleum products as grant'. In addition, they also signed an MOU for petroleum supply. The Nepal Oil Corporation (NOC) received four fuel tankers from Jilong (Kyirong) in Tibet.<sup>55</sup> On Nepal's part, the agreements were seen as an attempt to reduce Nepal's reliance on India. The protestors in the Tarai viewed the agreements and the Chinese help as being 'unfriendly' to them. However, India did not react to the Chinese assistance to Nepal. Instead, India underlined 'merit' and 'natural logic' in its economic relations with Nepal.<sup>56</sup> A notable development in the review year was China pushing for a China, Nepal and India trilateral for cooperation. Huang Xilian, the deputy director general of the Asian Affairs department of the Chinese

foreign ministry, claimed that Prime Minister Modi was receptive to this idea when it was discussed with him during his visit to China.<sup>57</sup> Incidentally, the idea of the China-Nepal-India trilateral is traced to Nepal's former Prime Minister Pushpa Kamal Dahal who proposed it in 2013.<sup>58</sup>

China was seen promoting its relations with Nepal in 2015, even beyond the crisis. It pledged \$ 130 million, the largest ever grant given to Nepal by China as per the media, for infrastructure projects. The grant constituted 'a more than five-fold increase in Chinese assistance' compared to the previous year. Projects such as the Kathmandu-Rasuwagadhi highway are to be built under the grant. Finance Secretary Suman Sharma placed the increased grant in the context of Nepal's support for China's OBOR initiative.<sup>59</sup> Nepal, a founding member of the Asian Infrastructure Investment Bank (AIIB), endorses the Silk Road Economic Belt project.

Important bilateral visits also took place during this year. While Foreign Minister Wang Yi visited Nepal in July 2015 to attend the international donors' conference, Foreign Minister Mahendra Bahadur Pandey visited China in March 2015 in the run up to President Ram Baran Yadav's China visit for the Boao Forum for Asia later in the same month.<sup>60</sup> In December 2015, Deputy Prime Minister and Foreign Minister Kamal Thapa visited China during which, the two sides agreed to quicken the pace of post-earthquake reconstruction projects, and deepen cooperation in trade, connectivity, gas and energy. Repairing of earthquake-hit China-Nepal highways was identified as priority; cement, and particularly petroleum and gas cooperation were to be the main thrust areas. Thapa thanked China for giving 1,000 metric tons of petrol during the 'blockade'.<sup>61</sup>

The Chinese media mollified concerns about China's plan for a rail tunnel through Mount Everest connecting Nepal by 2020. The *China Daily* reported that China had plans to 'build a 540-kilometre strategic high-speed rail link between Tibet and Nepal' through a tunnel under Mount Everest.' The international media circulated this story underlining the strategic implications for India. Later, the Chinese media, citing the same source (Wang Mengshu, Chief Engineer, China Railway Tunnel Group) downplayed the report, underscoring the cost, environment, engineering problems and dangerous work-environment inherent in such a project. However, Wang added that if political and financial commitments were available for this project, engineering problems were not unsurmountable.<sup>62</sup>

### *China and Bangladesh: Business as Usual*

In 2015, China's relations with Bangladesh followed their normal course without a shadow of any unwarranted internal or external happenings. The two countries

commemorated the 40<sup>th</sup> anniversary of establishment of their bilateral relations. Prime Minister Sheikh Hasina released a commemorative postal stamp on this occasion featuring a handshake between her and President Xi Jinping.<sup>63</sup> Commemorating the occasion, ancient contacts between the two countries such as the travels of Fa Xian, Xuan Zang and Yi Jing's in Bangladesh and that of Atish Dipankar from Bangladesh to China, were highlighted on many occasions during the year.<sup>64</sup> A 100-member strong Bangladeshi Youth Delegation's visit to China was an important event in the people-to-people exchanges organised to commemorate the occasion. Director-General Kong Xuanyou, Department of Asian Affairs, Ministry of Foreign Affairs, met the delegation on May 28, 2015.<sup>65</sup>

The most important event during the year was the meeting between President Xi Jinping and Prime Minister Sheikh Hasina on September 26, 2015 on the sidelines of United Nations General Assembly (UNGA). During the meeting President Xi described Bangladesh as 'a good neighbour, good friend and good partner' and 'as an important cooperation partner in the South Asia-Indian Ocean region' with whom China wants to deepen relations in trade, production capacity, energy development, infrastructure construction and other sectors. Prime Minister Hasina acknowledged and appreciated Chinese longstanding assistance in Bangladesh's socio-economic development, and said that Bangladesh was equally willing to promote the bilateral cooperation across the spectrum. The two leaders sought to promote the Bangladesh, China, India and Myanmar Corridor (BCIM).<sup>66</sup> Separately, Chinese officials were reported in the Bangladeshi media as saying that India's attitude towards the BCIM was showing positive change.<sup>67</sup>

The Bangladesh National Assembly Speaker Shirin Sharmin Chowdhury visited China, where she met with Chinese Vice President Li Yuanchao on October 15, 2015.<sup>68</sup> A seven-member strong Bangladeshi delegation of Awami League leaders visited Kunming, Dali, Beijing, and Shanghai in China. They went to China at the invitation of the Chinese Communist Party (CPC).<sup>69</sup>

On the economic front, Chinese Commerce Minister Gao Hucheng's visit was an important event. Gao Hucheng described Bangladesh as 'a development partner.' During the visit, Gao Hucheng and Bangladesh's Finance Minister AMA Muhith signed an MoU relating to the building of the Bangladesh-China Friendship Exhibition Centre. The project will be completed at the cost of \$102.2 million with \$ 86.76 million as Chinese grant to Bangladesh.<sup>70</sup> The visiting minister conveyed China's willingness to bring \$ 300 million as investment to Bangladesh. Bangladesh committed to buy medical equipment and appliances from China. The proposed \$ 4.6 million purchase would be done for the ministry of health and family planning. During a meeting with his Chinese guest, Muhith informed, 'Bangladesh would build 23 kilometres of the proposed international road from Myanmar to Kunming under Bangladesh-Myanmar friendship road

project as a friendship gesture by Bangladesh to China.’ Hucheng gave an assurance that the China Aquatic Corporation ‘would look into the Bangladesh request for setting up the first ever marine aquarium in National Oceanographic Research Institute (NORI) in Cox’s Bazaar of Bangladesh.’<sup>71</sup> China announced its plans of investing around \$ 4.5 billion in two industrial parks. One of the two announced industrial parks would be 774 acres large in Chittagong. The second one would be 500 acres large in Dhaka. The two industrial parks would be part of two separate special economic zones, approved by Bangladesh’s National Economic Council exclusively for Chinese investors.<sup>72</sup>

In defence exchanges, China’s China Shipbuilding Industry Corporation (CSIC) sold two advanced corvette class warships to Bangladesh, with a maximum speed of up to 25.5 knots.<sup>73</sup> The Chinese embassy commemorated the 88<sup>th</sup> founding anniversary of the Chinese People’s Liberation Army (PLA). Senior Colonel Zhang Wei, defence attaché at the embassy, noted that Bangladesh was ‘the only country to receive the medical ship [PLA Navy hospital ship Peace Ark] twice’. The embassy characterised China as ‘a reliable and affordable source of weapons and equipment’ and ‘military technology and training’ for Bangladesh.<sup>74</sup> In December 2015, General Abu Belal Muhammad Shafiul Huq, the chief of staff of the Bangladesh army, paid an official visit to China and held discussions with General Wang Jianping, deputy chief of general staff of the PLA. Gen. Wang conveyed to him that as part of OBOR, ‘China is willing to maintain communication and coordination with South Asian countries including Bangladesh and strengthen interconnectivity for common development.’<sup>75</sup>

The Indian media noted that India’s public sector Bharat Heavy Electricals Ltd (BHEL) and NTPC Ltd’s bids for energy deals with Bangladesh Power Development Board (BPDB) could be considered as India’s attempts to not be elbowed out by Chinese companies in Bangladesh.<sup>76</sup> It was also noted that Prime Minister Narendra Modi’s visit to Bangladesh marked a course correction in India’s relations with Bangladesh. The Sheikh Hasina government were deeply invested in developing good relations with India, disregarding the political risks and fears of a backlash from the opposition Bangladesh Nationalist Party (BNP). However, domestic compulsions had held India back. The Modi government finally got the Land Boundary Agreement (LBA) ratified in Parliament, with West Bengal Chief Minister Mamata Banerjee’s support, who had opposed it during the Manmohan Singh government (2004-14). After the ratification of the LBA, Modi visited Bangladesh. Banerjee was also part of his delegation.<sup>77</sup>

The year 2015 also saw the growing Japanese economic interest in Bangladesh. The media reported that Bangladesh might cancel an \$8 billion deep water port project which it had been negotiating with China in favour of a Japanese option. The media claimed that, if this happened, it would be a jolt for OBOR. Planning

Minister Mustafa Kamal was quoted as saying, 'Japan's proposal to finance and build a seaport in Matarbari, located some 25 km from Sonadia, where Beijing had offered to construct the country's first deep water port' had been cleared.<sup>78</sup> International players such as the UAE, India, Germany and the Netherlands have been interested in this port. Japan's entry as a competitor to China in Bangladesh may come as a breather for those commentators who look at China's engagement with South Asia through the prism of implications for India.

### *China and Sri Lanka: Fairness and Equality Are the Issue*

The year 2015 started with the ouster of Mahinda Rajapaksa from office. The United National Party (UNP)-led opposition candidate Maithripala Sirisena defeated him in the presidential elections in January 2015. The election outcome had implications for Sri Lanka's relations with China. During the election campaign, Sirisena had questioned the Rajapaksa government's business deals with China. The UNP-led alliance United National Front for Good Governance (UNFGG) won the parliamentary elections in August 2015 also, though it fell short of majority. The two victories were a clear message for China that it would have to engage the new regime in Sri Lanka. Thus, throughout 2015, the two countries appeared to be readjusting their relations.

Chinese loans to Sri Lanka emerged as an issue in 2015. It should be noted that Sri Lankan economy is under duress of foreign debt. In 2013, its foreign debt was around 65 per cent of its Gross Domestic Product (GDP), which was estimated 'to rise to 94 per cent' in 2015. A large share of the foreign debt of Sri Lanka comes from China. Repaying instalments and the interest payable on Chinese loans is taking a toll on government revenues. The bulk of Chinese loans for infrastructure projects were taken during the Rajapaksa government.<sup>79</sup> Sri Lanka had \$ 5 billion in Chinese loans in 2015.<sup>80</sup> The Sirisena government also had an issue with the projects for which the loans were taken. It questioned the previous Rajapaksa government's entering into a \$ 1.4 billion deal with the China Harbour Engineering Company (CHEC) for building a port city in Colombo. The company was accused of paying Rs 149 million (HK\$18 million) as a bribe to Mahinda Rajapaksa. The Sri Lankan government initiated a police investigation and suspended the deal, though the company – a subsidiary of the public sector China Communications Construction Company (CCCC) – denied any wrongdoing.<sup>81</sup> As a result of the suspension, the CCCC was reported to be incurring 'an initial direct loss for the company of over 380,000 U.S. dollars per day.'<sup>82</sup> The Sri Lanka government was reported to be looking into scrutinise some other projects too.<sup>83</sup>

These steps by Sri Lanka have raised concerns in China regarding the recovery of its loans, and the security of its investment in the island country. China also appeared concerned about the possible discrimination against its companies.

Foreign Ministry spokesperson Hua Chunying appealed that the project issue should be resolved 'in a way that helps Sri Lanka's development and maintains the confidence of Chinese firms investing in Sri Lanka.'<sup>84</sup> Strains in economic relations set the tone for relations between the two countries in 2015. However, it would be wrong to over-read the economic issues. Both the governments appeared to be working sincerely to improve relations.

President Sirisena received the customary congratulatory messages from President Xi Jinping after his election. He was again wished on the occasion of Sri Lankan Independence Day on February 4, 2015. Two Special Envoys from China visited Sri Lanka during the year. The first, visit was that by Assistant Foreign Minister Liu Jianchao who visited Colombo in early February 2015; the second, was that of Vice Foreign Minister Liu Zhenmin in October 2015. These Special Envoys sought to reassure the new government about China's intentions. In addition to these visits, the two countries maintained a steady flow of bilateral visits.

The visiting assistant foreign minister Liu Jianchao met the top level government leaders of China. During the special envoy meetings, the two sides expressed their commitment to strengthen their old friendship with a focus on development and stability. Liu underlined Sri Lanka's significance for advancing OBOR in South Asia. Immediately after this visit, the Sri Lankan Foreign Minister Mangala Samaraweera visited China in late February. During his visit, he met with Chinese Premier Li Keqiang and Foreign Minister Wang Yi. Wang Yi, who while jointly addressing a press conference with him, remarked, 'No matter how the situation changes, the two sides should cherish bilateral traditional friendship'. He also said that the proposed free trade agreement, infrastructure construction and industrial cooperation were the three major pillars of the relationship, apart from deepening cooperation in health care, agriculture, science and technology, tourism (people-to-people and cultural exchanges) and poverty alleviation. Importantly, he told Samaraweera, 'China holds an open attitude towards China-Sri Lanka-India trilateral cooperation and stands ready to actively discuss possible fields and feasible approaches of the trilateral cooperation.' He referred to Buddhist tourism, which the three countries can develop (the third country being India).

The Sri Lankan foreign minister's visit was followed by that of President Sirisena in March 2015. During his visit, he held meetings with top Chinese leaders. Premier Li Keqiang reassured him about China's continued financial support for Sri Lanka. Notably, President Xi Jinping remarked, 'China respects the development path chosen independently by the Sri Lankan people in accordance with their own national conditions and supports Sri Lanka's efforts in safeguarding independent sovereignty and pursuing stable development.' He called for 'joint efforts to actively build the 21st Century Maritime Silk Road,

and bringing the financing channels including the Silk Road Fund and the Asian Infrastructure Investment Bank into full play.' He expected an early conclusion of a Free Trade Agreement between the two countries. President Xi was optimistic about Sri Lanka's protecting Chinese companies' 'legitimate rights and interests.' On his part, Sirisena reciprocated the sentiments. Welcoming Chinese investment, he promised a positive and favourable investment climate for Chinese investors. Echoing Wang Yi's proposal about the China-India-Sri Lanka trilateral cooperation, President Xi asked 'why don't we get India to work with us'. President Sirisena was reported to be very receptive to this idea.<sup>85</sup>

Vice Foreign Minister Liu Zhenmin, was the second special Chinese envoy to visit Sri Lanka in October 2015 to congratulate the Sri Lankan government on the successful conduct of parliamentary elections in the island nation. During his meeting with President Sirisena, Liu expressed the confidence that:

No matter how the international and regional circumstances and domestic situations of Sri Lanka may change, China will insist on its friendly policies towards Sri Lanka ... The Sri Lanka Freedom Party (SLFP) and United National Party (UNP) have both made important contributions to promoting China-Sri Lanka friendship.<sup>86</sup>

He also met the former President Mahinda Rajapaksa during his visit. Also charted during the visit was a six-point course of action for building relations. These six points were:

1. The gains of President Xi Jinping's visit to Sri Lanka in September 2014 and that of President Maithripala Sirisena to China in March 2015 should be consolidated;
2. High-level contacts and strategic communications should be promoted;
3. Cooperation for the 21st Century Maritime Silk Road;
4. Ensuring equality, mutual benefit and win-win results in cooperation projects;
5. Cooperation and coordination for making 'good use of the 2014-2016 non-reimbursable assistance to Sri Lanka announced by President Xi Jinping during his visit to the country';
6. Mutual recognition of each other's contribution.<sup>87</sup>

Liu Zhenmin assured Sri Lanka of Chinese support for strengthening 'communication and cooperation in fields like tourism, human resources training, Chinese language teaching' among others.<sup>88</sup>

Towards the end of 2015, the hectic parleys began to pay dividends. Finance Minister Ravi Karunanayake communicated that the two countries had good government-to-government relations. The problems were basically related to the business decisions taken by the Rajapaksa government, and the Sirisena government was re-examining Sri Lanka's 'extensive and sometimes poorly

managed deals' with China. In December 2015, the Sri Lankan government finally confirmed that it would honour the deals, though the previous government had entered into them without competitive bidding and proper planning. It seems that Chinese loans were the main issue which needed 'reinterpretation', not the projects as such.<sup>89</sup> Finally, the Sri Lanka government revoked the suspension of the contentious Colombo Port City project in January 2016. Karunasena Kodituwakku, Sri Lanka's Ambassador to China, remarked that Colombo was ideal for a South Asian financial hub, and its location will 'help connect businesses from India, Sri Lanka, Myanmar, Bangladesh, Pakistan and Singapore and the Middle East.'<sup>90</sup> Incidentally, the economic strains visible in 2015 are in all likelihood only temporary. They have not deterred Chinese or Hong Kong companies from exploring business in Sri Lanka. Their business interests in the country cover automobiles, aluminium, heavy industries and furniture and other sectors. Although wages in Sri Lanka are higher than in Bangladesh or Myanmar, Sri Lanka's quality human resources and geographical proximity to big economies such as India and West Asia are attracting Chinese and Hong Kong companies. As these companies reportedly cater to premium consumers, they can absorb the high wages in Sri Lanka.<sup>91</sup>

The year witnessed normalcy return to routine economic interaction between the two sides. The IZP group and the Central Bank of Sri Lanka concluded a China-Sri Lanka cross-border settlement system agreement in September 2015.<sup>92</sup> The China Council for the Promotion of International Trade Zhejiang Provincial Committee and the Ceylon Chamber of Commerce organised the China Zhejiang-Sri Lanka Investment and Trade Symposium in November 2015, with the participation of 120 representatives from 77 Zhejiang companies and government agencies.<sup>93</sup> The two countries also continued their talks for a Free Trade Agreement (FTA).<sup>94</sup>

Sri Lanka's hesitation to grant a visa to the Dalai Lama made it amply clear that for Sri Lanka, the irritants in the relationship were basically economic, not political. An official reported statement that, 'the Dalai Lama is very important. But the close relationship with China is more important'—was a confirmation that the change in government did not mean a change in political priorities.<sup>95</sup>

The bilateral defence exchange too proceeded as usual in the year. The two countries conducted the second Exercise Silk Route 2015 from June 22 to July 13. A 43-member strong PLA contingent and soldiers from Sri Lankan Commando Regiment and Special Forces participated in it.<sup>96</sup> On this occasion, the Chinese defence minister said that he expected 'continuous and stable' bilateral military ties.<sup>97</sup> The exercise was important as it took place in the wake of Sri Lanka ruling out 'future Chinese submarine visits to the country'—an issue which caused alarm in India in 2014. Foreign minister Samaraweera had stated in Beijing



in February 2015, 'I really don't know which circumstances lead to some submarines coming to the port of Colombo on the very day the Japanese prime minister was visiting Sri Lanka, but we will ensure that such incidents—from whatever quarters—do not happen during our tenure.'<sup>98</sup> However, in October 2015, Prime Minister Ranil Wickremesinghe said that Sri Lanka would 'allow future submarine visits by China provided they are not too frequent' and as per the criterion for peaceful visits laid out by the Sri Lankan government. He agreed that India's complaint that it was not informed of visits of Chinese submarine on earlier occasion was 'correct.'<sup>99</sup>

The year closed with Sri Lanka asserting its agency and autonomy in its relations with China vis-à-vis a pro-China and pro-India binary. A passage from Chinese newspaper *Global Times* is the perfect conclusion of this section of the chapter: 'Although partisan politics may have a certain effect on bilateral ties, it's inappropriate to exaggerate the influence. To consolidate high-level strategic cooperation with China has gained bipartisan backing in Sri Lanka's parliament. No matter which party takes power, it will maintain a good relationship with China.'<sup>100</sup>

### *China and Maldives: New Horizon to Explore*

In 2015, China and Maldives appeared to be building on Xi Jinping's visit to China in 2014 — the first ever visit by any Chinese President to the island nation.

The most important engagement between the two countries was the progress towards a free trade agreement (FTA). The Joint Commission for Trade and Economic Cooperation held the second round of talks on the FTA on September 8, 2015. The Vice Minister of Commerce Gao Yan and Economic minister Mohamed Saeed led the talks. The joint commission meet was followed by official-level follow up in October 2015.<sup>101</sup> Then again, Hongxia Dong, Director General of the Ministry of Commerce, and Mohamed Saeed, Economic Minister, also met for the FTA talks in December 2015.<sup>102</sup> The FTA is likely to become a reality sometime in mid-2016. It would be Maldives's first FTA with any country, if it materialises. For the record, the joint commission was set up in 2014 during President Xi Jinping's visit to Maldives.

The aforementioned Joint Commission meeting in September 2015 resulted in an MOU under which China agreed to exempt Maldivian fishery products from duty. Discussions took place on the Malé-Hulhulé bridge, financial aid for developing the Ibrahim Nasir International Airport (INIA) and finance for housing projects in the Maldives.<sup>103</sup> Incidentally, China's CCCC Second Harbour Engineering Company's successful bid for building Malé-Hulhulé Bridge was a major benefit for China in its economic relations with Maldives. It bid \$ 200 million, thus bringing down the cost from the government estimate of \$ 300

million. The construction of the bridge, named the Maldives-China Friendship Bridge, commenced in December 2015 with a ceremony attended by Vice Minister Gao Yan.<sup>104</sup> China carried out the feasibility study for the bridge in May 2015.<sup>105</sup> Another instance of the economic cooperation between the two countries was China agreeing to provide a \$373 million loan for building a new runway at the INIA under the loan agreement signed during tourism minister Moosa Zameer's visit to China in December 2015. China's Export-Import (EXIM) Bank will finance the project which is to be executed by the Beijing Urban Construction Group (BUCG).<sup>106</sup> Overall, Maldives appeared to be stepping up its economic cooperation with China. Its Vice President Ahmed Adheeb Abdul Ghafoor, who was on a visit to China to participate in a workshop on the Maritime Silk Road, inaugurated the Second Maldives Investment Forum in Beijing in China in 2015.<sup>107</sup> The Maldives Marketing and Public Relations Corporation (MMPRC) and Maldives's Mega Maldives organised a roadshow in China to boost Chinese tourism in Maldives. Incidentally, China accounts for the highest number of tourists visiting the island nation.<sup>108</sup>

In a notable development, Defence Minister Moosa Ali Jaleel and the Chinese Ambassador to the Maldives, Wang Fukang signed a military cooperation agreement for strengthening the Maldivian military. Under the agreement, China would provide military assistance to the Maldives 'up to MVR 64 million.'<sup>109</sup> However, some sections of the Maldivian political spectrum were critical of the nature of the Maldives engagement with China. The opposition MP Eva Abdulla sought to know whether 'China's Yuan Class 335 submarine had entered Maldivian waters and whether the defence forces would know if they did.'<sup>110</sup> The opposition Maldivian Democratic Party (MDP) wrote a letter to the President Abdulla Yameen Abdul Gayoom expressing concerns regarding the award of 'the project to build a bridge between capital Male and the nearby airport island of Hulhule to a contractor blacklisted by the World Bank.' It demanded that transparency and international best practices be followed in the contracts given to China.<sup>111</sup>

China's deepening footprint was not without implications for India. There was speculation in the Indian media whether the unusually aggressive arrest of President Mohamed Nasheed in February 2015, was carried out at the behest of China. Nasheed and his party MDP are perceived to be close to India. He is known to have taken a critical view of Maldives' economic engagement with China. On the strategic plane too, he is considered to be accepting of India's primacy in the Indian Ocean. He is of the view that China's engagement with the island will eventually lead towards China acquiring a military base on the island. Moreover, the unusually aggressively arrest was carried out just around one month after China's perceived friend Mahinda Rajapaksa losing the Presidential election in Sri Lanka in January 2015.<sup>112</sup> In addition to this, a new land law passed by the

Maldivian parliament, Majlis, in July 2015 that will enable China to purchase land on Maldivian territory came as an unexpected surprise for India. Before the new law, foreigners could be leased land for a maximum of 99 years under the Maldivian law. However, now under the amended law, foreigners investing more than \$ 1 billion can buy land in the island country, though the purchase must be done within their project site and 'at least 70 per cent of the area of the completed project must be reclaimed land.' The hurried manner in which the law was enacted was surprising as the entire legislative process was completed in a matter of two or three days. While 14 opposition parliamentarians opposed the bill, it was actually passed by an overwhelming majority—the majority included the ruling Progressive Party of Maldives (PPM) and its alliance partner Maldives Development Alliance (MDA) and the main opposition MDP and the Jumhoorie Party (JP). The development raised alarm in India. In the backdrop of the increasing Chinese activities, the new land law is perceived to be clearing the legal hurdles in the way of providing military base to China.<sup>113</sup> However, China refuted these speculations.<sup>114</sup>

In this backdrop, Maldives appeared to be walking a tight rope between China and India. President Gayoom conveyed to the visiting Vice Chairman of Chinese People's Political Consultative Conference (CPPCC) Chen Xianoguang that Maldives and China relations are a model paradigm for relations between a big and a small country. He also reassured visiting Indian Foreign Minister Sushma Swaraj, that the Maldives had an India First policy. He showed keenness for wooing back Indian investors who have been complaining about problems in the country.<sup>115</sup> Speaking at the 50<sup>th</sup> anniversary of Maldives joining the UN, the President sought to downplay apprehensions about the Chinese presence in the island maintaining that their relations are economic in nature. Describing India as their closest ally, he stated that the, 'Indian Ocean is only a place for the neighbours in the region. This region will remain free from the influence of super powers.'<sup>116</sup> Separately, President Abdulla visited China 'to attend the 3rd China-South Asia Expo' in Kunming.<sup>117</sup> On its part, India was reportedly working on a Mutual Legal Assistance Treaty (MLAT) on criminal matters with the Maldives.<sup>118</sup> It also extended its offer for building a hospital in Addu in Maldives.<sup>119</sup>

## **Conclusion**

The single most important takeaway from 2015 is that the OBOR is redefining China's relations with South Asia in general. Notwithstanding the temporary hiccups as in the case of Sri Lanka, the relations are ever deepening and China's presence is a fact of South Asian life. In the present context, in addition to increasing Chinese trade and investment in South Asia, every South Asian country discussed in this chapter is a member of the China-led Asian Infrastructure

Investment Bank (AIIB). Except India, every country has endorsed OBOR. Although China's deepening relations with South Asian countries in 2015 did not pose any instant concerns for India, China's engagement with India's neighbours will throw open new and subtle challenges for it in times to come. For example, last year, China floated the idea of trilateral cooperation among China-Nepal-India and China-Sri Lanka-India. This is in addition to its push for the BCIM. Thus, now India has to find an appropriate response for these ideas and how to maximise its enlightened national interest and not to be seen as obstructionist by its neighbours. Strategically, China would continue to attach special importance to Pakistan. Over the next few years at least, India cannot expect any positive response from China regarding Pakistan's activities in the POK and its bailing out of Pakistan in the UN on terrorism issue. Developments in Nepal amply demonstrate that how much strategic leverage China gains in South Asia will depend on the quality of India's own relations with its fellow South Asian countries. Sri Lanka's mature handling of its economic and political relations as well as defence contacts with China underline China's importance for South Asian countries. As for India-China relations, the two countries have a long way to go before the relations can move beyond the *modus vivendi* that cooperation can prevail over friction (i.e. bypassing the contentious issues and reaching for low-hanging fruits), and they can resolve the intractable boundary dispute and other security issues.

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## Beijing: Kabul's 'Reliable' Strategic Partner

*Vishal Chandra\**

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*We are closely linked and share weal and woe with Afghanistan.*<sup>1</sup>

—Chinese Foreign Minister Wang Yi, December 2015

Beijing no longer pretends to be a distant stakeholder in Afghanistan's future. Since the formation of the National Unity Government and withdrawal of the bulk of the Western forces at the end of 2014, Beijing has cautiously moved to the centre of the Afghan reconciliation process. Today it is very much a part of President Ashraf Ghani's sustained effort to fundamentally transform Kabul's traditionally adversarial equation with Pakistan's powerful military establishment.

As Kabul sought to engage Rawalpindi, hoping it would force the Quetta-based Taliban leadership into submission, enlisting Beijing's sustained support in view of its known leverage over Pakistan's military-intelligence apparatus was accorded high priority. Beijing responded by pledging full support to the National Unity Government and particularly President Ghani's quest for peace with both Pakistan and the Afghan Taliban. Beijing has since been making efforts towards facilitating direct talks between the Afghan Government and the Pakistan-based Taliban leadership.

### **Background**

It is noteworthy that so far China is the only regional country, other than India, to have entered into a long-term *Strategic and Cooperative Partnership* with Afghanistan, which was signed in June 2012. The two countries had earlier signed the *Treaty of Good Neighbourliness and Friendly Cooperation* in June 2006. China

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\*Emphasis by way of italics in the chapter added by the author.

has also emerged as the largest foreign investor in Afghanistan having won the copper mining rights just south of the capital Kabul, and an oil exploration contract in the Amu Darya Basin in the north, though work on both projects remains stalled, for various reasons. Beijing now has special envoys for Afghan affairs to further strengthen communication between the two countries.<sup>2</sup> It has also increased its interaction with leaders across the Afghan political spectrum. In September 2012, Zhou Yongkang, then senior member of the Standing Committee of the Political Bureau of the Communist Party of China (CPC) Central Committee, became the first Chinese leader to visit Kabul since former President Liu Shaoqi's visit in 1966.<sup>3</sup> Thereafter, Chinese Foreign Minister Wang Yi visited Kabul in February 2014,<sup>4</sup> Assistant Foreign Minister Liu Jianchao in February 2015 and Chinese Vice President Li Yuanchao in November 2015.

In October 2014, Beijing hosted the Fourth 'Heart of Asia' Ministerial Conference of the Istanbul Process, supposedly the largest regional platform on Afghanistan. China has also reportedly hosted secret meetings between the Taliban and the Afghan Government representatives. Interestingly, given China's growing global profile, and despite lingering security concerns, its aid and assistance to Afghanistan has been notably negligible. However, today China along with the United States (US) is not only mediating between Pakistan and Afghanistan, but is also working towards reviving direct dialogue between the Afghan Government and the Taliban leadership, as part of the ongoing quadrilateral effort involving all the four countries. The Chinese and American representatives were very much part of the first ever official meeting held between the Afghan Government and the Taliban representatives at Murree near Islamabad on July 07, 2015. The Murree talks however collapsed as reports of Taliban leader Mullah Mohammad Omar having died two years ago in 2013 appeared, just before the second round of the meeting was to take place. Though the Taliban immediately confirmed Mullah Omar's death, it has since strongly resisted any attempt to bring them to the negotiating table.

The new Taliban leader Mullah Akhtar Mohammad Mansour, who was reportedly injured in a scuffle that broke out during a meeting of the Taliban commanders in Pakistan in the first week of December 2015, has also been struggling to cope with huge opposition to his leadership from within. In fact, in early November 2015, a section of Taliban commanders, opposed to Mullah Mansour's leadership, had announced the formation of a new group with Mullah Mohammad Rasool, the former Taliban governor of the south-western Nimroz Province, as its leader. The two groups have since been engaged in a violent struggle for supremacy in parts of south-eastern Afghanistan.

Further complicating the scenario is the establishment of the *Wilayah Khorasan* or the 'Khorasan Province', comprising Afghanistan-Pakistan region, by the Islamic

State of Iraq and Syria (ISIS), also known as Daesh, in January 2015. Former Taliban fighters owing allegiance to the ISIS chief Abu Bakr al-Baghdadi have since established their strong presence in at least three districts of the eastern Nangarhar Province. Though pro-ISIS Taliban fighters are confronting the Akhtar Mansour faction in the east, there have been reports of the two also joining forces against the Afghan army in the northern Kunduz Province.<sup>5</sup>

The growing presence of the Taliban and various foreign militant groups in northern Afghanistan, particularly provinces bordering China's restive southwestern Xinjiang Province, could not have gone unnoticed in Beijing. Areas that once served as a buffer for China's Turkic Muslim borderlands against Islamist turbulence south of the Hindukush, are fast vanishing as several militant groups who have been pushed out of Pakistan's tribal areas now seek to establish strongholds in northern and eastern Afghanistan.

The military offensive or *Operation Zarb-e-Azb* initiated by the Pakistan Army in June 2014 to flush out select foreign and local militants based in North Waziristan, had led to an influx of thousands of militants – with several of them later pledging allegiance to Daesh – into the border provinces of Afghanistan. According to one estimate, more than 7,000 foreign militants have moved into Afghanistan.<sup>6</sup> Interestingly, Pakistan now expects a badly stretched Afghan army to confront, apprehend and handover Pakistani militants that have crossed over to the Afghan side of the Durand Line.

Meanwhile, with the strategic northern Afghan city of Kunduz collapsing under a sustained Taliban offensive in September 2015, becoming the first provincial capital to fall into Taliban hands since 2001, and district after district falling to the Taliban in southern Helmand Province, Afghanistan's security institutions have been scrambling for a working strategy to minimise or rather absorb the impact of yet another violent Taliban summer offensive this year. The Afghan army, which suffered heavy casualties during the last fighting season, has already started retreating from certain areas in order to focus more on securing key populations centres and highways.

According to the new commander of Western forces in Afghanistan, General John Nicholson, about 5,500 Afghan military personnel were killed in action and more than 14,000 were wounded in 2015.<sup>7</sup> About 13,000 coalition troops, with the US alone contributing around 9,800, are currently deployed across 21 bases in Afghanistan, a huge draw down from the 140,000 deployed at about 800 sites in 2011. President Barack Obama has already postponed the withdrawal of the remaining 9,800 American troops by a year, leaving it for the next administration to set the pace for the military withdrawal beyond 2016. Meanwhile, sustained Taliban offensive appears to be pulling American troops back into the war. They may not be directly leading the counter-insurgency

operations, but they have been ramping up special operations and air strikes in support of the Afghan army.

China has long been concerned about the growing security threat from Uighur militancy, led by the East Turkestan Islamic Movement (ETIM), in its south-western Xinjiang Province. The Uighur militants are long known to have enjoyed safe havens mainly in Pakistan's tribal areas and parts of northern Afghanistan. In recent years, China has accused Uighur militants of carrying out terrorist attacks even outside Xinjiang. China has already promulgated a new National Security Law (July 2015) and has adopted its first ever Anti-Terrorism Law (December 2015). The possible spillover of Afghan instability into Central Asia, and the resultant threats from militant Islam to drug trafficking to the refugee crisis, so close to its western borderlands, has also prompted Beijing to play a more active diplomatic role in an effort to keep the threat away from its borders.

As the security situation deteriorates across Afghanistan, with Taliban likely to keep up the offensive this year as well, it remains to be seen whether Beijing would finally prevail upon Rawalpindi, its 'all weather friend', to stop sponsoring and arming the Haqqani-Taliban terrorist network and instead assist in stabilising Afghanistan. Similarly, will Beijing succeed where Washington has failed over the last 15 years? There might be consensus between Beijing and Washington on the need to find a political solution to the Afghan conflict, but their respective approach towards the Haqqani-Taliban network, which continues to target the Afghan Government, appears to be at variance.

Beijing's increased diplomatic role – call it mediation, facilitation or intervention – has thus far failed to impact the ground situation in Afghanistan, which for now appears to be going from bad to worse. Perhaps, it is pertinent to first examine developments at the bilateral level, basically the National Unity Government's effort to engage Beijing, and the initiatives taken by the latter in response to it, prior to discussing the likely trajectory of the bilateral engagement.

## **Strengthening Bilateralism**

Beijing's security concerns began to grow as Afghanistan entered into the final stages of the security transition from Western to Afghan forces in 2013-14. As Kabul struggled with three simultaneous transitions – security, political and economic - Beijing began to further widen and enhance its diplomatic engagement in support of the Afghan transition. Interestingly, Beijing, which had long opposed the Western military presence in Afghanistan, also appeared to be supportive of the much smaller, but critical, extended presence of the American troops.

### *Message from Beijing*

Chinese Foreign Minister Wang Yi's visit to Kabul in February 2014, just before



the April presidential election, was particularly significant in terms of setting the stage for Beijing's later strong support for the National Unity Government and President Ghani's peace initiatives. Apart from meeting his Afghan counterpart Zarah Ahmad Osmani, the visiting Chinese foreign minister had met the then Afghan President Hamid Karzai, the Afghan National Security Advisor Rangin Dadfar Spanta and also the UN Secretary General's Special Representative for Afghanistan Jan Kubis. Interestingly, Wang Yi had also interacted with the four leading presidential candidates that included Abdullah Abdullah, Ashraf Ghani, Zalmay Rassoul and Abdul Qayum Karzai.

At a joint press conference with the Afghan foreign minister, Wang Yi had clearly acknowledged that "Afghanistan's peace and stability has a bearing on the security of western China, and more importantly, bears on the peace and development of the entire region." Hinting at the urgent need for political reconciliation as Western forces drawdown, he had pointed out that it is "only by allowing all factions to participate in the reconciliation process can Afghanistan realise its lasting peace and stability." He added that, "the Chinese side expects that Afghanistan can achieve broad and inclusive political reconciliation as soon as possible, and is willing to continue to play a constructive role in this regard."<sup>8</sup>

While supporting a sustained international engagement in Afghanistan, Wang Yi had stated that, "the aid of the Chinese side, though limited, is very sincere with no political conditions attached." While probably emphasising on the need for Afghanistan and Pakistan to mend their ties, he had noted that China "supports Afghanistan in improving its relations with all countries, especially with neighbouring countries."<sup>9</sup> In his meeting with President Karzai, Wang Yi noted that as 2014 is "a crucial year of Afghanistan's transition", the purpose of his visit is "to deliver a clear message that China attaches great importance to China-Afghanistan relations, and will continue to stick to the friendly policies towards Afghanistan and firmly support the domestic political reconciliation and reconstruction process in Afghanistan."<sup>10</sup>

### *Deputing Special Envoy*

Meanwhile, with none of the presidential candidates securing the mandatory 50 per cent vote in the first round of the election held in April 2014, a runoff election between the two leading candidates, Ashraf Ghani and Abdullah, was held in June. As serious differences between the two over the final outcome of the runoff vote threatened to plunge the country into a major political crisis, a wary Beijing had dispatched its newly appointed first special envoy on Afghan affairs, Sun Yuxi, to Kabul on July 24, 2014. Yuxi, who had earlier served as ambassador in Kabul, met the then Afghan President Hamid Karzai as well as both the presidential candidates. Later, while interacting with media on the following day,

he had stated that a government that reflects national solidarity should be formed and the new government must focus on national reconciliation and economic reconstruction. He had also expressed support for an Afghan-led and owned reconciliation process and assured the Afghans of China's constructive role in this regard.<sup>11</sup>

### *Opening a New Chapter*

The most significant moment in China-Afghanistan ties, since the formation of the National Unity Government, came when the new Afghan president Ashraf Ghani visited Beijing for the Fourth 'Heart of Asia' Ministerial Conference of the Istanbul Process at the end of October 2014. Ghani first met President Xi Jinping who received him in the Great Hall of the People on October 28, 2014. According to the statement issued by the Chinese foreign ministry regarding the meeting:

Xi Jinping emphasised that since the establishment of the new Afghan government, China-Afghanistan relations have embraced new development opportunities. I would like to, together with you, chart the course for the development of bilateral relations in the new era. Both sides should keep high-level exchanges, enhance exchanges between governments, legislative bodies and political parties, and strengthen communication on major issues. China will intensify its support for the peaceful reconstruction in Afghanistan, helping Afghanistan formulate national plans for economic and social development, train various talents, and develop agricultural, hydropower and infrastructure construction, and promoting projects such as the MesAynak copper mine and the Amu Darya basin for substantive progress so as to boost economic development and improve people's livelihood in the local regions.<sup>12</sup>

While welcoming China's support for his government, President Ghani stated:

Afghanistan views China as *a reliable strategic partner*, admires China's long-term stability and development, and believes that China is able to help Afghanistan speed up development. Afghanistan is willing to develop Afghanistan-China long-term strategic cooperative partnership on the basis of the Five Principles of Peaceful Co-existence.

The Afghan side stands ready to enhance bilateral cooperation in oil, gas, mineral products, infrastructure construction, people's livelihood and other fields, and welcomes Chinese enterprises to invest and will do its utmost to ensure safety of the Chinese institutions and personnel. Afghanistan firmly supports China in fighting against terrorist forces, does not allow any forces to use its territory for anti-China activities and is willing to enhance coordination and cooperation with China.<sup>13</sup>

Chinese Premier Li Keqiang too had met President Ghani in the Great Hall of the People. In his meeting with Ghani, he had stated that China is "willing to take an active part in building Afghanistan's infrastructure including railway, road,

water conservation, and electricity.” President Ghani, on his part, pointed out that, *“further deepening Afghanistan-China strategic cooperative partnership serves as the consensus among various parties in Afghanistan and the core principles of the diplomacy of the country.”* He had also reiterated Afghanistan’s active support for the ‘Silk Road Economic Belt’ proposed by China.<sup>14</sup>

On October 31, 2014, Beijing hosted the much awaited Fourth ‘Heart of Asia’ Conference of the Istanbul Process, which was a clear indication of its growing concern as well as interest in post-ISAF Afghanistan.<sup>15</sup> The significance of the event was further enhanced by the fact that it was the first major international conference on Afghanistan since the National Unity Government was formed in September 2014. Chinese Premier Keqiang, in his extremely detailed address, described the Istanbul Process as “a unique regional cooperation mechanism”, and called on the member countries to “vigorously support Afghanistan’s peace process and its reconstruction.” He put forth five points to help settle the Afghan conflict: first, Afghanistan must be governed by the Afghan people; second, political reconciliation must be promoted; third, economic reconstruction must be speeded up; fourth, the path of development must be explored; and finally, stronger external support must be provided.<sup>16</sup>

While candidly admitting that “peace and stability in Afghanistan have a direct bearing on China’s security and stability”, the Chinese premier elaborated on the assistance extended to Afghanistan:

Since 2001, China has exempted Afghanistan’s matured debts, provided 1.52 billion RMB yuan of grant assistance, and built a number of major projects to the benefit of the Afghan people’s livelihood. That included the Kabul Republic Hospital, Parwan Hydraulic Project Rehabilitation Work, the National Education Center of Science and Technology, and the complex of the Chinese Language Department of Kabul University. China has also trained more than 1,000 Afghan professionals in various fields. China will continue to provide necessary assistance and support to Afghanistan, do what it can as a neighbor and fulfill due responsibilities of a big developing country.<sup>17</sup>

President Ghani’s address at the Fourth ‘Heart of Asia’ Conference was significant as it was his first international address since coming to power in September 2014. He used the occasion to reach out to the wider regional as well as the international audience, which was well represented at the conference. He articulated the domestic priorities and the foreign policy approach of his government in the light of the four critical and simultaneous transitions facing Afghanistan: First, the political transition; second, the security transition; third, the economic transition; and fourth, also the most significant transition in his view, the changing of the culture of the state and the relationship between the citizen, as the principal, and the state, as the agent. He also made it clear that establishing peace in the

country was his highest priority. It was during this address that he for the first time invited the political opposition, including the Taliban, to join the intra-Afghan dialogue and had asked for international support for an 'Afghan-led and Afghan-owned' peace process.<sup>18</sup>

Of particular note in this address was the conceptualisation of his foreign policy. Arguing that since geography had placed Afghanistan at the heart of Asia and history has made it a "pivotal intersection of contending powers and ideas", the country's foreign policy therefore is "intrinsically connected" with its domestic policy. He further added that, "Recognising that we are at the intersection of five circles of international relations, our goal is to provide the platform for collaboration of these states, organisations, powers and networks of virtue." He defined the five circles in his foreign policy as:

Our immediate six neighbors form our *first circle*. The Islamic world forms our *second circle*. North America, Europe, Japan, Australia, and members of NATO-ISAF form our *third circle*. Asia, being transformed into a continental economy, forms our *fourth circle*. And international development organisations, the UN, multinational firms, and international civil society and non-governmental organisations form our *fifth circle*.<sup>19</sup>

The Chinese Foreign Minister Wang Yi too in his address on the occasion clearly identified five aspects to China's approach towards Afghanistan:

First, help Afghanistan with the construction of a series of major projects, improving its national economy and people's livelihood. Second, encourage China-funded enterprises to invest and develop in Afghanistan, strengthening its capability of self-development. Third, train professionals in various fields for Afghanistan, helping to improve its capacity of state governance. Fourth, promote the conduction of dialogues among different sides in Afghanistan, playing a constructive role in its reconciliation process. Fifth, support Afghanistan in its improvement of relations with neighboring countries and its integration into the regional cooperation process.<sup>20</sup>

While emphasising the need for an Afghan reconciliation, the Chinese foreign minister further stated:

China holds that *political reconciliation is the important foundation for Afghanistan's peaceful reconstruction* and the fundamental resolution for Afghanistan to achieve long-lasting peace and stability. Currently, Afghanistan's political reconciliation process is *facing new opportunities*.

We *sincerely call on Afghanistan's political factions including the Taliban to seize the opportunity, make decisions, discard past grievances and look into the future*, and participate in the political reconciliation process as soon as possible to jointly discuss major plans for Afghanistan's peace and development. China firmly supports the Afghan reconciliation process, and is willing to continue to play its constructive role in the process.<sup>21</sup>

### *Hosting the Taliban*

Around the same time, reports began to appear in the media that a Taliban delegation from its 'political office' in Doha had secretly visited China for a meeting with the Afghan Government representatives in early November 2014 i.e. immediately following the Fourth Ministerial Conference of the Istanbul Process. It was said that the Taliban visit was in response to a visit earlier undertaken by a Chinese delegation to the Taliban 'political office' in Doha. Later, in February 2015, it was reported that Qari Din Mohammad, who had led the Taliban delegation to China in November, was on a visit to Pakistan where he was expected to hold 'follow-up discussions' with the Chinese officials.<sup>22</sup>

The purpose of the Chinese facilitation was to help establish initial or preliminary contacts between the new government in Kabul and the Taliban. It is worth noting here that within days of the Fourth Ministerial Conference of the Istanbul Process, *Reuters* reported that Beijing was keen on establishing a "peace and reconciliation forum" to assist Afghanistan with its reconciliation process.<sup>23</sup> Though Beijing had to give up its idea of floating such a platform, it was clear that Beijing would be the new facilitator of the Afghan peace process. It also showed the line of trust between Beijing and the Taliban that could be traced back to late 1990s, when the two had first come into direct contact.

### **Rawalpindi too Assures Ghani**

After Beijing, it was understood that Pakistan would be next on President Ghani's itinerary of state visits. In fact, the visit of Pakistan Prime Minister's Advisor on National Security and Foreign Affairs Sartaj Aziz to Kabul, a week before President Ghani left for Beijing, followed by his remarks at the Fourth Ministerial Conference of the Istanbul Process, had clearly set the stage for President Ghani's visit to Pakistan.

In his address, Aziz had declared that, "Pakistan fully supports China's constructive contribution and Premier Li's five point proposal for Afghanistan's peace and economic development." He had also described President Ghani's statement as "comprehensive", and had lauded him for his "bold vision" and "reform agenda" and also "strong leadership". He had also welcomed the "historic transfer of power from one elected President to another elected President" and had described the National Unity Government as "both a testimony to the statesmanship of the new Afghan leadership, and an essential framework for ensuring a stable and unified Afghanistan." Emphasising the need for an "inclusive" intra-Afghan reconciliation process, Aziz had clearly expressed support for President Ghani's invitation to the armed opposition for talks with the government. He had suggested that, "the international community should also be unanimous

in calling upon all Afghan stakeholders to seek a peaceful solution, as a return to the 1990s would be unacceptable.”<sup>24</sup>

Assured of strong support from Beijing, President Ghani visited Pakistan on November 14-15, 2014. In an unprecedented move, Ghani first went to meet the Pakistan Army Chief General Raheel Sharif at the General Headquarters (GHQ) in Rawalpindi, prior to meeting the civilian leadership in Islamabad. A confident Ghani, convinced of the full support from both Washington and Beijing, sought to achieve a major breakthrough by thawing Afghanistan's relations with Pakistan's powerful military establishment. Pakistan Prime Minister's Advisor Sartaj Aziz, Foreign Secretary Aizaz Ahmad Chaudhry, Defence Secretary General (Retd.) Alam Khattak and Director General of the Inter-Services Intelligence (ISI) General Rizwan Akhtar were also present on the occasion. President Ghani reportedly stated that “Afghanistan wants to bolster security and defence ties with Pakistan including cooperation in training and border management” and also “assured of Afghan cooperation to jointly curb the menace of terrorism.”<sup>25</sup>

President Ghani later held both one-on-one and delegation-level talks with Prime Minister Nawaz Sharif. In the meeting, Prime Minister Sharif is said to have “outlined his vision of a strong, comprehensive and enduring partnership between Pakistan and Afghanistan” and “underscored the importance of multi-tiered bilateral engagement, including at the political, security, economic, leadership, and people-to-people levels.” On his part, President Ghani had “affirmed the importance Afghanistan attached to forging a ‘special relationship’ with Pakistan” and had emphasised the “importance of mutual trust and understanding, close political and security engagement, a comprehensive economic strategy, and increased regional economic cooperation” between the two countries.<sup>26</sup> Thereafter, several visits were made by the Pakistan Army Chief General Raheel Sharif and the Director General of the ISI General Rizwan Akhtar, particularly after the deadly attack on the Army Public School in Peshawar on December 16, 2014 in which more than 100 school children were killed.

## **First Trilateral Dialogue**

To further strengthen the evolving understanding between the three countries, Chinese Assistant Foreign Minister Liu Jianchao visited Kabul in February 2015 to initiate the first round of the China-Afghanistan-Pakistan trilateral dialogue. Prior to the dialogue, in his meeting with Afghan Deputy Foreign Minister Hekmat Khalil Karzai, he had stated that China “sincerely hopes that the national unity government of Afghanistan could stay united” and that “the Afghan side will arrive at a broad and inclusive political reconciliation at an early date”. He added that China is “willing to continuously play a constructive role for this goal.”<sup>27</sup>

Jianchao thereafter had a meeting with President Ghani, during which he referred to the “significant consensus” reached during the latter’s visit to Beijing in October 2014 on taking the bilateral partnership forward. He reiterated China’s support for an ‘Afghan-led and Afghan-owned’ reconciliation process in which China is “willing to play a constructive role.” President Ghani too stated that Afghanistan “is willing to work with China to expand cooperation in economy and trade, infrastructure construction, connectivity, water resources, counter-terrorism and other fields” and that it “welcomes and expects China to play a greater role in the reconciliation process of Afghanistan.”<sup>28</sup>

Jianchao, along with the Afghan Deputy Foreign Minister Hekmat Karzai and Pakistan Foreign Secretary Aizaz Ahmad Chaudhry, also co-chaired the trilateral dialogue which was held on February 09, 2015. According to the statement put out by the Chinese foreign ministry, China as the “common friend and neighbour” of both Afghanistan and Pakistan would like the two countries, “to increase mutual strategic trust as well as enhance mutually beneficial cooperation.” All the three countries agreed to “continue to deepen counter-terrorism and security cooperation.” China announced that it will “invite five delegations of senators, media, diplomats, friends and think-tanks from Afghanistan and Pakistan to visit China in 2015.” It was further stated that China has “agreed to support relevant proposals such as strengthening highway and rail link between Afghanistan and Pakistan including the Kunar Hydroelectric Dam, pushing forward connectivity, and enhancing economic integration.”<sup>29</sup>

Interestingly, on February 12, 2015, just three days after the trilateral dialogue, Chinese Foreign Minister Wang Yi made an official visit to Pakistan. In a joint press conference with Sartaj Aziz, Advisor on National Security and Foreign Affairs to the Pakistan Prime Minister, he stated that the Afghan issue can be tackled by enhancing support in four ways:

First, *support the effective administration of the Afghan National Unity Government.* The international community should respect the development path that the Afghan people have chosen according to their own national conditions. Second, *support the reconciliation between the Afghan government and various political forces including the Taliban.* He stated that *broad-based inclusive reconciliation, on the “Afghan-led and Afghan-owned” basis,* is the right direction for Afghanistan. He added, “If the political forces in Afghanistan are in need, the Chinese side is always ready to provide necessary convenience for the reconciliation process.” Third, *support the economic and social reconstruction of Afghanistan. To solve the issue of Afghanistan, reconciliation is the key and reconstruction is the root.* Fourth, *support Afghanistan’s integration in regional cooperation.*<sup>30</sup>

Referring to Pakistan’s role, the visiting Chinese foreign minister observed that Pakistan and Afghanistan “enjoy impartible natural connections in various aspects such as history, culture, nationality and religion” and that “Pakistan has always

played a unique and irreplaceable role in dealing with the issue of Afghanistan". He also asserted that both China and Pakistan are "willing to strengthen communication and coordination with Afghanistan and work with the international community to make unremitting efforts to realize the successful transition of Afghanistan."<sup>31</sup>

Interestingly, immediately after the trilateral dialogue, there were reports of Afghan authorities capturing and handing over several Uighur militants to the Chinese authorities. The Uighur militants, who had long been trained and sheltered in Pakistan, were said to have crossed over into Afghanistan after *Operation Zarb-e-Azb* was launched by the Pakistan Army in June 2014.<sup>32</sup> Though Kabul had long been seeking military assistance from Beijing, as evident from the visits of several delegations from the Afghan defence ministry since 2005, it has thus far not elicited any concrete response from Beijing.

### The Urumqi Meeting

Buoyed by the outcome of Chinese President Xi Jinping's visit to Pakistan in April 2015, when Beijing pledged \$46 billion for building the China-Pakistan Economic Corridor (CPEC), Prime Minister Nawaz Sharif visited Kabul on May 12, 2015. During his visit, he assured Kabul that "the enemies of Afghanistan *cannot* be friends of Pakistan" and that all militant "sanctuaries *when found*, will be eliminated by direct action", further adding that "any effort by any militant or group to destabilise Afghanistan will be dealt with severely and such elements will be *outlawed* and *hunted down*."<sup>33</sup>

Later, it was reported by the *Wall Street Journal* that a three-member Taliban delegation from the *Quetta Shura* had travelled to China and met former Secretary of the Afghan High Peace Council (HPC) Secretariat and the Defence Minister-designate Masoom Stanakzai in Urumqi, the capital of China's south-western Xinjiang Province, on May 19-20, 2015. Along with Chinese officials, Pakistani representatives too were said to have been present during the meeting. Mohammad Asem, a former lawmaker considered close to Chief Executive Abdullah Abdullah, is also believed to have participated in the meeting. The Taliban delegation comprised of Mullah Abdul Jalil (Head of the Internal Affairs Committee of the *Quetta Shura*, and former Taliban foreign minister), Mullah Mohammad Hassan Rahmani (former Taliban governor of Kandahar Province) and Mullah Abdul Razaq (former Taliban interior minister and commander for northern Afghanistan).<sup>34</sup>

The Taliban however dismissed reports about the Urumqi meeting as rumours. In a statement issued on May 24, 2015, the Taliban stated that "the policy of Islamic Emirate with regards to political interactions and steps is very clear. We do not deem it necessary to meet or establish political links with anyone secretly.



If we have ever travelled anywhere or met with anyone, we have informed the media on the matter. We do not believe in secret talks.”<sup>35</sup> However, Sartaj Aziz, later confirmed that the talks were held at Urumqi.<sup>36</sup>

### Sustained Contacts

The next important bilateral interaction between Beijing and Kabul took place when the foreign ministers of the two countries met on the sidelines of the Shanghai Cooperation Organisation (SCO) conference held in Moscow on June 04, 2015. Describing China and Afghanistan as strategic partners, Chinese Foreign Minister Wang Yi once again assured his Afghan counterpart Salahuddin Rabbani that China “will continue to support Afghanistan in strengthening anti-terrorism capacity building” and will “launch bilateral and multilateral security cooperation with Afghanistan.”<sup>37</sup>

A month later, President Ghani met President Xi Jinping, for the second time, on the sidelines of the SCO Summit held in the Russian city of Ufa on July 10, 2015. According to the statement issued by the Chinese foreign ministry, President Jinping “emphasised that *strengthening security cooperation is in line with the common interests* of both China and Afghanistan” and that China is “willing to continue to provide the Afghan side with *assistance in security materials, technology, equipment and training.*” While reiterating China’s support for an “Afghan-led and Afghan-owned” reconciliation process, Xi pointed out that “achieving broad and inclusive national reconciliation in Afghanistan is a realistic way to solve the Afghan issue” and that China is “willing to work with all parties concerned to play a constructive role in resolving the Afghan issue at an early date.”<sup>38</sup>

### Putting Process Back on Track

Meanwhile, as the relationship between Afghanistan and Pakistan soured in the wake of reports of Mullah Omar’s death, leading to the collapse of July 2015 Murree talks, and with President Ghani lashing out at Pakistan as coordinated suicide attacks hit capital Kabul in the first week of August, China began to make efforts to put the peace process back on track. On September 08, 2015, Chinese Foreign Minister Wang Yi spoke on telephone with both Sartaj Aziz, Advisor to the Pakistan Prime Minister, and Hanif Atmar, the Afghan National Security Advisor.

The statement issued by the Chinese foreign ministry, while acknowledging that recently “new and complicated factors have emerged in the process”, went on to say that China, “hopes that Pakistan and Afghanistan will cherish and earnestly safeguard the improvement and development momentum in their relations and enhance coordination and cooperation on the Afghan reconciliation

process and other issues.” The statement further said that, “China stands ready to continue playing a constructive role to this end and work with relevant parties for the early and long-lasting peace in Afghanistan.”<sup>39</sup>

Later, amidst the continuing tension between Afghanistan and Pakistan, Chinese Vice-President Li Yuanchao visited Kabul on November 03, 2015 to commemorate the 60<sup>th</sup> anniversary of the establishment of diplomatic ties between the two countries. In his address at the reception held to mark the occasion, Yuanchao attributed the “sound and steady growth” of bilateral ties to four reasons:

First, leaders of successive generations of both countries have kept our relations on the right track from a strategic perspective; second, both countries have been committed to the Five Principles of Peaceful Coexistence, treated each other with respect and as equals; third, we have engaged in win-win cooperation, and the livelihood projects China has undertaken in Afghanistan have brought the two peoples closer; fourth, we have had close coordination in regional and international affairs to uphold the common interests of our two countries and all developing countries.<sup>40</sup>

Referring to his meeting with President Ghani earlier in the day, he informed that the two sides have agreed that there is a need to: first, maintain high-level visits and meetings; second, effectively implement bilateral development cooperation projects; third, deepen counter-terrorism, defence and security cooperation; and fourth, support Afghanistan to improve its internal and external environment. He also announced humanitarian aid worth 10 million Yuan and the provision of \$1 million in emergency aid to help Afghanistan deal with massive destruction caused by earthquake in its north. This was in addition to the assistance being provided by the Red Cross Society of China. He reiterated China's commitment to provide aid to the tune of 1.5 billion Yuan over a period of three years. He declared that China will also provide 500 million Yuan for building affordable housing in 2015. He further offered Chinese assistance for drawing up a national infrastructure development plan for Afghanistan.<sup>41</sup>

Interestingly, during his meeting with Chief Executive Abdullah, the visiting Chinese vice-president specifically referred to the two key but long stalled Chinese projects in Afghanistan, and also expressed concerns relating to the security of the Chinese personnel working in the country. According to the statement issued by the Chinese foreign ministry:

The two sides should strive for early progress of the MesAynak copper project and the Amu Darya basin oil project, which will help build up Afghanistan's capacity of independent economic growth and set an example for Afghanistan's attraction of foreign investment.

The Chinese side is ready to offer more government scholarships to Afghan students travelling to China, and train more health and agriculture workers for Afghanistan. The two sides shall make joint efforts to combat terrorism and extreme forces.

The Chinese side hopes that the Afghan side would take further steps to protect Chinese institutions and nationals in Afghanistan and create a safe environment for bilateral cooperation in various fields.<sup>42</sup>

## Reinforcing Trilateral and Quadrilateral Initiatives

Chinese Foreign Minister Wang Yi visited Islamabad the very next month, in December 2015, to participate in the Fifth 'Heart of Asia' Ministerial Conference of the Istanbul Process. The various meetings held on the sidelines made more headlines than the outcome of the conference itself. Several bilateral and trilateral level meetings held on the occasion, including a quadrilateral too, helped in reviving the stalled dialogue processes among the countries of the region including between Pakistan and Afghanistan. President Ghani, who had reluctantly agreed to visit Islamabad for the conference, participated in a series of meetings held to help revive the talks between the Afghan Government and the Taliban.

Quite ironically, the *Islamabad Declaration* that was issued at the end of the conference had agreed to "take necessary actions to *deny* terrorists' access to financial and material resources, to *dismantle* their sanctuaries and training facilities, and to *curtail* their ability to recruit and train new terrorists," and urged "all Afghan Taliban *groups* and all other armed opposition groups to enter into peace talks with the Afghan Government."<sup>43</sup>

The same day, Afghan President Ghani, Pakistan Prime Minister Nawaz Sharif and the Chinese Foreign Minister Wang Yi met for the Second Trilateral Dialogue in Islamabad to explore ways to revive the stalled reconciliation process. According to the press release, "The three sides shared the view that advancing the reconciliation process in Afghanistan is the important condition to realise long-term security of the country" and that based on the 'Afghan-led, Afghan-owned' principle, both China and Pakistan will provide all support and help for resuming and advancing peace talks in Afghanistan.<sup>44</sup>

At the Afghanistan-Pakistan-United States trilateral meeting, the three countries agreed to "accelerate diplomatic and political efforts to put an end to the conflict in Afghanistan" and "develop a lasting solution that meets the needs of all Afghans". The press release also stated:

All three countries will work to create conditions that encourage participation of Taliban *groups* in a peace process that demonstrates to them that they have a real option of political engagement. All efforts for dialogue between the Government of Afghanistan and Taliban groups will be explored and encouraged. All will pursue with urgency confidence building measures that *reduce the level of violence* in Afghanistan, and allow for full participation and talks by all participants.<sup>45</sup>

Both Afghanistan and Pakistan also expressed their commitment to "preventing their territories to be used by any violent extremist group or third party and

acknowledge that those who refuse to join a political resolution of the conflict in Afghanistan must be opposed with all means available.”<sup>46</sup>

Thereafter, a quadrilateral meeting, bringing together Afghan President Ghani, Pakistan Prime Minister Nawaz Sharif, Chinese Foreign Minister Wang Yi and the US Deputy Secretary of State Antony J. Blinken, was held to discuss the Afghan reconciliation process. According to the press statement issued:

The meeting expressed full commitment to enabling an Afghan-led and Afghan-owned political process that promotes a dialogue between the Afghan Government and Taliban *groups*, including on *reduction and renunciation of violence*. It was agreed that reconciliation remains the most viable option to end violence and promote stability in Afghanistan and the region.<sup>47</sup>

The meeting also “affirmed *full support* to the democratically elected National Unity Government of Afghanistan” and “agreed that *authority of the Afghan State and the legitimacy of Afghanistan’s constitution* must be fully respected by the international community.”<sup>48</sup> The statement said virtually nothing about what was expected of the Taliban.

Later, the Quadrilateral Coordination Group (QCG), comprising the same four countries, held its first round of meeting as a formal group in Islamabad on January 11, 2016. The delegations were led by Afghan Deputy Foreign Minister Hekmat Khalil Karzai, Pakistan’s Foreign Secretary Aziz Ahmad Chaudhry, the US Special Representative for Afghanistan and Pakistan Ambassador Richard G. Olson, and China’s Special Envoy for Afghanistan Ambassador Deng Xijun. The meeting “emphasised the immediate need for direct talks between representatives of the Government of Afghanistan and representatives from Taliban *groups*” and “adopted terms for the work of the QCG and agreed to continue regular meetings to advance the peace and reconciliation process in Afghanistan.”<sup>49</sup>

The agenda for the first meeting of the QCG was clearly set by the Pakistan Government. Sartaj Aziz, Foreign Affairs Advisor to Nawaz Sharif, in his opening statement not only spelt out the agenda of the meeting but also suggested the way forward. According to Aziz, the first and foremost task before the Quadrilateral was to “define the overall direction of the reconciliation process along with the goals and targets it would like to set with a view to *creating a conducive environment* for holding direct talks between Afghan government and Taliban *groups*.” He called for undertaking a “realistic assessment of the opportunities as well as *anticipated obstacles*” in the process. He was of the view that specific tasks should be assigned to the member countries based on the “principle of shared responsibility”. He expressed the hope that the meeting will help “evolve an efficient procedural framework” for the functioning of the Quadrilateral.

Aziz argued that *no pre-conditions* should be attached to the reconciliation process, as it will prove counterproductive. Instead, there was a need to “create

conditions to bring the Taliban groups to the negotiation table and offer incentives to them that can persuade them to move away from using violence as tool for pursuing political goals.” In his opinion, confidence building measures could help to persuade the Taliban to join the negotiation process.

Aziz pointed out that the “threat of the use of military action against irreconcilables *cannot precede* the offer of talks to all the groups and their response to such offers.” He added that, “Distinction between reconcilable and irreconcilables and how to deal with the irreconcilables can follow once the avenues for bringing them to the talks have been exhausted.” He cautioned the Quadrilateral against setting *unrealistic targets and deadlines*. Finally, he suggested that the work of the Quadrilateral should be kept out of media glare to the extent possible.<sup>50</sup> Taliban meanwhile continued to refuse to enter into any dialogue with the National Unity Government of Afghanistan.

Interestingly, the Third China-Pakistan-Afghanistan trilateral dialogue on the topic “Quest for peace in Afghanistan: Role of Neighbouring Countries” was also held the same day. It was jointly organised by *Pakistan-China Institute* and *Konrad Adenauer Stiftung* of Germany.<sup>51</sup> In his keynote address to the gathering, Sartaj Aziz argued that the Afghan reconciliation process will have to take into account following two fundamentals:

One, the process has to be Afghan-led and Afghan-owned as an *externally imposed settlement is neither desirable nor it would be sustainable*. The role of Pakistan, China and the United States is basically to *facilitate* the process. Two, political reconciliation by nature is a complex process requiring time, patience and sense of accommodation by the concerned parties with a view to arriving at a win-win solution.<sup>52</sup>

As agreed during the first meeting, the second round of QCG was held just a week later in Kabul on January 18, 2016. The meeting however could not go beyond discussing the roadmap for initiating peace talks with the Taliban groups. Though two more rounds of meetings have since been held, the QCG has thus far failed to make any headway as the Taliban refuse to participate in the talks.

## Prognosis

It is not clear to what extent Beijing and Washington would be able to further coordinate their efforts if Pakistan fails to deliver the Taliban leaders to the negotiating table, or prevent them from further escalating the Afghan conflict. With Pakistan pressing Kabul to hold peace talks without any preconditions, and the Taliban leadership constantly refusing to enter into direct negotiations with the Afghan Government, the effectiveness of the ongoing quadrilateral initiative is already being questioned. Even after four meetings, the QCG has failed to ensure Taliban participation, leave aside resuming direct talks or agreeing to a temporary ceasefire. Nevertheless, China's diplomatic intervention and

willingness to directly contribute to the Afghan reconciliation process assumes significance as Kabul continues to look to Beijing to nudge Pakistan towards a negotiated settlement of the conflict. Beijing's strong political and diplomatic support is considered critical to strengthening the position of the National Unity Government, particularly as it struggles against several internal and external challenges.

On the other hand, despite serious internal divisions on the issue of leadership succession, Taliban have successfully extended and expanded their area of operation over the last one year, not only raising security concerns in Moscow and Beijing but also undermining the position of the central government, both politically and financially. The Afghan army meanwhile has come under tremendous pressure with the Taliban opening several new fronts against it. Amidst the deteriorating security situation across the country, the long overdue parliamentary elections are expected to be held, sometime later this year, to be followed by a *Loya Jirga* to discuss and debate the proposed amendment to the constitution, to provide for the post of prime minister.

Though Beijing has been extremely vocal about its support to the National Unity Government, it has cautiously avoided committing any major economic or military aid to Kabul, at the same time. The immediate emphasis seems to be on containing the threat by diplomatic means. For Beijing, it is more about securing its investments as it surges ahead with several large scale regional infrastructure and connectivity projects under the 'One Belt, One Road' (OBOR) initiative proposed by President Xi Jinping in 2013. With China pledging \$46 billion towards developing a network of roads and energy pipelines connecting Western China to the Gwadar Port in Pakistan, Beijing as of now does not seem to be in a position to take a more comprehensive view of the threat that Afghanistan faces from across the Durand Line.

At times, Beijing also does not seem to show a full grasp of the complex role that militant Islam has come to play in Pakistani society and politics. Today it is very much part of the state structure and the socio-political dynamics within Pakistan. The nature of terrorism itself has undergone tremendous transformation since the 1980s and 90s, something Beijing has still to factor in, even as it faces a growing threat from extremism and terrorism from within its own borders. Terrorism has over the decades evolved into a multi-national industry with global aspirations and reach, with even state actors often having high stakes in it. Certain countries have long used terrorist networks to raise their strategic value vis-à-vis big powers, and also to further leverage their influence and bargaining position within the region, while issuing strong denials.

While Beijing recognises the menace of terrorism, and constantly reiterates and reaffirms its commitment towards jointly addressing the issue at every forum,

it has thus far failed to factor it into its regional approach. It has also not shown enough willingness to back its surging thrust on building cross-regional connectivity networks by re-calibrating its Cold War-era geo-political equations at the regional level. The Chinese approach to terrorism remains as discriminatory and selective as that of its 'all weather friend' Pakistan.

So far it is the Haqqani-Taliban network that seems to have benefitted from the reconciliation process, that too without ever being part of it. The UN blacklisted leaders of the Haqqani group have been integrated into the restructured Taliban leadership, in an effort to legitimise their position. The red lines endorsed earlier by the international community for opening direct talks with the Taliban, are long gone and forgotten. Rise of the pro-ISIS elements within the region have made Taliban appear more acceptable to several regional as well as the Western countries. Today, no country appears inclined to even raise the issue of what exactly reconciliation with the Taliban leadership would mean for Afghanistan's future, its current political system and constitution that fully acknowledges and accommodates the multiple identities that define Afghanistan.

This raises the most fundamental question: What exactly is Beijing trying to do by constantly upgrading its diplomatic ties with Kabul? Is it just about security in its western Xinjiang Province or could there be something more to it? Beijing has been constantly articulating its position on the Afghan issue—a stable Afghanistan at peace with itself and its neighbours—while reiterating and reaffirming its support for a broad-based and an inclusive political system in the country. It has all along emphasised on finding a political solution to the ongoing conflict, through an "Afghan-led" and "Afghan-owned" peace process. However, while offering to mediate between Pakistan and Afghanistan or between Kabul and the Taliban, it has been conscious of its strong ties with Pakistan's military establishment, which remains central to Beijing's growing economic and political interests in the region.

Though Beijing looks well positioned to play a larger diplomatic role in terms of facilitating a rapprochement between Pakistan and Afghanistan, a close analysis of its evolving position on the issue of stabilisation of Afghanistan suggests that it is clearly at odds with Pakistan's objectives. Beijing is bound to tread cautiously. It is aware that its diplomacy will be tested and challenged, and may even be wasted, as it seeks to serve its long-term interests in one of the world's most volatile conflict theatres, aptly referred to as the 'Af-Pak'.

Interestingly, none of the stakeholders in the quadrilateral initiative have so far proposed or indicated a viable political alternative should the Taliban remain opposed to joining the government, in which case they would have to either convince the Taliban to renounce their idea of establishing an 'Islamic Emirate' and accept the reality of 'Islamic Republic of Afghanistan', or would have to

work towards developing a cohesive long-term strategy to help Kabul deal with the various challenges that lie ahead of it. The first option appears to be impossible and the second is yet to be applied. It is logically difficult to imagine how the current democratic political system, and the constitution that guarantees it, could be expected to survive by 'reconciling' with a stronger militant ideological force, which is kept well supplied from across the Durand Line.

Though Beijing cannot be expected to support Kabul at the expense of its strong strategic ties with Pakistan, however, given its rising economic ambitions and along with it the quest for stability, it could be looking for ways to widen the strategic space for making greater diplomatic manoeuvres in the region. As Beijing's stakes in the region grow, both Beijing and Rawalpindi would have to find ways to strike a balance between their converging development interests and somewhat diverging strategic priorities in Afghanistan. Given the consistency with which Beijing is engaging Kabul, could China be trying to leverage its diplomatic position within the region in an effort to quietly manoeuvre Pakistan's military establishment into giving up its destabilising policies towards Afghanistan? As of now, this proposition appears unlikely, though it cannot be fully ruled out in the longer run.

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## China and Southeast Asia: Tracking the Developments

*Sampa Kundu*

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China's significance in world affairs is an unquestionable fact today. It is projected that in the next five years, China's imports would be valued at \$10 trillion; it would invest over \$500 billion in overseas markets and more than 500 million Chinese tourists would be travelling around the world.<sup>1</sup> Some scholars argue that China is no longer a re-emerging or rising nation; it has already re-emerged; and hence, it is important for China to maintain its status in the region as well as in other parts of the world.<sup>2</sup> China's increasing military power and defence spending evince China's ambition to uphold its eminence as a major power. Henceforth, it would be logical to observe China's relations with its neighbours in South East Asia, with whom China shares a hassled cordiality. This chapter argues that despite the ambiguity in China's relations with Vietnam and Philippines, China maintains more or less warm relations with other countries in the region and their shared economic interests further bind them together. ASEAN-China Free Trade Agreement (ACFTA) was finalised in 2010 and China became the largest individual trading partner of ASEAN in 2013 having a 14 per cent share in ASEAN's total trade.<sup>3</sup> Many South East Asian countries have established integrated supply chain networks with China and China's investments in countries like Singapore are noteworthy. A smaller economy like Myanmar is dependent on Chinese investments as well. China's One Belt One Road (OBOR) initiative is likely to benefit South East Asia's poor regional transportation networks in several ways. At the same time, China has shown an uncompromising attitude in dealing with its South East Asian neighbours with regard to the South China Sea disputes.

In 2013 and 2014, President Xi Jinping was busy in engaging China as a major power in the region. Since then China has built an oil rig near the Paracel Islands, been involved in building artificial islands near the Spratlys, confronted the *USS Cowpens*, and countered a US P-8 near the Hainan Island and so on.<sup>4</sup> Seizing Vietnamese and Filipino boats in the South China Sea and criticising the US for being inquisitive in the internal affairs of China have been regular incidents. China has even objected to the role played by the United Nations Convention on the Law of the Sea (UNCLOS) and the International Tribunal for the Law of the Sea (ITLOS) in demarcating the sea lines in the South China Sea and questioned their role in resolving regional disputes. However, at the same time, China continued to pacify its smaller neighbours in South East Asia by offering them economic rewards. In fact, President Xi Jinping while outlining a foreign policy vision in November 2014 had persuaded the world about China's peaceful neighbourhood policy.<sup>5</sup> As Xi was criticised for being inflexible on the territorial disputes with the neighbours, he decided to demonstrate China's willingness to follow a win-win approach at the second Central Conference on Work Relating to Foreign Affairs in November 2014 and spoke about the evolving multi-polarity in the world.<sup>6</sup> The promotion of regional security and economic cooperation in the form of Shanghai Cooperation Organisation (SCO), the Asian Infrastructure Investment Bank (AIIB) etc. can be seen as China's efforts to promote its image as a good and responsible neighbour.<sup>7</sup>

### **A Mix of Dual Track and Multi-Pronged Approaches**

At the beginning of 2015, it was announced that China and ASEAN would work on the third action plan for the implementation of the China-ASEAN Strategic Partnership; the year was designated as the China-ASEAN Year of Maritime Cooperation and it was decided that the 21<sup>st</sup> Century Maritime Silk Road should be given a boost.<sup>8</sup> Despite all these, South China Sea has always been a foreign policy priority for China. For China, having a sway over South China Sea indicates a direct reach to the Indian Ocean. The importance of the South China Sea in China's foreign and security perspective is borne out by the fact that in 2015, the Chinese government sanctioned a 10.1 per cent increase in the expenditure on its armed forces, compared to 2014, and the navy and air force received most of it.<sup>9</sup> China's navy is now busy in building its own aircraft carrier and other equipment necessary to maintain its presence in the seas and oceans. This reaffirms the fact that the territorial disputes between China and some South East Asian countries (Vietnam and Philippines in particular) are far away from being resolved. In an order that this assertiveness is not given prompt attention in the global arena, China conceptualised its 'dual track approach' which reinforces China's demand for resolving the territorial disputes around South China Sea through

bilateral negotiations on the one hand; and taking a multi-pronged approach on the other, as China considers ASEAN a single entity for facilitating its economic integration with the region. The same is noticeable in various other areas, which include China's cultural infiltration in the region and its involvement in multilateral engagements that also embrace South East Asia (e.g. AIIB, ASEAN Regional Forum, East Asia Summit etc.). In March 2015, President Xi Jinping reassured South East Asia with regard to his policy of shared peace and mutual trust as indicated in the Boao Forum. He announced that a powerful country like China has bigger responsibilities to promote peace and development and China does not want any clout in regional or world affairs.<sup>10</sup> During the same month, while meeting Prime Minister Najib Razak of Malaysia, the country chair of ASEAN for 2015, Xi Jinping reiterated that he is committed to supporting the community building initiatives of the ASEAN.

### *OBOR, AIIB and Southeast Asia*

The groundwork for the One Belt One Road (OBOR)<sup>11</sup> was found in the famous 'March West' strategy which explains China's ambitions with regard to the world polity and the economy vis-à-vis in South East Asia. Wang Jisi, who first formulated the strategy, believed that connecting China with Europe and the rest of Asia would create a balance between US and China, the two existing great powers in the international arena.<sup>12</sup> The 'March West' strategy has taken the shape of the One Belt One Road initiative under President Xi Jinping, and in order to convince South East Asia and other countries of the world, about the benefits of OBOR for their economic development, President Jinping emphasises on a common 'destiny' and describes OBOR as one of the important aspects of China-South East Asia relations.<sup>13</sup> Simultaneously, China continues to support the Master Plan on ASEAN Connectivity (MPAC)<sup>14</sup> and ASEAN leaders are expecting financial support for MPAC from the China-led AIIB, which would be one of the means to enhance regional connectivity through financial cooperation.<sup>15</sup> It needs to be reiterated that project funding has been a constant constraint for the ASEAN-sponsored MPAC till now, despite the establishment of an ASEAN Infrastructure Fund of \$ 485.2 million and the promotion of public-private partnerships to finance the projects.<sup>16</sup> However, China will only fund the projects of MPAC if it derives some tangible benefits from them. For instance, the Singapore-Kunming Rail Link (SKRL) is most likely to attract Chinese investments, as the proposed railway line will link eight countries in the region including Singapore, Malaysia, Thailand, Myanmar, Vietnam, Cambodia, Lao PDR and Kunming in China. (See Map 1). In October 2015, Malaysia's Transport Minister Datuk Ab Aziz Kaprawi stated that Kuala Lumpur would propose an early beginning for the SKRL project with the relevant stakeholders.<sup>17</sup>

### *Economic Partnership*

China has made itself the leading economic partner of South East Asia. Trade between China and South East Asia has grown from \$32 billion to \$ 500 billion between 2000 and 2015.<sup>18</sup> (For trade data, see Table 1) China's investments in South East Asian countries are important for the region as well and accounted for 7.1 per cent of the total FDI in ASEAN countries by 2014.<sup>19</sup> In 2015, ASEAN and China negotiated the upgrading of the free trade agreement. They also signed the Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation. At the 18<sup>th</sup> ASEAN-China Summit in Kuala Lumpur in November 2015 both China and ASEAN reaffirmed their commitment to the goal of touching the one trillion dollars mark in their two-way trade and \$150 billion in two-way investment by 2020.<sup>20</sup> However, it needs to be remembered that European Union and Japan's share of ASEAN's inward foreign direct investment is much higher than that of China's. (For details, see Graph 1)

**Table 1: China's Export and Import Trade with South East Asian Countries**

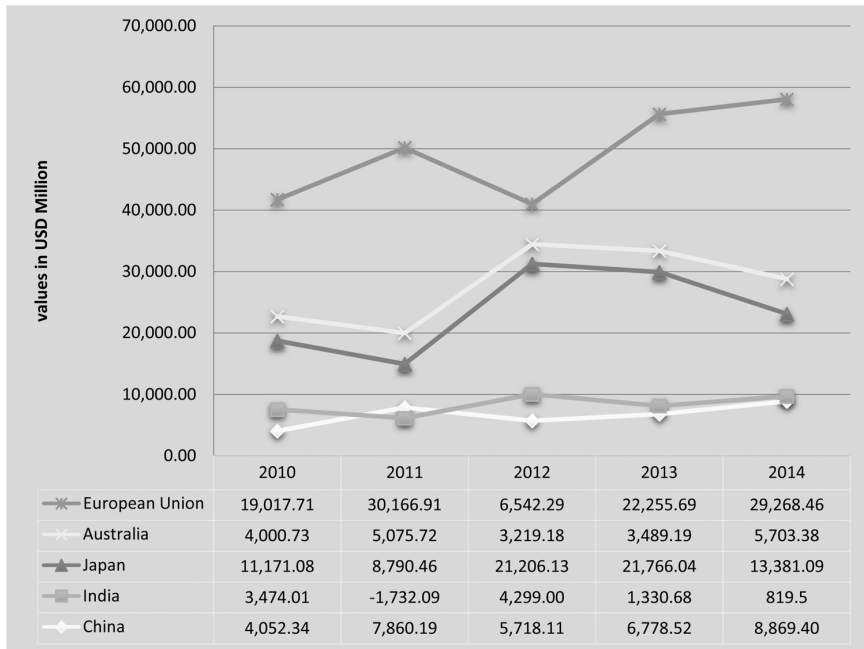
Country	2014		2010	
	Import	Export	Import	Export
Brunei	\$189,717,197	\$1,746,814,132	\$664,329,970	\$367,609,052
Cambodia	\$481,935,914	\$3,275,453,636	\$93,627,088	\$1,347,341,970
Indonesia	\$24,494,895,760	\$39,060,020,350	\$20,795,188,520	\$21,953,565,243
Lao PDR	\$1,774,564,315	\$1,838,932,196	\$601,489,848	\$483,622,848
Malaysia	\$55,654,135,835	\$46,355,435,253	\$50,430,149,705	\$23,802,061,384
Myanmar	\$15,601,273,504	\$9,367,604,664	\$966,087,338	\$3,475,524,257
Philippines	\$20,981,238,549	\$23,474,237,830	\$16,220,254,753	\$11,540,277,320
Singapore	\$30,809,931,905	\$48,911,897,964	\$24,728,920,282	\$32,347,238,005
Thailand	\$38,326,376,767	\$34,293,357,059	\$33,193,365,016	\$19,741,222,106
Vietnam	\$19,900,251,688	\$63,731,484,569	\$6,984,262,461	\$23,101,555,926

Source: UN Comtrade Database.<sup>21</sup>

### **Difficulties Remain – The South China Sea**

Disputes over the South China Sea islands are one of the problem areas in China's relations with South East Asian countries, especially with Vietnam and the Philippines. For instance, President Xi Jinping had not visited Manila in his first two years in office, nor had he made any effort to issue any joint announcement with his Filipino counterpart for resolving disagreements. During the Asia Pacific Economic Cooperation (APEC) Summit in late November 2014, Benigno Aquino III and Xi Jinping met each other informally, unlike Xi's formal meetings with his counterparts from Vietnam and Japan, the two other disputants.<sup>23</sup> Here one may note that Xi's first visit to Manila was in November 2015 for the 23<sup>rd</sup>

Graph 1: Inward Flows of FDI into ASEAN by Select Countries



Source: ASEANStats, ASEAN Secretariat.<sup>22</sup>

APEC Summit. South East Asia's troubled relations with China reached another level as China warned them against objecting to China's construction activities in the Spratlys. In March 2015, China's foreign minister declared that Vietnam, Philippines and Malaysia are involved in illegal construction activities in Chinese waters and China has the right to protect its own territory.<sup>24</sup>

Speaking in the same vein, Hong Lei, China's foreign ministry spokesperson, said in late April that the, 'South China Sea is completely within the scope of China's sovereignty; it is reasonable, fair and lawful. It does not affect any other country'.<sup>25</sup> This statement was made during the 26<sup>th</sup> ASEAN Summit in Malaysia where the Filipino President Benigno Aquino III specifically stated that land reclamation activities in the South China Sea are a threat to the peace and security of the region.<sup>26</sup> Compared to its earlier approach of downplaying the issue, the ASEAN Chair Malaysia too adopted a slightly different tone as Prime Minister Najib Razak said: "We hope to be able to influence China that its also to their interest not to be seen as confronting ASEAN and that any attempt to destabilise this region would not benefit China either".<sup>27</sup>

In May 2015, the Director General of the Department of Boundary and Ocean Affairs, Ouyang Yuijing said in an interview that China even has the right to declare an Air Defence Identification Zone (ADIZ) in South China Sea. He,



however, said that peace and stability is being maintained in the South China Sea, and both China and ASEAN countries are trying to implement the Declaration of Conduct on the South China Sea (DOC) effectively.<sup>28</sup>

As tensions in the sea have been rising, the smaller South East Asian countries have started enhancing their defence capabilities as was seen at the IMDEX Asia maritime defence show, organised in Singapore in May 2015 thus highlighting the possibilities of a war-like situation developing in the region. Perhaps, South East Asian countries have taken this deliberate step to strengthen their defence capabilities so that they can operate more efficiently in the water. Reports suggest that Singapore is building six formidable-class multi-role frigates in partnership with DCNS, a state-controlled naval contractor firm from France; Malaysia too has ordered six corvettes worth around \$2.50 billion from DCNS. Indonesia, Vietnam and Thailand have started negotiating with Russian and European contractors for purchase of military equipment.<sup>29</sup> Moreover, Vietnam, Singapore, Indonesia are intensifying their proficiencies in under-water military equipment. For instance, Vietnam has ordered three Russian-built Kilo-attack submarines. It already possesses three such submarines. At the time of writing, two German submarines were on their way to Singapore, in addition to the four that had been procured earlier. Three submarines from South Korea's Daewoo Shipbuilding were ordered by Indonesia.<sup>30</sup> While South East Asian countries are busy strengthening their defence capabilities, China again demonstrated its assertiveness in July by conducting live ammunition drills, in a 'complex electromagnetic environment'.<sup>31</sup>

In August 2015, Wang Yi, the Chinese foreign minister visited Singapore and Malaysia to attend various ASEAN meetings and forums. A proposal to set up a hotline between China and ASEAN was made at the 48<sup>th</sup> ASEAN foreign ministerial meeting to ensure fast and effective communication in case of emergency.<sup>32</sup> Reiterating China's firmness on the South China Sea issue, Wang Yi said that a nine-dash line had been delimited by China in the 1940s and succeeding Chinese governments had maintained it. Henceforth, Wang Yi continued, any claim by other nations on the territory was unacceptable and China would continue to safeguard its sovereignty over it.<sup>33</sup> Philippines went in appeal to the International Tribunal for the Law of the Sea (ITLOS) in 2013 to seek a resolution of the dispute. China refused to participate in the court hearing in 2014 and expressed its doubts regarding ITLOS's jurisdiction. In October 2015, the Permanent Court of Arbitration at The Hague declared that it has the right to rule on disputes between China and Philippines, in the South China Sea.<sup>34</sup> In November, when Wang Yi visited Manila to attend APEC meeting, he was quoted as saying, "One's fault should be amended by oneself" and "it is hoped that the Philippine side will make a wiser choice".<sup>35</sup> He said the arbitration

case was inhibiting the peace and solidity in the region.<sup>36</sup> This current retreat in the China-Philippines relationship was mentioned by the Chinese foreign minister during his meeting with the Filipino foreign secretary Albert Del Rosario, at the same programme.

While the Chinese side was determined to maintain its sovereignty over most of the South China Sea, on paper, some improvements were visible during the ninth senior officials meeting held in China, regarding the implementation of the DOC. Three professional technical committees on navigation safety, search and rescue, maritime scientific research and environmental protection were proposed to be set up at the meeting.<sup>37</sup>

### **The Game of Balance of Power: The International Community**

China has always sought bilateral negotiations to resolve disputes relating to the South China Sea. Smaller disputants from the region on the other hand, have tended to involve other powers in order to maintain equilibrium.

The Philippines, which has been a close ally of the United States has the most troubled relations with China in the region, along with Vietnam. Manila openly supported US when on October 27, the US sent a navy ship (*USS Lassen*) to the South China Sea to emphasise on its right to freedom of navigation in international waters. Manila in fact, surveyed the route for the *USS Lassen* before the ship sailed, confirming Philippines' involvement with the US in the project. Vietnam and Malaysia maintained silence and Indonesia argued for peaceful resolution of disputes following this incident.<sup>38</sup> The US has always raised its voice against China's aggressive behaviour in the region and has shown a readiness to project its power in the region. For instance, Ashton Carter, the US Secretary of Defence, was quoted as saying, "We urge China to limit its activities and exercise restraint to improve regional trust" in a newspaper, published from Japan.<sup>39</sup> In response, China's foreign ministry spokeswoman, Hua Chunying, said, "We hope the US side can respect the wishes of China and relevant countries to resolve the problem via dialogue."<sup>40</sup> The latest among the South East Asian countries seeking the involvement of extra-regional powers in the South China Sea Island disputes is Malaysia. Marise Payne, writing in the *Guardian* in March 2016 reported that Defence Minister Hishammuddin Hussein had requested his Australian counterpart to make efforts to restrain China from placing 'military assets' on the disputed islands.<sup>41</sup> Japan is another influential country in the region, which wants a counter-balance to China for its own national interests. Japan's involvement with South East Asian countries is on the rise and attests to their shared interests. Vietnam and Japan have shared a strategic partnership since 2014. Indonesia and Japan signed a cooperation pact in March 2015 for Japanese assistance in enhancing Indonesian defence capabilities. In May 2015, Malaysia and Japan

decided to upgrade their relationship to the level of a strategic partnership with Japanese assistance for Malaysia's defence sector. In June 2015, the Filipino president travelled to Japan and signed few deals for sale of weapons.<sup>42</sup> Hence, it may be said that powers like the US, Australia and Japan want to check the influence that China is securing in the region by claiming major portions of the South China Sea, an international water body, for reasons that are still unfolding. Thus, the South China Sea dispute is now internationalised, and it is likely to create a war-like situation in the region, if it remains unresolved. As a corollary, it needs to be examined that whether the internationalisation of this conflict, especially the way in which the US and China have taken the front seat in the regional territorial dispute, has made the ASEAN countries less important stakeholders in this game of the balance of power.

### *Confidants in the Region*

Despite the hurdles created by the South China Sea issues, China and most South East Asian countries shared a near-cordial relationship in 2015.

In March, the Indonesian President Joko Widodo visited China, and both sides issued a joint statement on Strengthening Comprehensive Strategic Partnership between People's Republic of China and the Republic of Indonesia. Defence, security, political affairs, cultural ties, social affairs, maritime cooperation, science and technology, economy-trade were topics that were covered in the joint statement. Both China and Indonesia agreed that the China-ASEAN strategic partnership would enable the region to maintain peace, security and stability and would be immensely beneficial for both sides. Widodo and Xi Jinping also pledged to prepare a Five-Year Plan of Action to implement the strategic partnership agreement.<sup>43</sup> In April again, Xi Jinping and Joko Widodo met each other in Jakarta to commemorate the 60<sup>th</sup> anniversary of Bandung spirit during the Asian-African Summit.<sup>44</sup> Both leaders signed a cooperation agreement for a high-speed railway in Indonesia on the sidelines of the Summit.

In August 2015, Singapore took over as the rotating country coordinator for the China-ASEAN relationship and leaders from both countries met each other at various meetings and forums. In November, President Jinping visited Singapore and both sides discussed economic cooperation under the framework of Belt and Road initiative. President Xi Jinping and Premier Lee Hsein Loong also agreed on the necessity of peace and stability in the South China Sea region and steady development of China-ASEAN strategic partnership as well.<sup>45</sup> By the end of the visit, Singapore and China had signed various cooperation agreements in areas like connectivity, trade, construction of OBOR, city governance and planning, education, customs etc.<sup>46</sup> In November, at the National University of Singapore, Xi Jinping put forward a four-point proposal which included collaborating to

promote peace and stability, helping each other to ensure development, security cooperation and lastly, promoting harmony among people and nurturing people-to-people exchanges in the region.<sup>47</sup>

For Thailand, China offers a good opportunity as the military government does not share an amenable relationship with the US and Thailand has no direct stake in the South China Sea dispute. In April 2015, Thailand's Prime Minister Prayuth Chan-O-Cha met the China Central Military Commission's Vice-Chairman Xu Quiliang and both sides reiterated their commitment to expand military ties and industrial cooperation. The first Sino-Thai joint air force exercise was undertaken in November in Thailand.<sup>48</sup> Malaysia is another South East Asian country with a soft voice towards China's claims in the South China Sea. In November, Premier Li Keqiang visited Malaysia for the first time as prime minister and China pledged to grant Malaysia a Qualified Foreign Institutional Investors (RQFII) quota of 50 billion Yuan.<sup>49</sup>

China's relations with Myanmar have recently seen some ups and downs and 2015 was not an exception to this. In March, a Myanmar Air Force MiG 29 dropped a bomb in a sugarcane field in Yunnan Province while attacking the ethnic Kokang rebels along Myanmar-China border. Chinese officials did not take kindly to this. Despite the Myanmar government's promise to investigate the matter, the incident left a bitter taste in their relationship. Premier Li Keqiang commented on the 'loss of life and property' and General Fa Changlong, vice-chairman of China's Central Military Commission (CMC) spoke about measures to be taken to protect the 'safety of Chinese people and their property'.<sup>50</sup> Additionally, the burden imposed by Kokang immigrants is jeopardising the relations between China and Myanmar. However, there was an easing of tensions following President Thein Sein's visit to China in September, where they celebrated the 70<sup>th</sup> anniversary of the success of Chinese People's War of Resistance against Japanese imperialism and the World Anti-Fascist War. At the event, both the leaders spoke about the traditional 'paukphaw' (fraternal) relationship and reiterated their commitment to the success of OBOR and other initiatives involving China and Myanmar.<sup>51</sup>

## **Towards the End of 2015**

During the ASEAN-China Ministerial Meeting (10+1), in Kuala Lumpur, the Chinese side put forward a new ten-point proposal to strengthen the China-ASEAN relationship.<sup>52</sup> President Xi Jinping visited Vietnam in November, where he spoke about President Ho Chi Minh and the older generation of Chinese leaders who believed in the 'comradely and brotherly friendship' between China and Vietnam.<sup>53</sup> While addressing the APEC CEOs Summit, the Chinese president spoke about four pillars of growth that include: reform and innovation; an open

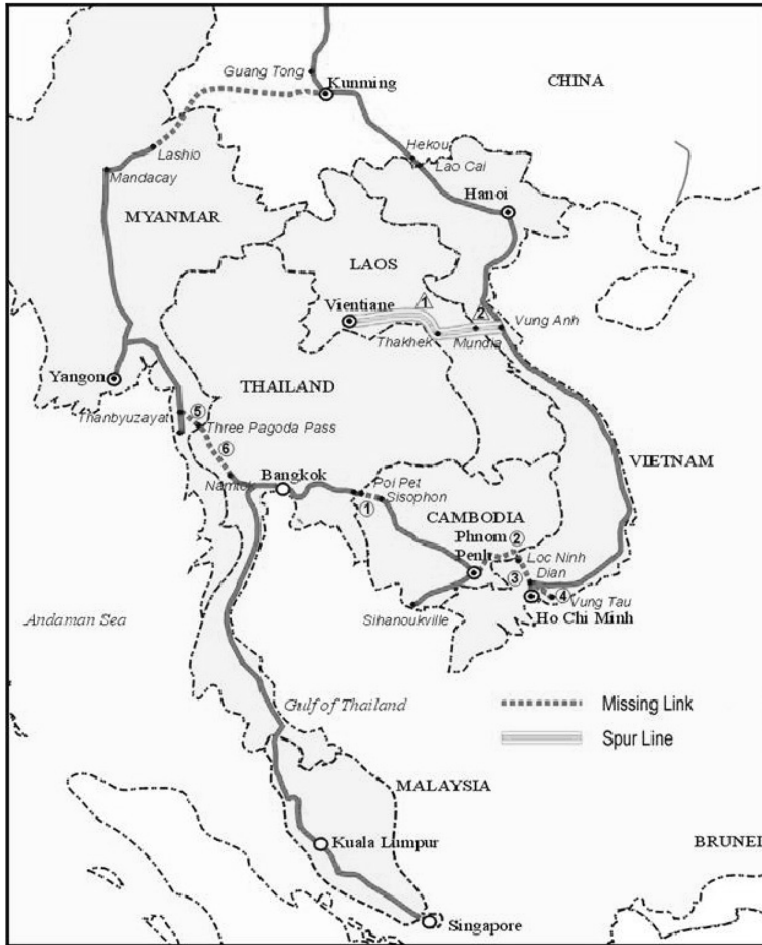
economy; a sustainable development agenda; and connectivity. In the same month, Premier Li Keqiang visited Malaysia to attend the 10<sup>th</sup> East Asia Summit, the 18<sup>th</sup> ASEAN-China Summit, the 18<sup>th</sup> ASEAN Plus Three Summit and other forums organised along with the ASEAN Summit and spoke about political trust, integrated development, win-win cooperation and common interests.<sup>54</sup> He proposed to create more institutional mechanisms to promote China-ASEAN relations, upgrade trade and economic cooperation, synergise China's OBOR initiative with the developmental strategies of the countries in the region, explore global cooperation on production capacity, promote security cooperation and work towards sustainable development.<sup>55</sup>

## **Conclusion**

There was a generally progressive trend in the China-ASEAN engagement in 2015. However, the events during the year also underscored the prevailing mistrust between China and ASEAN despite the official meetings, engagements and initiatives for confidence building. Overall, 2015 has been a mix of success and failure for China's relations with South East Asian countries. The discussions on the Action Plan to Implement the Joint Declaration on China-ASEAN Strategic partnership for Peace and Prosperity 2016-2020 were concluded in 2015. The year saw events under the China-ASEAN Year of Maritime Cooperation. China hosted the first informal defence ministers meeting with ASEAN members and the first ministerial dialogue on law enforcement and security cooperation was also held in 2015. The two-way trade between China and ASEAN reached \$379.2 billion in the first ten months of the year.<sup>56</sup> In 2016, China and ASEAN will celebrate the 25<sup>th</sup> anniversary of their dialogue relationship. However, the cordiality was tinged with anxiety which persisted through the end of the year. Perhaps, this trend will continue in 2016 as China will continue to assert its hegemony in the South China Sea, so that its access to the Indian Ocean is ensured. In 2016, the ITLOS is expected to give its verdict on South China Sea dispute, and in June 2016, a new Filipino president will take over. The US is expected to carry forward its freedom of navigation operations (FONOPS) in the South China Sea. As the US and China have taken centre stage in the South China Sea dispute, how the smaller disputant countries from South East Asia and ASEAN as a whole will response to the emerging scenario is a question that remains to be answered. The ASEAN has officially established itself as a community; albeit, with some limitations and constraints. Henceforth, it would be interesting to see whether economic integration and community building exercises will help ASEAN in creating uniformity among its members and if, at all, will ASEAN be able to advocate for its member countries. It may be concluded that as both China and South East Asia are crucial for each other, especially for

economic reasons, 2016 may not bring any extensive changes in the relationship between China and South East Asia and both the parties are likely to continue their arguments.

Map 1: Singapore Kunming Rail Link<sup>57</sup>



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## China's Silk Road Economic Belt Strategy in Central Asia

*Rajorshi Roy*

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Central Asia occupies a key place in China's foreign policy calculus. Its main drivers involve building energy and economic linkages and strengthening security cooperation. The last decade has seen China emerge as the dominant economic actor in the Eurasian heartland. As such, China is now the largest trading partner with the five Central Asian Republics (CARs). More importantly, a key feature of this partnership is the growing Chinese investments in areas apart from the traditional energy sector. The Ukrainian crisis and Russia's ongoing confrontation with the 'West' has opened up opportunities for Beijing to re-inforce its economic position in the region.

In fact, one can divide China's strategy towards Eurasia into two distinct phases. First, the Central Asian post-independence phase from 1991-2012; the ties embedded in a robust energy partnership. This was aptly represented by the mammoth China-Central Asia gas pipeline which has the potential to meet 20 per cent of China's energy consumption. The pipeline raised Beijing's profile in the regional energy geo-politics by helping the CARs diversify their supplies away from Russia. It also made China a key player in future hydrocarbon negotiations by linking the energy producers and consumers of the region. Moreover, this period marked a gradual shift in China's policies by laying emphasis on developmental assistance to meet the region's widening infrastructure gaps.

The second phase can be broadly attributed to Chinese President Xi Jinping's historic speech at the Nazarbayev University in September 2013.<sup>1</sup> Outlying plans of an 'economic belt along the Silk Road', President Xi enumerated on a project that seeks to build connectivity and economic corridors throughout Eurasia. While one can argue that the broad contours of the plan remain quite similar to China's

robust engagement with the region, yet this is the first time that Beijing has laid down the blueprint of its grand vision. More critically, China has expanded the scope and ambition of the economic corridors with Europe being marked as its final destination. What adds credibility to the plan are the massive funds that Beijing has earmarked for the region. Silk Road Economic Belt (SREB)'s key feature is the articulation of China's role in providing the regional collective goods. Therefore, in many ways, the project can be seen as an attempt to re-connect with not just Central Asia but also Europe by re-discovering the region's economic potential.

In this light, 2015 was the year when the broad contours of China's SREB began to take shape. In March 2015, the National Development and Reform Commission (NDRC) of China released the vision and action statement on building the Silk Road Economic Belt and 21<sup>st</sup> century Maritime Silk Road (MSR) – jointly referred to as the One Belt One Road (OBOR) initiative.<sup>2</sup> The SREB project envisions a belt of economic prosperity in the Eurasian landmass, stretching from China right until Europe by encompassing Central and West Asia (as shown in Map 1). The Belt projects not just infrastructure development in participating countries but also calls for coordinating economic policies, setting up free trade zones, improving people to people contacts, elimination of investment bottlenecks, promoting financial integration and use of renminbi as an integral part of the region's economic engagement. The document also dwells on improving peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit for the member countries. By drawing similarities with the historical role of the ancient Silk Route, China has sought to underpin the legitimacy of this new initiative. On paper, this ambitious plan retains the potential to transform Eurasia's economic landscape.

Inevitably, the SREB has drawn comparisons with the Marshall Plan, with many viewing China's Eurasian march as a concealed attempt to build political influence in the region. The Chinese leadership, though, has defended the initiative on the need to promote regional economic development that can be a win-win situation for all.<sup>3</sup> In this light, China remains well poised to cover the infrastructure deficit and slowing investment in CARs that are facing a worsening economic crisis.

Meanwhile, China's increasing Eurasian foray also raises questions on Beijing's role and responsibility in managing the emerging security threats in the region. For the SREB to be a success, there needs to be a stable environment to do robust business. Protection of physical infrastructure will also be critical. This is even more acute given the growing instability in Afghanistan and the rise of Islamic extremism and radicalisation in Central Asia. While China has traditionally sought to address its security concerns through the Shanghai Cooperation Organisation

(SCO) yet recent trends indicate Beijing's growing interest, though modest, in managing the security threats to the region. In doing so, however, China needs to navigate a complex web of regional interests and particularly manage Russia's perceptions in what has traditionally been Moscow's sphere of influence.

The paper will address the following issues:

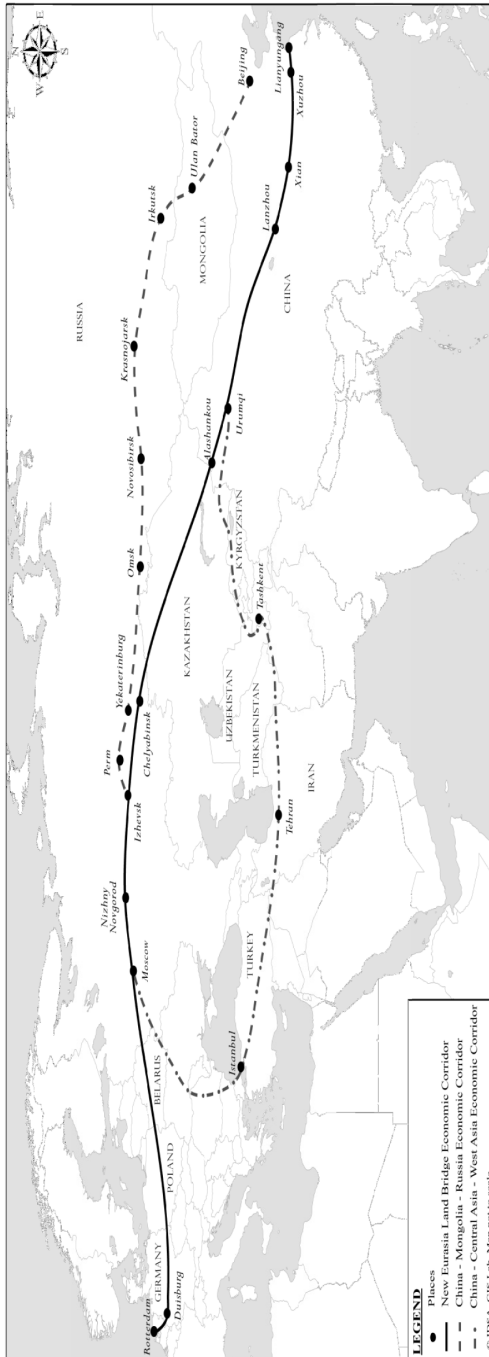
- a) Drivers of China's SREB strategy
- b) Challenges to the SREB initiative
- c) China and Regional Security Cooperation Mechanisms
- d) SREB and Implications for India's Eurasian Strategy
- e) SREB milestones in Central Asia in 2015

### **Key Drivers of China's Silk Road Economic Belt Strategy**

Both domestic and external factors are the drivers of China's SREB strategy. These include:

**A) China's Economic Rebalancing:** Need to Overcome Domestic Economic Slowdown and Industrial Overcapacity: China's SREB strategy of building transcontinental economic corridors can be seen as an attempt to address the economic slowdown and the massive domestic industrial over-capacity. The country's economic growth in 2015 was in its slowest in 25 years.<sup>4</sup> It is also estimated that overcapacity rate is in excess of 30 per cent— a level that can lead to major loan defaults by companies.<sup>5</sup> This is even more acute in sectors that underpin infrastructure development i.e. steel, iron, cement, aluminium, and power generation equipment. In the steel sector alone, China has a surplus of 400 million tonnes.<sup>6</sup> The country produces more steel than the next four largest producers combined – Japan, India, U.S. and Russia.<sup>7</sup> Moreover, 60 per cent of China's aluminium industry is running in losses while in just two years China's cement production has equalled the amount produced in the U.S. during the entire 20<sup>th</sup> century.<sup>8</sup> This inefficiency can be attributed to the intense competition between local governments who, in order to raise their growth rates, extended financial concessions to the firms. This helped reduce the cost of production. While overcapacity is a boon during a period of robust economic growth yet it equally becomes a bane during economic slowdown. With global economy showing muted signs of revival, oversupply has resulted in a sharp crash of commodity prices. A tonne of steel being sold at 1,500 yuan per tonne in 2015 had a marked price of 5,600 yuan per tonne at its peak a decade ago.<sup>9</sup> This has made several Chinese companies unviable. These companies are referred to as 'zombies' in local parlance i.e. business that sustain only due to state aid.<sup>10</sup> And there are questions on whether the government has the appetite to keep bailing them out. These developments have forced the contemplation of an

Map 1: SREB Routes



Source: Prepared by Geographical Information System (GIS) Lab, Institute for Defence Studies and Analyses (IDSA), New Delhi.

unprecedented job cut, equalling 5,00,000 in the steel sector alone. This can have serious social implications.<sup>11</sup> As such, the overcapacity quagmire is a ticking time bomb for China.

Against this backdrop, the SREB offers an outlet to export the overcapacity in infrastructure to the CARs. This includes not just commodities but also surplus Chinese labour. Investment projects comprising roads, railways, telecommunication and factories are an attractive proposition for the CARs who are tackling their own economic slowdown. In fact, the CARs have experienced a triple bogey of decline in economic growth, and rising poverty and unemployment levels. An Asian Development Bank (ADB) report states that average growth in Central Asia slowed down by 1.5 per centage points to 5.1 per cent in 2014.<sup>12</sup> The prognosis for 2015 has been on similar lines.<sup>13</sup> The national currencies of these countries have also been sharply devalued. However, it is the Russian *Rouble's* devaluation that has hit the Central Asian economies the hardest. The majority of CARs remain heavily dependent on remittances sent by their citizens working in Russia. According to the World Bank, remittances are the biggest source of foreign currency - around 40 and 33 per cent - for the Tajik and Kyrgyz economies.<sup>14</sup> The *Rouble's* depreciation and shrinking of work opportunities in Russia have not only reduced the value of remittances but also forced a significant number of migrants to return home. However, the CARs have found it difficult to meaningfully re-integrate them. Therefore, Chinese investments that can stimulate economic growth is looked upon favourably by the ruling Central Asian regimes.

### **B) Need for Peace, Stability and Economic Development in Xinjiang:**

Geography entails that Central Asia remains a critical core of China's SREB strategy. This stems from China's land-locked north-western province of Xinjiang sharing a 2,800 kilometre border with Central Asia (as shown in Map 2). While Kashgar—the western most city of China—is more than 4,000 kms from the nearest Chinese coast, Central Asia is just next door. It helps that Europe too is in close proximity beyond this region. Therefore, a land bridge from Xinjiang, going westwards towards Eurasia, offers China a window to the 'West'. As such, two key OBOR routes are designed to pass through the region. They include:

- i) Central China (Wuhan, Chongqing and Chengdu) to Europe route through Kazakhstan, Russia and Belarus.
- ii) China to Europe route through Central and West Asia.

The importance of Xinjiang in China's domestic and foreign policy calculus stems from the fact that it retains an enormous untapped economic potential while at the same time faces a restive Uighur Muslim population. The Uighurs

have continued with their 'knife attacks' and organisations like the East Turkistan Islamic Party (TIP) have called for the creation of an Islamic State of East Turkistan in Xinjiang. China has sought to counter it by developing the region in the hope that it undercuts the appeal of Islamic radicalisation. Therefore, China's strategy in Xinjiang includes the following.

**Develop its Economic Potential:** Xinjiang is relatively less developed than the coastal areas of China. It accounts for one-sixth of China's territory and has some of the country's largest untapped oil, gas and coal reserves. It is estimated that the province has coal reserves worth 38 per cent, and petroleum and natural gas reserves worth 25 per cent of the national total.<sup>15</sup> Under a new policy unveiled by President Xi in 2014, China has sought to develop the local economy and make it a key trading hub. President Xi stated 'the long-term stability of Xinjiang is vital to the whole country's reform, development and stability; to the country's unity, ethnic harmony and national security as well as to the great revival of the Chinese nation'.<sup>16</sup> As such, the region's Gross Regional Product (GRP) increased from 1.2 billion yuan (US\$ 188.1 million) in 1955 to 927.3 billion yuan in 2014 – a 116-fold increase in real terms along with a 5.6 per cent annual growth.<sup>17</sup> As such, China is setting up 20 special industrial zones in Xinjiang with companies enjoying special tax rates and other benefits.<sup>18</sup> Meanwhile, growing pollution concerns and rising labour costs in coastal China has favoured a policy shift. It encourages manufacturing industries to move inland towards China's lesser developed north and west provinces while the coastal areas focus on high-value added products. Given the distance between north-western provinces and the coast, it is prudent to export their products to Eurasian and European neighbours. This blends in with the SREB strategy of creating transportation and trade networks across Eurasia with Xinjiang acting as a transit hub. However, Xinjiang can develop into a trading hub if Central Asia has a market and transit capabilities to handle Chinese commodity influx. Therefore, China's strategy has been to simultaneously develop Xinjiang and create a stimulus for economic growth in Eurasia.

Tackle the growing Islamic radicalisation among the Uighur population: The ethnic Turkic Uighurs of Xinjiang continue to pose a threat to the economic rejuvenation plan for the province. They continue to maintain close links with their Central Asia brethren. At a time when Islamic radicalisation has gained momentum in CARs, the fears of a spill-over to Xinjiang remain clear and present. Similar conditions among Uighurs, notably economic discrimination and religious oppression, can create a fertile ground for spread of radical ideas. While China has successfully tackled secessionist groups like the East Turkistan Islamic Movement (ETIM) in Xinjiang yet their existing links with terror groups in Afghanistan, Syria and Central Asia is a matter of concern. It has been estimated



that close to 1,000 Uighurs from Xinjiang have joined the Islamic State and Al-Nusra in Syria while 300 Uighurs are active in Afghanistan.<sup>19</sup> While President Xi has talked about dealing with 'frontline terrorism' on a war footing yet he has also emphasised on the need to promote ethnic equality, unity and development.<sup>20</sup> Therefore, one of the domestic drivers of China's SREB project is to develop Xinjiang's economy in the hope that it takes the sheen off radical ideas among the Uighurs.

Map 2: Xinjiang's Border with Central Asia



**C) Tackle the U.S. Rebalance towards Asia-Pacific:** In many ways, the OBOR initiative can be seen as China's counter-strategy to deal with the American 'rebalance' towards Asia-Pacific. The U.S. policy is viewed by Beijing as an attempt to undermine its legitimate interests not just in Asia but also on the global stage. This includes China's geo-political and economic stakes in the form of trade agreements like the Trans Pacific Partnership (TPP). Therefore, the SREB strategy that involves China prioritising its economic ties with European countries who have been traditional American allies can be seen as an aggressive Chinese attempt to tackle the U.S. rebalance policy. With the European economy showing slower signs of recovery, Beijing's overtures have found remarkable support among the European Union (EU) members. This is evident from the number of EU countries

joining the Asian Infrastructure Investment Bank (AIIB) despite stiff opposition from the U.S. This can have a long term impact on the Trans-Atlantic alliance If the broad contours of SREB are implemented it is likely that China will emerge as a major Eurasian continental power with enormous geo-political and economic leverage. This can alter the existing global great power equations.

### *Funding the SREB*

China has earmarked an ambitious funding plan for the SREB. The vision and action plan of building OBOR delves on the need to 'deepen financial cooperation, and make more efforts in building a currency stability system, investment and financing system and credit information system in Asia'.<sup>21</sup> It involves funding by China led multilateral agencies and Chinese institutions. Leading the way are the US\$ 40 billion Silk Road Infrastructure Fund and a significant share from the AIIB which has a registered capital of US\$ 100 billion.<sup>22</sup> The Silk Road Fund comprises mainly of China's forex reserves and is likely to be managed like China's sovereign wealth fund.<sup>23</sup> It is also likely that the New Development Bank (NDB) of BRICS will fund some of the projects. Moreover, the China Development Bank (CDB) has stated that it will invest close to US\$ 900 billion over 900 OBOR projects involving 60 countries.<sup>24</sup> China has also sought synergies with institutions like the EU's €315 billion investment plan (Juncker plan)<sup>25</sup>, and the European Bank for Reconstruction and Development (EBRD).<sup>26</sup> In a significant development, a Silk Road Forum that sought to explore regional cooperation mechanisms was organised in Tbilisi in October 2015 – the first such event held outside China. It involved delegations from Georgia, China, Azerbaijan, Kyrgyzstan, UAE, ADB and European Investment Bank (EIB). A joint statement, that 'underlined the Silk Road being a key driving force for development, driven by cooperation in the fields of trade, energy, transport, communication, services and tourism', was issued.<sup>27</sup> It was decided to organise an annual 'Tbilisi Silk Road Forum' to explore new areas of cooperation and identify key projects.<sup>28</sup> Some parts of China's enormous forex reserves, to the tune of US\$ 3.3 trillion in December 2015<sup>29</sup>, can also be tapped for the SREB projects.

### *Internationalisation of Renminbi*

A crucial element of SREB strategy is to promote the use of renminbi in financial transactions across the participating countries. The OBOR vision statement highlights the need to 'expand the scope and scale of bilateral currency swap and settlement with other countries along the Belt and Road, open and develop the bond market in Asia...qualified Chinese financial institutions and companies are encouraged to issue bonds in both Renminbi and foreign currencies outside China, and use the funds thus collected in countries along the Belt and Road'.<sup>30</sup>

As such, the widespread use of Chinese currency can raise its profile as an alternative to the US dollar. In December 2015, Tajikistan and China initiated a currency swap agreement. The deal is worth 3 billion yuan (US\$ 470 million) and is valid for 3 years.<sup>31</sup> China has a similar deal with Kazakhstan in place.<sup>32</sup> Moreover, by envisioning a leading Chinese role in funding the infrastructure projects, the SREB can also improve Chinese institutions standing in international finance mechanisms.

**D) Diversify Trade Routes:** A key driver of the land based SREB is the inherent need to diversify China's trade routes that are overwhelming sea based. It has been estimated that close to 90 per cent of China's external trade and energy imports transit through maritime routes, with a majority of them passing through the choke-points of Malacca strait. Chinese policy planners have been acutely aware of the inherent vulnerability due to the danger of a superior American naval presence in the region. The U.S. can choke China's economic and energy lifelines during a conflict with Beijing. As such, the SREB with its rail and road connections to Europe across Eurasia provides China an opportunity to diversify its trade routes, boost economic integration with the region and significantly eliminate the threat of American disruption. It has been observed that Beijing has increasingly focussed on improving the efficiency of the China-Europe rail freight corridor. A container train now runs weekly between Wuhan and Hamburg.<sup>33</sup> Tests are ongoing to check the viability of new destinations like Tehran. The Yiwu-Xinjiang-Madrid route at 13,052 kms is the longest train route in the world.<sup>34</sup> The route has transformed the city of Yiwu in eastern China into a logistics base for imported goods.<sup>35</sup> Such has been the impact of the rail route that Yiwu managed to beat an overall decline in China's trade (seven per cent) to post a staggering increase of 46.2 per cent year on year in its foreign trade in 2015.<sup>36</sup> Trade figures for the first three quarters of 2015 stood at US\$ 25.66 billion.<sup>37</sup> In 2015, 17 trains carried 794 TEU containers to Europe while three trains sent back 146 TEU containers of imported goods. Similarly, cargo trains between Europe and Harbin transported good worth US\$ 87 million in the second half of 2015 after the service was launched in June 2015. These trains have carried more than 1,300 containers from Harbin. In total, 11 Chinese cities have established rail freight services to Europe.<sup>38</sup> A new route from China to the Balkans through Central Asia, Iran and Turkey is also being operationalised.

At present two routes are being primarily used – the Trans-Siberian railway that connects China with Europe through Russia, and the southern route that connects China with Europe through Kazakhstan and Russia.<sup>39</sup> The first route takes 16 days while the second takes 12 days. In comparison, freight through sea takes an average 30 days from coastal China. In terms of costs, the rail route

entails a savings of 65 per cent over transit by air but is 25 per cent more expensive over the sea route.<sup>40</sup> The key challenges that the rail route faces are:

- i) Lack of uniform rail gauges in the region with the Russian and Central Asian tracks being different in their dimensions from the European and Chinese ones. This poses logistical challenges in terms of time, cost and infrastructure.
- ii) Managing the cost and time element of the rail route vis-à-vis the air and sea routes is a key issue for traders. On one hand, the sea route is cheaper but takes more time, on the other hand the air route is more expensive but saves significant time. It has been observed that high value merchandise (electronics and automobile engines) are being traded through the rail route. This is because the lost value of these goods is much higher during the journey by sea.<sup>41</sup>
- iii) The volume of cargo remains mostly unidirectional towards Europe.<sup>42</sup> The majority of returning containers remain empty. This results in underutilisation of capacity that raises the cost of exported commodities.

**E) Build Political Support with the CARs:** Over the years, China's policy of building economic and energy linkages with the CARs has served both entities well. Chinese companies are present across the entire spectrum of the region's economic sectors. This includes energy, electricity, rail, road, refineries, mining, construction and so on. Beijing's economic support in keeping the economy ticking has been even more critical in 2015 when the Central Asians have faced an economic crisis. China holds significant regional debt including 41 per cent of the Tajik debt.<sup>43</sup> Meanwhile, as the Central Asian economic outlook for 2016 appears grim as well, it appears that China's relevance to the region will likely increase in the future. Kazakhstan has in fact sought convergence between its 'Nurly Zhol' economic policy and the SREB in order to tide over the ongoing crisis.

In many ways, the confidence of doing business with each other is reflected in China and CARs having shared political interests. These include non-interference in each other's internal affairs and respect for their sovereignty. President Xi has stated that 'China will never intervene in internal affairs of Central Asian countries, seek leadership in regional affairs, or operate sphere of influence.'<sup>44</sup> Very rarely does one hear China criticising the internal functioning of the Central Asian regimes. The Chinese and Central Asian leaders meet each other at least twice every year as part of the SCO summit meetings. As such, a robust partnership with China gives the CARs some breathing space vis-à-vis their ties with Russia. Moreover, given the propensity of Western sponsored 'coloured revolutions' in the post-Soviet space, it is likely that Russia and China will join forces to maintain the status quo. This reinforces the position of the authoritarian Central Asian regimes.

Moreover, Beijing has sought to promote regional security cooperation through the SCO. This highlights their shared interests on this key but sensitive issue. President Xi has stated 'on the issues concerning the major core interests, including the state sovereignty, territorial integrity, security and stability, we should firmly support each other and make joint efforts to crack down on the "three evil forces" of terrorism, extremism and separatism, as well as drug trafficking, transnational organised crime'.<sup>45</sup> As such, the success of non-Western multilateral organisations like the SCO where China plays a major role raises Beijing's profile in the emerging multi-polar world order.

### **Major Challenges to the SREB Strategy**

One of the key conditions for the success of SREB is the need for a stable economic and political environment throughout the region. As such, there exist numerous roadblocks that can limit China's ambitious plans for Eurasia:

**A) Growing Islamic Radicalisation in Central Asia:** Terrorism and religious extremism remain a major cause of concern for the pre-dominantly Muslim states of Central Asia. There is increasing concern and fear of resurgence of local and foreign militant groups in the region. This includes the growing influence of the Islamic State (IS) and the resurgence of Taliban in Afghanistan. It has been estimated that more than 2,000 Central Asians have joined the IS.<sup>46</sup> There also exist social, political and cultural fault-lines, similar to the ones in West Asia, for the Islamic State of Iraq and Syria (ISIS) to embed itself in Central Asia. This involves religious oppression, inter-ethnic discords, and absence of political reforms and socio-economic weaknesses of state structures. An ISIS map of 2014 highlights the group's plans to expand its territories in regions that were under the historical Arab caliphates from the seventh to the 13th centuries.<sup>47</sup> Central Asia was a part of those Caliphates. Meanwhile, the violent Islamic Movement of Uzbekistan (IMU) has not only pledged allegiance to the IS but also sought to regain a foothold in northern Afghanistan – an area that lies in close proximity to Central Asia. Other organisations like the ETIM, Hizb ut-Tahrir and Tablighi Jamaat remain active in the region. Given the growing linkages between terrorism, drug trafficking and organised crime, one cannot rule out the Central Asian radicals in Syria and Iraq and their compatriots in the Af-Pak region coordinating their militant activities against CARs. This assumes even more importance given the drawdown of Western forces from Afghanistan.

For China, these developments assume serious proportions. First, the success of SREB will rest on a stable, peaceful and conducive business environment. As such, the protection of Chinese investments and labour becomes a priority. Second, given the linkages between terrorists of the region, instability in Eurasia can have

serious repercussions for its restive Uighur Muslim population. While terrorism in Xinjiang has been largely contained yet renewed success of regional terror groups might encourage a new wave of secessionism. The Uighurs can even adopt a policy of attacking overseas Chinese investments.

**B) Political Stability of the Central Asian Regimes:** The lack of credible democracy and absence of political reforms have contributed to the rise of radical forces in Central Asia. Barring Kyrgyzstan, the rest of the four CARs place significant restrictions on political activities. The leaders of Kazakhstan, Tajikistan and Uzbekistan have been in power right from the very beginning. Despite promising broader democracy in their speeches, they have hardly taken any initiative to put that into practice. This has resulted in widespread repression of political parties and frequent crackdown on media. Moreover, in the absence of credible democracy the ageing leaders of Tajikistan, Uzbekistan and Kazakhstan face the tricky choice of succession. There is no attempt on their part to build a second level of top leadership who can take on state responsibilities after the demise of existing leaders. If the recent house arrest of Uzbek President Islam Karimov's daughter is an indication, it is plausible that inter-clan rivalry will turn out to be explosive. One cannot rule out the ruling clans using the bogey of Islamic extremism to push their agenda. Meanwhile, corruption and inefficient governance remains endemic. The CARs, including the relatively well-off Kazakhstan, have struggled to provide essential social services particularly in the rural areas.<sup>48</sup> The ongoing economic crisis has further exacerbated the problem. Arguably, the lack of economic opportunities and credible governance has alienated a significant number of Central Asians. Also, inter-ethnic and border disputes between CARs and their regional rivalries remain acute. These developments can undermine the stability of the ruling regimes.

**C) Tackling China's Negative Perceptions in the Region:** China faces the challenge of assuaging the concerns, fears and negative perceptions of its economic activities in Central Asia. Herein lies the paradox of Beijing's robust economic partnership with the region. On one hand, Chinese linkages are seen as a saviour. On the other hand, Sino-phobia is widely prevalent. This stems from CARs economic over-dependence that has resulted in suspicions of China's long term intentions. It does not help that Chinese firms have been accused of ruthless environmental degradation, bad working conditions and corruption in business deals. The fact that majority of the workforce are Chinese nationals has also caused much heartburn among the locals. This sentiment is acute given the growing unemployment in the region. It has also brought out the underlying tensions between the locals and Chinese labour to the forefront. In July 2015, a mass brawl broke out between Chinese and local workers at a copper mine near the northern Kazakh city of Aktogay.<sup>49</sup>

Moreover, there are concerns about Central Asia being just a transit point for the SREB in its route to Europe. Value addition in terms of strengthening local manufacturing capabilities might be ignored. This stems from the small size of the Eurasian market that is unlikely to absorb China's overcapacity. The much advertised Khorgos Special Economic Zone (SEZ) has often been referred to as an example. The project is marked by huge infrastructure disparities on the Chinese and Kazakh borders. The general consensus is that full economies of scale are unlikely to be achieved in this project.

Meanwhile, there exists some confusion on the exact contours of the SREB strategy. While China did release the OBOR vision statement in March 2015, yet the blueprint on its actual implementation remains incoherent. Nevertheless, this can be Beijing's tactical strategy to seek the views and involve the SREB partners in strategy formulation in order to raise the stake of joint ownership.

**D) Making Rail-Freight Profitable:** Given the importance of connectivity within SREB, China will have to deal with the challenge of improving the profitability of the rail-freight corridor to Europe. While containers to Europe, comprising high value products, are usually full yet the majority of them on the return journey are empty or highly underutilised. This raises the total cost of journey that is generally passed on to the exported commodities. Some experts have attributed this to China's imports from Europe that comprise of heavy equipment. These are much easier and cost effective to transfer by sea.<sup>50</sup> Moreover, the European exporters have expressed apprehensions about the security of their products that are likely to pass through unstable regions.<sup>51</sup> In 2014, trade between China and Europe through the rail network stood at US\$ 4.9 billion. In comparison, their annual trade stood in excess of US\$ 600 billion.<sup>52</sup> This highlights the potential of rail-freight corridor if the logistical challenges are worked out.

**E) Managing Ties with Russia:** A critical challenge for the success of SREB hinges on China navigating a complex web of relationship with Russia vis-à-vis Central Asia. It stems from this post-Soviet space being Moscow's traditional sphere of influence. Russia still retains strong influence in the region through its ethnic, cultural, trade and security ties. This assumes even more significance given Russia's attempts to consolidate its position in the region in response to its ongoing confrontation with the 'West'. In this light, the Chinese word Xiyu was an ancient name for China's Western provinces that covered significant portions of Central Asia. The fact that China has replaced Russia as the regional economic powerhouse would not have been lost in the Kremlin. For the CARs, a stronger relationship with Beijing provides them some leverage in their ties with Moscow. They have also played the big powers against each other in order to seek maximum

concessions from the stakeholders. This includes the U.S. whose influence, though, in the region appears to be on the wane. As such, the Russia led Eurasian Economic Union (EEU), where China is not a member, is seen as an attempt to keep Moscow relevant in the Central Asian economic landscape. The Kremlin has also been reticent on China's proposals to create a Free Trade Zone (FTZ) and a Development Bank within the SCO.

Nevertheless, the evolving geo-political situation has brought about a convergence of regional interests between China and Russia. This includes the need to check the American attempts to encircle them in their neighbourhood and tackle growing Islamic radicalisation in the region. As such, Russia has sought to qualitatively improve its ties with China. This even extends to integrating the SREB and EEU policies in the region. A stronger partnership with Beijing allows Moscow to overcome the post-Ukrainian diplomatic isolation and tide over the economic sanctions. Russia is also aware of the temporary unattractiveness of the *Eurasian Economic Union* (EEU) due to the rouble crisis. The bottom-line is Russia cannot compete with China on the economic front. Therefore, it is likely that so long there exists a clear understanding between Beijing and Moscow on their roles and interests in Eurasia, the SREB can be an integrating force in the region. It's broad contours pivot on Moscow drawing the security architecture of the region with China being the fulcrum for economic development.

However, recent developments like China providing air-defence equipment to Turkmenistan will likely challenge this hypothesis.<sup>53</sup> Also, the Russian accommodation of Chinese economic interests can be a temporary tactical strategy. How their equation plays out when Russia overcomes its position of weakness is anyone's guess. China will thus have to do a fine balancing act between cooperation and competition with Russia in Eurasia.

## **China and Regional Security Cooperation Mechanisms**

Over the years, SCO has been the lynchpin of China's Central Asian strategy. Beijing has utilised the organisation's mechanisms to resolve boundary disputes, strengthen anti-terror cooperation and expand its economic footprint in the region. For the CARs, SCO strengthens their regime security, allows them to tap into the economic and security potential of China and Russia, and balance the competing regional interests. For Russia, the SCO provides an opportunity to engage China, balance the U.S., and deal with the regional security threats. Therefore, the organisation ensures a delicate equilibrium between the Eurasian powers.

Nevertheless, it is the SCO's security cooperation that remains vital for an enduring stability in Eurasia. This is based on the regional countries having a shared concern over the 'three evils' of terrorism, extremism and separatism. As



such, China's security engagement with the region is primarily carried out under the SCO framework. This stems from the need to assuage Russia's concerns in Central Asia and the reluctance of China to venture out due to its military weakness and domestic priorities.<sup>54</sup> As such, the SCO has sought to address the emerging security challenges. Its July 2015 summit meeting reiterated the need to combat the 'three evils'.<sup>55</sup> Incidentally, India and Pakistan's full membership was accepted in principle during this meeting. With sanctions against Iran having been lifted, Russia has also pushed for Tehran's full membership. This highlights SCO's expanded engagement beyond Central Asia.

Meanwhile, SCO's success in dealing with drug trafficking has been widely acknowledged. Its Regional Anti-Terrorist Structure (RATS) is an important body at work since 2005. The first joint exercise on countering the use of Internet for terrorism, separatism and extremism related activities was held in China in October 2015. This highlights an increasing convergence between SCO members on the threats faced by the region. The SCO has also expressed concern over the evolving security situation in Afghanistan. While there exist contradictions between members on its role in stabilising the country yet most have favoured some kind of an involvement.

However, the SCO needs to overcome a number of challenges. It has been argued that the organisation is quite passive and ineffective.<sup>56</sup> There also exist serious differences between member countries. In this light, China had for a long time refused to acknowledge the threat of Al-Qaeda. Some Kazakh experts are of the opinion that the RATS is mainly an analytical centre.<sup>57</sup> China too has relied more on bilateral rather than multilateral cooperation. Moreover, unlike the Collective Security Treaty Organisation (CSTO), there are no mutual security obligations among SCO member states. While SCO has conducted a number of military drills yet this does not indicate a radical shift towards military cooperation.

Therefore, these issues can raise questions on the efficacy of SCO in tackling terrorism and protecting China's vital economic infrastructure. The key issue is will China assume greater security responsibility by stepping up its security engagement with the region? If recent trends are an indication, China may have already made a modest beginning. It involves bilateral military training, capacity building and joint exercises. This puts China in uncharted territory, given Russia's views on Eurasian security as a zero sum game.

In June 2015, China and Kyrgyzstan held a six-day joint law enforcement operation at their border.<sup>58</sup> Similarly, Chinese and Tajik special forces carried out joint exercises in Tajikistan's Vahdat region in June 2015.<sup>59</sup> A number of high level military exchanges also took place in 2015. China's Defence Minister Chang Wanquan visited Kazakhstan in October 2015. During this meeting, Kazakh Defence Minister Imangali Tasmagambetov expressed his gratitude for 'China's

assistance for developing Kazakhstan's military'.<sup>60</sup> Gen. Wanquan on his part expressed China's willingness to intensify exchange and cooperation with the Kazakhstani military in areas of reciprocal group visits, military drills and exercises, personnel training and joint anti-terrorism operations, and strengthen coordination and collaboration in the defence and security fields.<sup>61</sup> Similarly, Tajik Defence Minister Lieutenant-General Sherali Mirzo paid a visit to Beijing in October 2015. It followed the terror attacks in Dushanbe that killed eight police officers.<sup>62</sup> General Mirzo stated that 'the two countries enjoy frequent high-level exchanges and ever-deepening mutual political trust'.<sup>63</sup> China's General Wanquan stated that Beijing is 'willing to strengthen the pragmatic cooperation in such fields as anti-terrorism and personnel training'.<sup>64</sup> Interestingly, Beijing adopted a new counter-terrorism law in December 2015. While it primarily aims to combat domestic terrorism yet the law also lays down the conditions under which the military can carry out anti-terror operations abroad.<sup>65</sup> This marks a radical shift in China's security framework.

Notwithstanding these developments, it is likely that China's bilateral security engagements in Eurasia will remain modest for the foreseeable future. Given the complexities involved, particularly Russia's pre-eminent security position in the region, China is likely to let the SCO take the lead in tackling the emerging security threats. This paves the way for a robust regional cooperation mechanism.

### **SREB and Implications for India's Eurasian Strategy**

India and Central Asia share deep civilisational ties. The ancient Silk Route was an integral part of their engagement. The region remains critical in India's security and energy calculus. Instability in Eurasia can have serious implications for India's own security. The region's rich natural resources also offer an opportunity for India to diversify its energy options. Meanwhile, India continues to retain a positive image in the region. Its presence is seen as benign and a countervailing force to the competing regional interests. However, the biggest obstacle in India playing a meaningful role in the region is the absence of a contiguous border.

While the OBOR vision document does not mention India as a stakeholder in the SREB yet the Chinese leaders have invited the country to explore economic convergences in this project.<sup>66</sup> China has, however, expressed concern about India's reticence.<sup>67</sup> Herein lies an opportunity for India to explore SREB's convergences given its potential to overhaul the Eurasian geo-strategic and economic landscape. This project is not just about building infrastructure, promoting economic development and improving connectivity. Somewhere hidden is its potential to raise China's strategic and political profile that might further push India to the margins of Eurasian affairs. The wheels of motion have already been set in play with Russia also on board with China's plans. While Moscow would like to balance

China in Central Asia yet it is unlikely that in its current position of weakness it will annoy Beijing. This significantly narrows India's regional options. Therefore, India will have to factor China in its Eurasian outreach. As such, India's strategic endeavour can be to seek convergences on projects that strengthen its connectivity with the region. This can restore ancient linkages and increase India's relevance in Eurasian affairs. With India likely to become a full SCO member in 2016, the opportunities to have a meaningful engagement with Central Asia will increase in the future.

**Table 1: China's Trade with Central Asia during January-May 2015<sup>69</sup>**

<i>Country</i>	<i>Trade Value (US\$ billion)</i>
Kazakhstan	19.5
Kyrgyzstan	5.1
Tajikistan	2.3
Turkmenistan	10.6
Uzbekistan	4.2
Total	41.7

*Source:* *Financial Times*, <http://www.ft.com/intl/cms/s/0/d35d34ca-6e70-11e5-aca9-d87542bf8673.html#axzz3z8Es92Fw>, (Accessed April 07, 2016)

## **SREB Milestones in Central Asia in 2015<sup>68</sup>**

### *A) Energy and Power Projects*

- Line C of China-Central Asia natural gas pipeline has been completed.
- Line D of China-Central Asia natural gas pipeline in Tajikistan has commenced. This line will connect Turkmenistan with Tajikistan, Uzbekistan, Kyrgyzstan and China. The pipeline will deliver an additional 30 billion cubic metres of gas every year. Tajik authorities estimate the pipeline will generate some US\$ 3.7 billion in transit fees and taxes over a 32-year period.<sup>70</sup>
- The second phase of China-Kazakhstan natural gas pipeline has been operationalised
- The South-North (Datka–Keming) 500 KV power generation project in Kyrgyzstan has been completed.
- The first unit of the No.2 thermal power plant in Dushanbe has commenced electricity generation. Beijing has committed to invest US\$ 6 billion in capacity building in Tajikistan through 2017.<sup>71</sup>
- Three refineries established by China in Kyrgyzstan have been operationalised.
- China and Kazakhstan signed 52 'early harvest projects' worth US\$ 23 billion covering industrial capacity, agricultural products, energy and regional connectivity in December 2015.<sup>72</sup>

- China Energy Ltd. will acquire a controlling stake in KMG International which is a fully-owned unit of Kazakhstan's state oil and natural gas firm KazMunayGaz. The Kazakh firm owns mainly refinery and fuel assets in Europe, including a 100,000 barrels per day refinery and a 400,000 tonnes per year fertilizer plant in Romania, as well as petrol stations in multiple European countries.
- China General Nuclear Power Corporation will jointly build a nuclear fuel assembly plant and mine uranium deposits in Kazakhstan with Kazatomprom.<sup>73</sup>
- The Silk Road Infrastructure fund pledged approximately US\$ 2 billion to Kazakhstan for capacity cooperation.<sup>74</sup> Construction of a light railway transportation system in Astana will start by end of 2015. Projects in steel, smelting and cement sectors are scheduled to begin in 2016.
- During the July 2015 SCO summit, President Xi proposed four initiatives - promoting the interoperability within the regions, enhancing capacity cooperation, cooperation on capability construction and developing investment and financing cooperation. SCO member states also reached an agreement on joint establishment of Silk Road Economic Belt.

### *B) Infrastructure Projects*

- Completion of a road project in Issyk Kul in Kyrgyzstan.
- Completion of freeway from Ayni to Panjakent and the Vahdat -Yovon tunnel in Tajikistan.
- Completion of Angren to Pape tunnel in Uzbekistan. This will allow Uzbek citizens to travel to Uzbek part of Fergana Valley without crossing the border with Tajikistan.
- Lianyungang has emerged as an important cargo trans-shipment base for Central Asian countries re-exporting goods to Japan, South Korea and Southeast Asia. It's total volume of cargo is expected to reach 2,50,000 standard containers by the end of 2015.
- The Taldy Bulak Levoberzhny gold mine in Kyrgyzstan has commenced production.
- The Khorgos Gateway Inland Container Dock commenced partial operations in July, 2015.<sup>75</sup> The dock has a capacity to process 540,000 TEU annually, with six berths where multiple trains can be handled simultaneously.
- China signed a Joint Communique on Launching the Economic and Trade Cooperative Partnership Agreement Negotiation with the EEU.

### *C) Currency Swap and Finance Agreements*

- China concluded bilateral domestic currency swap agreements worth CNY

210.7 billion in total with seven Eurasian countries. The Bank of China issued the first loan to companies in Kazakhstan under the framework of domestic currency swap agreement which promotes the Renminbi internationalisation and the Sino-Kazakhstan trade and investment facilitation.

- The People's Bank of China established a 3 billion yuan (US\$ 472 million) swap line with the National Bank of Tajikistan (NBT) in September to bolster its falling reserves.

## Conclusion

The scope and ambition of SREB is one of the most important strategic initiatives of the 21<sup>st</sup> century. The web of economic linkages that China seeks to weave in continental Eurasia marks its attempts to carve out a geo-strategic space for itself. This assumes importance given the U.S. efforts to undermine China's interests in the Asia-Pacific. It is here that geography is likely to come to Beijing's aid. A land corridor, stretching from China to Europe through Central Asia, comprising of allies reduces the American ability to disrupt China's economic connections. It also cuts down Beijing's vulnerability of its sea trade being exposed to U.S. naval dominance. At the end of the day, SREB's ambit goes beyond building regional infrastructure. The Belt can completely overhaul the Eurasian economic landscape. At a time when Europe and Eurasia mirror the slowdown in global growth, a China aided development model has the potential to improve Beijing's political and strategic heft among the SREB participants. The wheels of motion have already been set in play. The Belt initiatives have been widely accepted across the region. Interestingly, the alacrity shown by major European powers to join the China led *Asian Infrastructure Investment Bank* (AIIB), despite stiff American opposition, and the delay in signing of the Transatlantic Trade and Investment Partnership (TTIP) highlights the rift in the traditional Trans-Atlantic unity. While it is unlikely that the European pendulum has shifted definitely towards China yet Beijing remains the economic powerhouse with whom business deals are proverbial lifelines. Time will tell whether China can derive strategic benefits from this equation. However, a strong China in continental Eurasia has the potential to alter the global great power dynamics. Meanwhile, domestic factors are equally responsible for China's westward foray. The creation of trans-continental economic linkages is expected to provide a captive market for China's industrial output. This can help Beijing overcome its massive industrial overcapacity that threatens to engulf its economy with dangerous social repercussions. SREB also highlights China's economic rebalancing. This involves a macro-economic shift in policy wherein China focuses on high value production in coastal areas and shifts manufacturing industries towards the lesser developed

north-western provinces. Given the Uighur conundrum in Xinjiang, it is hoped that economic development of the region will undercut the growing appeal of Islamic radicalisation and extremism.

Nevertheless, China will need to navigate a web of competing relationships and regional instability to implement its SREB strategy. The resurgence of Islamic radicalisation in Central Asia and Taliban in Afghanistan has the potential to disrupt vital economic links. There also exist social, political and cultural fault-lines, similar to the ones in West Asia, for the IS to embed itself in Central Asia. More importantly, given the linkages between regional terror groups, the success of radicals in Central Asia can inspire the Uighurs to foment trouble in Xinjiang. Meanwhile, the largely authoritarian Central Asian regimes face the multiple challenges of succession, growing economic crisis, inter-ethnic and border disputes and regional rivalries. There also exist apprehensions about China's long term intentions. These undercurrents can shake the foundations of SREB. However, given the importance of Central Asia for Russia and China, and their convergence of interests to keep the region stable, it is likely that the two big Eurasian powers will join forces to keep the Eurasian heartland stable. As such, the big challenge to the SREB rests on how China assuages Russia's concern in Moscow's traditional sphere of influence. This assumes importance when Russia's profile in the region is being gradually overshadowed by Beijing. For the time being, given the importance of China in Kremlin's confrontation with the 'West', a convergence of interests appears to be holding forth. Russia and China seem to have delineated their core regional interests - Russia defining Central Asia's security paradigm and China determining its economic outlook. Notwithstanding, how this strategic equation plays out when Russia emerges from its current position of weakness is anybody's guess.

Meanwhile, the SCO is likely to be a key instrument in Beijing's Central Asian outreach, particularly in tackling the shared regional threats. It is likely that China will lay emphasis on a regional approach that seeks to tackle the 'three evils'. The SCO's proposed enlargement highlights the consensus to involve the regional stakeholders to deal with these issues. Interestingly, China has stepped up its bilateral security engagement with the CARs. It has also expanded the broader ambit of its anti-terror law that provides a framework of Chinese military involvement in tackling terror abroad.

Nevertheless, as always the devil lies in the details. Given the global dynamics and regional undercurrents, it is likely that SREB will face several roadblocks in the future. But China appears to be in for the long haul, biding its time and creating convergences that can help raise its strategic profile.

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## China and Korean Peninsula: Evolving Dynamics

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China's policy towards the Korean peninsula in 2015 includes both the elements of continuity and change. During 2013 and 2014, China was noticeably moving closer to South Korea, but its relations with Pyongyang were marked by many obvious frictions. With the emergence of the new leadership in China, there was significant improvement in the trust levels between Beijing and Seoul apart from their vibrant economic relationship and exchanges in various other fields. South Korean President Park Geun-hye after coming to power made her first foreign 'state visit' to China in summer of 2013. The Chinese President Xi Jinping reciprocated by visiting Seoul from July 3-4, 2014. Several other high-level visits were also exchanged between China and South Korea during this period. In contrast, there was a dearth of high level visits between China and North Korea and China's stand on the provocative behaviour of North Korea was overtly critical. This included Beijing's approach to the North Korean nuclear and missile issues as well as the lack of economic reforms in North Korea. In 2015, China-South Korea grew closer but there were also a few glimpses of change in the Beijing's North Korea policy.<sup>1</sup> China and South Korea finally signed a Free Trade Agreement (FTA), which they had been negotiating for the last few years. China was also successful in bringing South Korea into the Asia Infrastructure Investment Bank (AIIB) and also dissuading Seoul from participating in the US-led initiative of Terminal High Altitude Area Defence (THAAD).<sup>2</sup> However, it is still to be seen that whether China's attempt to forge a comprehensive partnership with South Korea, even at the cost of its growing distance with North Korea, would be able to keep South Korea out of the US alliance system.<sup>3</sup> In the above context, in the last one-year, China appears to have sought an improvement in its relations with Seoul and has also made obvious attempts to repair its relations with

Pyongyang. In 2015, there have been more diplomatic interactions between China and North Korea than in the last few years. However, it is still premature to say whether any important breakthrough has been made in China's relations with North Korea in 2015.

## **China and South Korea**

An important development in China and South Korea relations in 2015, which was quite encouraging, took place on March 26, 2015 when South Korea confirmed that it would join the AIIB, which is a largely Chinese led initiative to create a parallel financial network in Asia to develop the infrastructure sector in the region.<sup>4</sup> As the deadline of March 31, for joining the AIIB as a founding member approached, the US kept exerting pressure on South Korea to avoid it, thus it was not an easy decision for Seoul to make. However, China was able to convince South Korea to become one of the founding members of the AIIB and this was indeed an achievement for Chinese diplomacy. It is important to note that the AIIB is considered to be an alternative to two other institutions—the US-dominated World Bank; and the US-Japan led Asian Development Bank. By bringing South Korea into the AIIB as the fifth important contributor, in spite of the US-Japan displeasure, Beijing has shown its diplomatic and economic prowess.<sup>5</sup>

The success of China in bringing South Korea into the AIIB could also be contrasted with the US failure to convince South Korea to join the THAAD in 2015. The US has been persuading South Korea to join the THAAD for more than a year. It is interesting to note that the US initially wanted South Korea should sign on to the THAAD, but should not join the AIIB. Domestic politics in South Korea was divided on these issues and the US then changed its stance and conceded that South Korea may become part of the AIIB, but it should also compensate Washington by signing the THAAD. However, China has strong reservations about having an advanced missile defence system deployed in one of its neighbouring countries.<sup>6</sup> It may have serious implications for China's security and furthermore for Chinese ambitions to create its own strategic zone in regional politics. Unlike Japan who has joined the THAAD, South Korea has still not joined and the reason undoubtedly is China, which is the most important economic partner of South Korea and also a decisive interlocutor in Seoul's relations with North Korea.<sup>7</sup>

Notwithstanding the strategic factors, the most important dimension of China and South Korea relations is their economic partnership. South Korea is the third largest trading partner of China and South Korea's number one trading partner is China. The bilateral trade between the two countries was \$235.4 billion in 2014. South Korea's exports to China were around \$146.7 billion, which means

that South Korea enjoyed surplus in its trade with China. Moreover, it is important to note that China makes up 25 per cent of South Korea's total export volume.<sup>8</sup> Even though South Korea's exports to China are expected to fall slightly in 2015 because of the slowdown in China, both countries are expecting that the FTA would give a boost to their bilateral trade and by 2016 it could cross the \$300 billion mark. It is interesting to note that after 2012, the bilateral trade between China and Japan has not been growing because of their political rivalry and there are real possibilities that if the current trend continues, South Korea may be able to have a larger volume of trade with China than Japan. Thus, China has been able to placate South Korea because of the economic benefits and its dependence on its trade with China.

In 2015, China and South Korea moved forward to conclude and implement the Free Trade Agreement (FTA). Although the FTA was agreed to by the two leaders of China and South Korea in November 2014, when they had a summit meet on the sidelines of the APEC meeting, the FTA was officially signed on June 1, 2015. The South Korean National Assembly finally approved it on November 30, 2015, and the FTA was implemented from December 20, 2015.<sup>9</sup> As per the agreement, China would remove import tariffs on 71 per cent of all products or 5846 items over the next ten years; and South Korea would do the same for 79 per cent of all products or 9690 items during the same period.<sup>10</sup> It is interesting to note that the FTA would be applicable only to mainland China and Korea-Taiwan or Hong Kong are not a part of it. These two entities have different provisions of trade with South Korea.

China and South Korea relations have another unique dimension and this is related to the fact that China still has the highest leverage over North Korea and Chinese assistance to South Korea for reaching out North Korea would be very critical in the future. From the South Korean perspective, China has not been supportive of the North Korean nuclear programme from the very beginning and in recent years, it has become more difficult for China to support Pyongyang because of Kim Jong-un's provocative behaviour. In the first half of 2013, the third North Korean nuclear test and the escalation of tensions in inter-Korea relations led to the further strengthening of the US presence on the Korean peninsula as it provided an excuse to Washington to do so. It led to the Chinese President Xi Jinping to take a tough stand against North Korea and maintaining an obvious distance from North Korea's provocative behaviour. In 2013 and 2014, China cooperated with the international community in implementing the sanctions on North Korea, more than ever in the past. Furthermore, it has also been reported that Beijing's pressure on North Korea was largely responsible for North Korea agreeing to talks with South Korea for the resumption of Gaeseong Industrial Park and family reunions. China has also been consistently urging North

Korea to resume the Six-Party Talks, which were initiated in 2003 by China to denuclearise North Korea and which have been stalled from 2008. North Korea has been so unhappy with the Chinese pressure that Kim Jong-un allegedly, executed his uncle Jang Song-thaek, who was his number two and his informal guardian during the first two years of his tenure, in order to humiliate China.<sup>11</sup> Jang Song-thaek was a pro-reform leader who was considered to be quite close to China, and by killing him North Korea wanted to send a clear message to Beijing that it should not interfere in North Korea's domestic affairs or its foreign policy implementation. Thus, one of the reasons for China's clear tilt towards South Korea has been North Korea's irresponsible policy and behaviour.

However, China's special interest in South Korea has also to do with the changing security and strategic dynamics of the regional politics. Given the renewed interest of Washington in East Asia with its 'pivot to Asia' or 'rebalancing Asia' policy and the emergence of an assertive Japan under Shinzo Abe, China has been quite eagerly reaching out to another important security ally of the US in the region—South Korea. In 2013 and 2014, China and South Korea held two summit meets in Beijing and Seoul respectively, and these were quite broad ranging. The positive momentum of these summits has propelled both countries to move beyond economic, cultural and educational exchanges and forge a strategic understanding on the regional issues. From the South Korean perspective also, an 'assertive' Japan has been looking to militarise itself with apparently no remorse for the atrocities committed during the colonial period and has been vocal in staking its claim to the Dokdo/Takeshima islands. Seoul is also disappointed that the US, instead of restraining Japan, has been largely in agreement with the changed Japanese stance. Thus, by forging closer cooperation with China, South Korea may be wanting to send a message to the US that it is ready to enhance its level of cooperation with China, if such Japanese behaviour is not stopped.

East Asia was witness to a very significant spectacle in 2015 when the Chinese President Xi Jinping, the South Korean President Park Geun-hye and the Russian President Vladimir Putin together waved their hands during the Victory Parade in Beijing, organised to commemorate the 70<sup>th</sup> anniversary of Japan's defeat in World War II. On September 3, 2015, the South Korean President's participation in the parade was characterised as being transformative for regional politics.<sup>12</sup> It was a special occasion when Xi Jinping and Park Geun-hye not only waved their hands together but also held their third summit meet in as many years. China's success in holding regular summit meetings and in-depth exchanges with South Korea for the last three years could definitely be considered an important diplomatic achievement. It is significant because in the last few years, when there was disquiet among China's neighbours because of its 'assertive' behaviour in regional politics, China has been able to consistently engage with South Korea in

a comprehensive manner. More specifically, in the contest between Beijing and Tokyo in the East China Sea and beyond, China's growing proximity with South Korea, which is a security ally of the US in the region, apart from Japan, is indeed remarkable.

In the above context, there were several positive exchanges between China and South Korea in 2015. On January 5, 2015, South Korea said that it would repatriate the remains of 60 more Chinese People's Liberation Army soldiers killed in the Korean War. This was first agreed upon in 2013 between the top leaders of both the countries and accordingly in March 2014, South Korea had handed over the remains of 437 Chinese soldiers.<sup>13</sup> On January 23, 2015, the Chinese President Xi Jinping sent a congratulatory message to Seoul through the Vice Premier Wang Yang on the inauguration of the Chinese Tourism Year 2015 in South Korea. Wang Yang expressed Beijing's desire 'to deepen the China-ROK strategic cooperative partnership' and the South Korean President also appreciated the growing people to people and cultural contacts between the two countries. On February 2, 2015, the special representative of China on Korean Peninsula Affairs, Wu Dawei had meeting with his South Korean counterpart, Hwang Joon-kook, in which both sides expressed their commitment to resume the Six-Party talks as soon as possible.<sup>14</sup> Both the leaders again had a few other meetings in May and July 2015 at which they reiterated their positions. On March 21, 2015, Chinese Foreign Minister Wang Yi met South Korean President Park Geun-hye in Seoul. Wang Yi had gone there to attend the 7<sup>th</sup> China-Japan-ROK Foreign Ministers' Meet but more than the trilateral meeting, his consultations with South Korea on the history related issues were considered to be a strategy to forge cooperation with South Korea and isolate Japan. On November 1, 2015, the Chinese Premier Li Keqiang participated in the sixth trilateral leaders' meeting between Japan, South Korea and China, at Seoul. It was an important event as the trilateral meeting was taking place after a gap of three years. In the event, the Chinese and South Korean priorities and concerns were more in line with each other than the Japanese stance. The growing cooperation between China and South Korea was further obvious when it was announced that both countries were going to hold the first round of talks on maritime delimitation in the Yellow Sea in Seoul on December 22, 2015.<sup>15</sup> The very initiation of these talks is considered as the beginning of a new chapter in China-South Korea relations. If the talks proceed smoothly and more concrete outcomes are achieved, then they would initiate a significant change in East Asian political dynamics. However, it would still be premature to expect that the improving China-South Korea relations would create any critical gap in US-South Korea strategic relations in the near future but we need to wait and watch further to make any definitive assertion. Actually, after the fourth North Korean nuclear and rocket tests in early 2016

which resulted in South Korea blaming China and moving closer to install THAAD, it is possible that China may just move closer to North Korea.

### **China and North Korea**

Unlike China-South Korea relations in 2015, which largely continued to follow the pattern of previous years, there were a few glimpses of a change in the Chinese policy towards North Korea. Actually, the change started becoming visible from the end of 2014. On December 17, 2014 China sent, Liu Yunshan who is ranked fifth in the Communist Party hierarchy, to participate in an event organised by the North Korean embassy in Beijing to commemorate the third anniversary of the death of North Korean leader Kim Jong-il. Furthermore, Liu delivered a special message from the Chinese President Xi Jinping, which underlined the significance of the China-North Korea 'traditional friendship'. It was an important departure from the previous two years when high-level exchanges were rare and there were no direct messages from top leaders of both the countries to each other. This was seen as a sign that China was trying to repair its relations with North Korea. Unlike the recent past, China amended its North Korea policy and tried to reach out again to North Korea for strategic reasons.

In March 2015, China also appointed a new ambassador to North Korea, Li Jinjun. This was considered to be a part of Beijing's attempt to reboot China-North Korea relations, which had gone off track during the tenure of the previous Chinese ambassador Liu Hongchai.<sup>16</sup> Afterwards, it was expected that Kim Jong-un might visit Beijing to participate in the Victory Parade in September 2015. However, Kim Jong-un's participation in the event became impossible when it was announced that the South Korean President Park Geun-hye would also be participating in the event. Expectedly, North Korea sent Choe Ryong-hae who was number two or three, in the power hierarchy of North Korea, as its representative to China. He had a few meetings with Chinese officials, but he was not given direct access to the President Xi Jinping during this visit. Furthermore, it was reported in November 2015 that Choe Ryong-hae had disappeared after his return to Pyongyang for the poor construction of the Mount Baekdu Songun Youth Power Plant,<sup>17</sup> but it might also have been because of his inability to meet the top Chinese leader.

China made another attempt to engage North Korea when on October 10, 2015 Chinese leader Liu Yunshan visited Pyongyang to participate in the celebrations for the 70<sup>th</sup> anniversary of the Korean Workers' Party. Liu was the first Politburo Standing Committee members to visit North Korea since Kim Jong-un assumed power in North Korea in 2011.<sup>18</sup> He made a four-day visit to North Korea during which he met high-officials of Pyongyang. Unlike the North Korean representative Choe Ryong-hae, who visited China to participate in the



Victory Parade and was not able to meet Xi Jinping, Liu reportedly had a meeting with Kim Jong-un. Actually, Kim and Liu stressed that both the countries should exchange more high-level visits and promote greater economic cooperation. However, it's important to underline that China's trade with North Korea has declined 14.8 per cent during January-November 2015 compared to the same period in the previous year. It was \$5.8 billion in 2014, and declined to \$4.9 billion. Such a sharp decline in China-North Korea trade has taken place for the first time since 2000.<sup>19</sup>

To reach out to North Korea, China also tried to offer more economic incentives to Pyongyang in 2015. In August 2015, China announced the creation of a \$156 million border trade zone with North Korea in the Chinese city of Dandong. China has also built a high-speed railway line connecting Dandong with Shenyang, the capital of Liaoning province to 'enhance China-North Korea transportation capabilities.' In September 2015, China announced the opening of the first-ever bulk cargo and container shipping route, linking Chinese and North Korean ports for shipping North Korean coal to China and Chinese food products to North Korea. At the same time, China did not agree to the North Korean proposal of February 2015 to join the AIIB on grounds that it did not have reliable economic data.<sup>20</sup>

There were reports in December 2015, that there had been some unknown frictions between China and North Korea. North Korea remains as provocative and uncompromising as it was earlier, and Pyongyang is not ready to pay heed to Chinese suggestions and proposals. On December 10, 2015, North Korea state media reported that its leader had claimed that North Korea had a hydrogen bomb. This definitely did not go down well in the Chinese media. It is said that perhaps this could be the reason why on December 12, 2015, *Moranbong*, a North Korea girl-band, which was to perform in Beijing, cancelled its programme and went back to North Korea. It is said that Kim Jong-un wanted that President Xi Jinping or Premier Li Keqiang should attend the performance but China wanted to send officials who were lower down in the hierarchy. North Korea considered this highly inappropriate as the band had the special blessing of Kim Jong-un. However, the cancellation may have been for a more fundamental reason.<sup>21</sup> It is still to be seen how both countries move forward after these 'communication failures' at the end of the year.

Actually, the few signs of rapprochement between China and North Korea in 2015 could be largely attributed to a shift in the Chinese policy, even though North Korea remained non-compromising and rigid. Actually, China gave up its hard line policy to placate North Korea, though there was no noticeable change of behaviour on the part of North Korea.<sup>22</sup> North Korea has not changed its stance on any key issues including its nuclear programme. China has throughout

the year expressed its desire to bring the Six Party talks—which are meant for denuclearising North Korea—back on track again, but North Korea continued to defy all such attempts. On February 7, 2015, North Korea tested a new ‘ultra-precision’ intelligent anti-ship missile that was to be deployed in the navy and kept giving the impression—throughout the first half of the 2015—that it would conduct another nuclear test.<sup>23</sup> North Korea’s uncompromising stand was initially believed to be prompted by the local elections due to be held on July 19, 2015 but Pyongyang’s behaviour has not changed even after that. In the game of ‘who blinks first’ between China and North Korea, it seems that North Korea has been able to make China compromise and soften its approach towards Pyongyang. China probably feels that an isolated North Korea might mean the end of the unique leverage, that Beijing has enjoyed for a long time. It would also mean that North Korea might move in an unpredictable direction, which would have serious repercussions for China, and Beijing would have no control over it.

Actually after the rift in China-North Korea relations during the new North Korea leader Kim Jong-un, North Korea has been in search of other partners and from 2014, it has tried to reach out to many countries, such as Mongolia, Indonesia, Vietnam, Laos, Singapore, Myanmar, Cuba, India, and Russia. The North Korean Premier and Foreign Minister have visited these countries in last one and half years to explore possibilities of renewed bilateral relations. There was speculation that Kim Jong-un might visit Russia in May 2015 to attend the 70<sup>th</sup> anniversary of the end of World War II, though this did not happen. Although, the leadership and even the general public opinion in China is reportedly getting fed up with the brinkmanship of North Korea, a nuanced understanding of the situation demanded that China should be more forward looking and rather than shutting its relations up with North Korea, it would be more effective to keep the communication lines open. China’s changed posture towards North Korea in 2015 appears to be guided by this calculation. China is well aware that any brinkmanship by North Korea in its contest with South Korea and the US would certainly lead to a greater ground presence of the US forces in the region, which would be detrimental for Chinese national interests. Furthermore, its growing relations with South Korea are also based on South Korea’s premise that Beijing has special leverage over Pyongyang and South Korea needs the cooperation of China, more than any other country, to improve inter-Korea relations.<sup>24</sup> Thus, if China loses its connection and communication with North Korea, Seoul might be less keen to have a strategic partnership with Beijing. For the above reasons, China gave some sign of rapprochement with North Korea in 2015. However, by the end of year, it seemed that Chinese initiatives had not been paying off and China might have to formulate a better strategy to deal with North Korea. For example, on January 6, 2016, North Korea conducted its fourth nuclear test and

even though, reportedly, China sent its envoy to stop North Korea from launching the rocket, North Korea still went ahead with it on February 7, 2016.<sup>25</sup>

North Korean nuclear and missile tests in 2016 were supposed to increase the friction in China-North Korea relations. However, after South Korea and the US, prematurely blamed China for not restraining North Korea; and South Korea announced its decision to install THAAD on the Korean peninsula, Beijing appears to be rethinking its position. The obvious distance in China's relations with South Korea pushed China to rethink its position and along with Russia, China reportedly delayed the UNSC resolution to impose more sanctions on North Korea. Unlike the past, it took almost two months for the UNSC to come up with a new set of sanctions for North Korea, which were passed on March 2, 2016 and this has been generally attributed to China's reluctance.

### **Emerging Scenario and Implications for India**

China's attempts to continue building bridges with South Korea and rebuild its relations with North Korea in 2015 were quite obvious. However, these two objectives are not going to be easy to achieve. China-South Korea relations have definitely moved forward in last few years though China has not been able to create any substantial distance between the US and South Korea till now. South Korea's dependence on the US in the security domain and their bilateral security alliance has remained and would remain intact, even though Beijing is the most important economic partner of Seoul. Similarly, if China is not able to provide an obvious advantage to South Korea vis-à-vis its dealings with North Korea, Seoul would be less attracted to Beijing as a strategic partner. China has also to devise a more deft plan to deal with North Korea. The hard-line approach adopted from the very beginning of the Kim Jong-un regime in North Korea did not work and so in 2015, China tried to moderate its policy towards Pyongyang. However, both the approaches have not been able to bring about any change in the North Korea's behaviour till date. Actually, China has been caught in a situation in which a tough approach towards North Korea would be considered hostile and a soft approach would be considered a victory for North Korea in this tug-of-war.<sup>26</sup> In both scenarios, China would not be able to influence the behaviour of North Korea in accordance to its foreign policy objectives. Such a situation would be an embarrassment for China, which has been trying to assert its primacy in regional politics. Thus, in the coming years, the challenge for China would be to deal with South Korea and North Korea in a manner that will further its foreign policy objectives. The task is difficult but China has both the resources and the intent and this may just become possible.

While the relationship of China with South Korea and North Korea is in a transition period, other regional alliances are also increasingly in a flux, there is

speculation that India may need to find an active role for itself in the region. With the growing economic and military capability of India, it is imperative for India to formulate a coherent policy for the region.<sup>27</sup> In recent years, India's relations with Japan, South Korea and even North Korea have been moving in a positive direction. Under the new government in New Delhi, trust and exchanges between India and Japan have increased substantially. The Indian Prime Minister Narendra Modi and Japanese Prime Minister Shinzo Abe have both taken the bilateral relations to a new height. In April 2015, the North Korean Foreign Minister Ri Su-yong also visited India and there is speculation that North Korea is keen to improve its relations with India to transcend its over reliance on China.<sup>28</sup> However, India needs to take care that its growing relations with Japan and North Korea and China's improving relations with South Korea do not dampen New Delhi-Seoul relations in the coming years. India needs to be watchful with regard to China's relationships with South Korea and North Korea along with other developments in regional politics. It should have a bilaterally oriented policy towards these countries, while pursuing a collectively oriented policy towards the region in the future.

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## China and Iran Nuclear Deal: Primed to Benefit

*S. Samuel C. Rajiv*

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The Iranian nuclear issue was the most significant regional security challenge for West Asia in recent times. Concerns about the Iranian nuclear programme attracted international attention in 2002 in the aftermath of the ‘revelation’ by an Iranian opposition group about the existence of the Natanz uranium enrichment plant. The enrichment plant was being built with technology supplied by the Khan Research Laboratories, Pakistan. The International Atomic Energy Agency (IAEA) in February 2006 referred the issue to the United Nations Security Council (UNSC) due to ‘the absence of confidence that Iran’s nuclear programme is exclusively for peaceful purposes resulting from the history of concealment of Iran’s nuclear activities ...’<sup>1</sup>.

Negotiations to address these concerns, which began in 2003, initially involved the European Union-3 (EU-3; Germany, France and the United Kingdom), but were expanded in the aftermath of the UNSC referral in June 2006, to include the five permanent members of the UNSC, and since Germany had been previously part of the process, it was referred to as the P5+1 or the EU-3+3 process. The chapter begins by examining China’s stances on the issue in the UNSC, its responses to punitive unilateral sanctions measures (limited to primarily those imposed by the United States) – some of which targeted Chinese companies doing business with Iran, China’s role in the P5+1 negotiation process – more specifically in the aftermath of the November 2013 Joint Plan of Action (JPOA). The chapter concludes by noting the significant developments relating to the Iran-China political, military and economic ties after the July 2015 Joint Comprehensive Plan of Action (JCPOA).

## China and Sanctions

The P5+1 process was an essential part of the 'dual-track' approach followed by the United States and the EU, which involved 'applying pressure in pursuit of a constructive engagement and a negotiated solution'.<sup>2</sup> Pressure in the form of increasingly punitive UNSC, as well as US and EU sanctions, was applied when Iran did not follow through on the requirements of the IAEA and the UNSC resolutions. These resolutions urged Iran to stop its uranium enrichment activities and cooperate fully with the IAEA to address outstanding concerns. Given China's place at the UNSC, along with its position as one of the most important trading partners of Iran and the top importer of Iranian oil, its cooperation was essential for the success of these punitive measures.<sup>3</sup>

### *UNSC Sanctions*

Four of the UNSC sanctions resolutions targeting individuals and entities allegedly involved in efforts relating to Iran's nuclear programme are pertinent. These include: Resolution 1737; (December 2006); Resolution 1747 (March 2007); Resolution 1803 (March 2008); and Resolution 1929 (June 2010).

All these UNSC sanctions have been adopted under Article 41, Chapter VII of the UN charter that makes it mandatory for member states to implement them. About 120 entities and individuals alleged to have been involved in Iran's weapons of mass destruction (WMD) activities were subjected to asset freezes and travel bans. The resolutions prohibit: the transfer of dual-use/military/nuclear-related items or their export; the development of nuclear-capable ballistic missiles; investments by Iran in nuclear-related activities abroad including uranium mining; and transactions with sanctioned Iranian banks like the Bank Melli or Bank Saderat, It also calls on UN member states to inspect any cargo carried by Iran Air or Islamic Republic of Iran Shipping Lines (IRISL), among other measures.

The UNSCR 1747 imposed an arms embargo prohibiting Iran from selling arms and material while calling upon all member states 'to exercise vigilance and restraint' in the 'supply, sale or transfer' of 'battle tanks, armoured combat vehicles, large calibre artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems'.<sup>4</sup> The UNSCR 1929 on the other hand made it incumbent on the member states to 'prevent the direct or indirect supply, sale or transfer' to Iran of the above listed equipment.<sup>5</sup>

While UN sanctions did not target Iran's financial institutions, they did contain provisions calling upon states not to make any new commitments with Iran relating to grants or financial assistance or concessional loans, except for humanitarian or development purposes. UN sanctions also did not specifically target Iran's energy infrastructure. The UNSCR 1929 in its preamble however takes note of, 'the potential connection between Iran's revenues derived from its



energy sector and the funding of Iran's proliferation-sensitive nuclear activities ...<sup>6</sup> In the aftermath of UNSCR 1929, Iran's energy infrastructure became a prime target for unilateral US and EU sanctions as well.

China on its part, as a Security Council member, continued to stress the importance of negotiations and the role of the IAEA as the 'main mechanism' to address Iran's concerns. Chinese Representative Wang Guangya while participating in the debate on UNSCR 1737 in December 2006 (which was passed unanimously) insisted that 'sanctions were not the end, but a means to urge Iran to return to negotiations' and that China did not 'wish to see turbulence in the Middle East'.<sup>7</sup> Iran's Representative to the UN during this time was current Foreign Minister Javad Zarif, who termed the passage of the resolution as a 'sad day for the non-proliferation regime' and a 'groundless punitive measure' given Iran's then on-going cooperation with the IAEA. Zarif further equated the sanctions with the long list of historical grievances that Iran had with the UNSC, including the Council's 'indifference' to the invasion by Iraq, among other issues.<sup>8</sup>

When UNSCR 1747 was adopted unanimously a few months later in March 2007, Wang Guangya expressed 'disappointment' that the 'Iranian side had failed to respond to the requests of IAEA and the Council' but urged that actions by the Council be 'appropriate, incremental and proportionate'. He insisted that the resolution was not meant to punish Iran but to urge it to return to the negotiations.<sup>9</sup> The Iranian Foreign Minister Manouchehr Mottaki charged that the UNSC was 'being abused' by a few of its permanent members to 'take an unlawful, unnecessary and unjustifiable action against the peaceful nuclear programme of the Islamic Republic of Iran, which presents no threat to international peace and security and falls, therefore, outside the Council's Charter-based mandate'.<sup>10</sup> Mottaki's statement was a clear indictment of the inability of China (and Russia) to prevent the 'abuse' of the UNSC by the other three permanent members—the US, the UK and France.

During the debate on UNSCR 1803 in March 2008 – which was passed with 14 countries voting in favour and one abstention (Indonesia), Ambassador Guangya stated that the resolution 'reflected international concern' and that developments relating to the issue have been 'mixed'. He pointed out that while the IAEA was able to verify non-diversion of declared nuclear material, it had 'no concrete information about possible undeclared nuclear material and activities'.<sup>11</sup> Further, he noted that Iran had not suspended its enrichment activities, as required by the UNSC resolutions.

UNSCR 1929 was voted with 12 in favour, two against (Turkey and Brazil) and one abstention (Lebanon). Li Baodong, China's representative echoed his predecessor's statement that the new sanctions resolution reflected 'international concerns'. Baodong though added that 'any actions undertaken must be conducive

to stability in the Middle East, must not affect the daily lives of the Iranian people, must be commensurate with Iran's actual practice in the nuclear field, and must respect all international norms on nuclear matters'.<sup>12</sup>

Specific measures in the UNSC sanctions resolutions (like the arms ban imposed by UNSCR 1929) however did not negatively affect China's arms trade with Iran. This was because the UN Register of Conventional Arms indicating the sale of Chinese arms material to Iran lists transactions that date as far back to 1996, involving 5 'warships', 5 'fighter aircraft' and 102 'ship missile launchers'.<sup>13</sup> Analysts note that Chinese arms sales to Iran 'fell off sharply around 2000 ... to demonstrate to the world that it was not supporting a supposed terrorist state ... also to perhaps to curry favour with conservative Gulf States'.<sup>14</sup> In the aftermath of the JCPOA, there were reports that China's arms trade with Iran was a potential growth area in their bilateral ties as both sides consolidated their security partnership.

As noted earlier, UNSC resolutions prevented the sale of dual-use or nuclear-related items to Iran. Iran-China nuclear links have been the subject of much concern in the US, predating the 2002 Natanz revelations. In October 1997, President Bill Clinton secured a pledge from the Chinese that they would end their civilian nuclear cooperation with Iran. Subsequently, US officials have been cited as stating that China may not have stuck to this bargain and that Chinese firms have been active in assisting Iran by supplying nuclear material and equipment.<sup>15</sup>

### *Unilateral US Sanctions*

Punitive measures targeting Iran's financial institutions like the Central Bank of Iran (CBI) and Iran's oil exports gained momentum in the aftermath of UNSCR 1929. The Comprehensive Iran Sanctions and Divestment Act (CISADA) was signed into law by President Barack Obama, in the immediate aftermath of 1929, on July 1, 2010. The 1996 Iran Sanctions Act (ISA) was amended as part of the CISADA. The \$40 million investment limit in a year in Iran's petroleum sector mandated by the ISA was halved to \$20 million, as were the limits on single investments (from \$10 million to not more than \$5 million per investment, and not exceeding \$20 million in a year). Restrictions were imposed on the selling of refined petroleum products (\$5 million over a 12-month period), restrictions were continued on the provision of loans by the financial institutions (\$10 million in any 12-month period), visa restrictions were imposed on high-level personnel involved in alleged human rights abuses. The Act also required the US President to provide annual reports on the global trade relating to Iran, including in the energy sector, among other measures.<sup>16</sup>

President Obama affirmed that the CISADA imposed the 'toughest sanctions against Iran ever passed by the United States Congress ... we are striking at the

heart of the Iranian government's ability to fund and develop its nuclear programme'.<sup>17</sup> US officials like Under Secretary Wendy Sherman credited CISADA for forcing major energy traders like Russia's Lukoil and India's Reliance, among others, to stop the sale of refined petroleum products to Iran and major technology providers to not invest in Iran's oil (as well as gas) industry.

The Chinese company, Zhuhai Zhenrong (a state-owned enterprise), was designated under CISADA in January 2012 for supplying oil to Iran beyond CISADA limits, along with the Singaporean firm, Kuo Oil and the FAL Oil Company of the United Arab Emirates. The US State Department Fact Sheet justifying the designation noted that:

Zhenrong brokered the delivery of over \$500 million in gasoline to Iran between July 2010 and January 2011, with individual deals entered into worth significantly more than the \$1 million threshold under US law and the total values of the transactions well above the \$5 million threshold for sanctionable activities within a 12-month period. Under the new sanctions, Zhenrong is barred from receiving US export licenses, US Export Import Bank financing, and loans over \$10 million from US financial institutions.<sup>18</sup>

The Chinese Foreign Ministry criticised the designation stating that the imposition of sanctions based on US domestic law 'is totally unreasonable and does not conform to the spirit or content of the UN Security Council resolutions about the Iran nuclear issue'.<sup>19</sup> It is pertinent to note that around the same time that the US State Department was designating Zhenrong, Chinese Prime Minister Wen Jiabao was visiting oil-producing nations in the Arab world, including Saudi Arabia. Wen was cited as stating that it was important for China and Saudi Arabia to keep deepening their cooperation 'in the face of changeable and complicated regional and international trends'.<sup>20</sup>

In the aftermath of the Implementation Day of the JCPOA (January 16, 2016), restrictions on the sale of gasoline by all three of these companies (Kuo Oil, FAL Oil and Zhenrong) were removed though OFAC noted that:

United States financial institutions are prohibited from making loans or providing credits totalling more than \$10,000,000 in any 12-month period to the person listed here [Kuo Oil, FAL Oil, Zhenrong] unless such person is engaged in activities to relieve human suffering and the loans or credits are provided for such activities.<sup>21</sup>

The Hong Kong Inter-trade Company (HKIC) and its directors were added to the Specially Designated Nationals and Blocked Persons (SDN) list by the Office of Foreign Assets Control (OFAC) of the US State Department in July 2012 under Executive Order 13599 for being a 'front' company involved in Iran's oil trade, specifically the National Iranian Oil Company (NIOC). The inclusion in the SDN List prevented US persons from engaging in any transactions involving such companies or individuals without OFAC authorisation.<sup>22</sup> In the aftermath

of JCPOA Implementation Day, HKIC and its directors were not subject to secondary sanctions, though 'US persons must continue to block the property or Interests' pursuant to EO 13599.<sup>23</sup>

Section 1245 (Imposition of Sanctions with Respect to the Financial Sector of Iran) of the National Defence Authorisation Act (NDAA) 2012 (Public Law 112-81, signed into law on December 31, 2011) targeted the CBI for the first time on the grounds that it had helped sanctioned-Iranian banks like Bank Melli and Bank Saderat 'transfer billions of dollars' in 2011 'through a variety of payment schemes ... to evade sanctions', as determined by the US Treasury Secretary while declaring Iran as a 'territory of primary laundering concern' on November 21, 2011.<sup>24</sup> Section 1245 therefore contained provisions preventing a foreign bank from opening an account in the US or 'impose strict conditions on the maintaining' of such accounts, if that financial institution 'knowingly conducted or facilitated any significant financial transaction with the Central Bank of Iran or another Iranian financial institution designated by the Secretary of the Treasury'.<sup>25</sup>

1245 defines sanctionable transactions as those involving the sale or purchase of petroleum products undertaken 180 days after the enactment of the Act. Exemptions from sanctions (imposition of strict conditions on the maintenance of correspondent accounts) are to be provided if the President determines 'that the country with primary jurisdiction over the foreign financial institution has significantly reduced its volume of crude oil purchases from Iran'.<sup>26</sup> China and Singapore became the 19<sup>th</sup> and 20<sup>th</sup> countries to get such an exemption on June 28, 2012, after 10 European countries and Japan got the first exemptions in March 2012, followed by India, Malaysia, Republic of Korea, South Africa, Sri Lanka, Turkey and Taiwan on June 11, 2012. Some of the reduction in China's oil imports in early 2012 however related to a contract dispute that SINOPEC had with NIOC, which was resolved in March 2012. China along with India, Japan, South Korea, Turkey and Taiwan remained the only countries importing Iranian oil, in the aftermath of the coming into effect of the EU ban on the purchase of Iranian oil in July 2012.

As a result of the tightening of the US and EU sanctions (relating to the provision of insurance services to ships carrying Iranian crude), Iran slipped from its third position in 2010 as a supplier of crude to China to fifth position in 2014 (after Saudi Arabia, Angola, Russian Federation and Oman) (Table 1). China also secured oil supplies from countries like Iraq, with imports witnessing an increase of over 64 per cent (in value) in 2014 as compared to 2012.<sup>27</sup> Reports in late 2009 indicated that China had rejected a joint Saudi-US initiative to compensate for the reduction in its imports of Iranian oil, which both countries had put forward in order to secure Chinese support for the possible ramping up of sanctions targeting its oil exports.<sup>28</sup>

**Table 1: China's Fuel Imports (US\$ 1000)**

	2014	2013	2012	2011	2010
Arabia	37,888,902.27	43,307,126.12	44,925,752.47	39,473,289.75	25,868,001.67
Angola	31,060,219.21	31,906,807.9	33,430,524.1	24,809,999.28	22,795,735.09
Russia	29,745,959.57	26,880,422.22	29,522,693.08	22,922,759.98	12,848,520.59
Oman	22,781,280.03	19,968,794.2	15,870,932.09	13,866,991.01	9,110,496.44
Iran	21,190,062.25	18,150,190.82	18,425,507.84	23,056,193.58	13,084,877.85

Source: World Bank, World Integrated Trade Solution, <http://wits.worldbank.org>

Section 504 of the Iran Threat Reduction and Syria Human Rights Act (TRA) – signed into law by Obama in August 2012, expanded sanctions under Section 1245 of NDAA 2012. It mandated that funds owed to Iran as a result of bilateral trade in goods and services ‘are credited to an account located in the country with primary jurisdiction over the foreign financial institution’.<sup>29</sup> Further, it requires that countries getting the ‘significant reduction’ exemption could only continue to get it if they did not repatriate the funds back to Iran. It defined ‘significant reduction’ to ‘include a reduction in such purchases [petroleum and petroleum products] in terms of price or volume toward a complete cessation of such purchases’.<sup>30</sup>

Section 504 led to the creation of ‘escrow’ accounts in countries importing Iranian oil and severely curtailed Iran’s foreign exchange earnings. The China National Petroleum Corporation (CNPC)-owned Bank of Kunlun held close to \$22 billion owed to Iran as of November 2013, when the JPOA was negotiated, with the NIOC and the CBI having two accounts at Kunlun, denominated in Euros and Yuan respectively.<sup>31</sup> Reports noted that in the aftermath of Section 504 going into effect on February 6, 2013, Chinese firms had greater leeway to flood the Iranian market with cheap consumer goods, including automobiles as well as build infrastructure projects like Tehran’s Sadr expressway, which was completely funded by Beijing.<sup>32</sup> Table 2 indicates that China’s exports to Iran registered an increase of over 73 per cent in 2014 from the previous year while imports from Iran registered an increase of just over 8 per cent. The value of the turnover of Chinese contracted projects in Iran in 2014 stood at \$2.2 billion, as against \$2.18 billion (2013), \$1.49 billion (2012) and \$2.15 billion (2011).<sup>33</sup>

**Table 2: China-Iran Bilateral Trade: Exports and Imports (USD 10,000)**

	2010	2011	2012	2013	2014
Exports	1109199	1476209	1159745	1403665	2433849
Imports	1829908	3034131	2486839	2538986	2750385
Total	2139108	4510340	3646584	3942651	5184234

Source: China Statistical Yearbook, Various Years, <http://www.stats.gov.cn/>

## Stance on Military Option

Given Beijing's stress on the importance of negotiations, the primacy of the role of the IAEA, and the need to maintain 'stability' in West Asia, it was very wary of the robust advocacy of the military option by Israel, to offset Iranian nuclear capabilities. President Obama was also repeatedly reiterating that 'no options were off the table' to deal with the Iranian nuclear concerns.<sup>34</sup> Analysts have noted that a possible military conflagration as a result of the unresolved concerns over Iranian nuclear intentions would have negatively affected the Chinese economy – which is so dependent on energy imports from the region. It would have further hurt its ambitious One Belt One Road project, impacted stability in the restive Xinjiang province as well as resulted in the unchallenged military domination of the region by the US.<sup>35</sup>

While the Obama administration did bolster US force presence in the region in order to reinforce its intentions of being ready for any eventuality, it was less than enthusiastic about endorsing the robust Israeli advocacy for a military solution. President Obama criticised what he termed 'too much loose talk of war' while addressing the premier Israel advocacy group, the American Israel Public Affairs Committee (AIPAC), on March 4, 2012.<sup>36</sup> A day later, Obama reminded the visiting Israeli Prime Minister Netanyahu, that his administration had 'worked so diligently to set up the most crippling sanctions ever with respect to Iran' and that there was 'still a window that allows for a diplomatic resolution to this issue...'<sup>37</sup>

The US and China in their bilateral interactions continued to reiterate their belief in the efficacy of the P5+1 process to resolve the Iranian nuclear concerns. During the visit of President Hu Jintao in January 2011, the US and China released a Joint Statement in which they reiterated their commitment to 'seek a comprehensive and long-term solution', acknowledged the Iranian right to peaceful uses of nuclear energy under the nuclear non-proliferation treaty (NPT), while calling on Iran to 'fulfil its due international obligations' under that Treaty, and called for the full implementation of all relevant UNSC resolutions.<sup>38</sup> This Joint Statement was repeatedly highlighted in the subsequent US-China Strategic and Economic Dialogues (SED) as indicative of the core positions of both the countries on the issue.

Despite the long-standing China-Iran ties bolstered by energy imports and their common strategic goal of trying to keep at bay US influence in the region, coupled with the opposition to policy options championed by Israel, China-Israel ties continued to be on the up-swing. Prime Minister Benjamin Netanyahu visited Beijing in May 2013 while the first ever Israel-China Economic Summit was held in Israel in May 2014. China became a key source of funds for Israeli start-ups while Israeli technology was much sought after by the latter. Massive

technological tie-ups between institutions of higher learning, like the \$300 million venture between Tel Aviv University and Tsinghua University, were signed in May 2014. There was no change however in Israel's policy of not providing high-tech defence equipment to China.

### JCPOA Negotiations

Analysts like John Garver affirm that 'China's role in achieving the JCPOA is not widely understood'.<sup>39</sup> This could however be a subjective interpretation, given the relatively lesser political capital invested in these negotiations by China in comparison to the extended participation of US Secretary of State John Kerry in many key meetings in the run-up to the JCPOA. It can most certainly be affirmed that the Chinese role in achieving the initial breakthrough – the November 2013 Joint Plan of Action (JPOA), was minimal. The JPOA was the culmination of a series of factors, including the coming to power of President Hassan Rouhani, President Obama's bold moves to have direct bilateral contacts with Iran (facilitated by Oman) and his unprecedented telephonic conversation with President Rouhani during the UNGA sessions in September 2011, among others.

When the P5+1 countries met with Iran for the first time after the JPOA on February 18, 2014 in Vienna, Vice Foreign Minister (FM) Li Baodong put forward a five-point proposal to take the negotiations forward. These were the following:

...sticking to the path of talks and negotiations; seeking a comprehensive, fair and reasonable long-term solution; following a step-by-step approach and upholding the principle of reciprocity; creating a favourable atmosphere for talks and negotiations; treating both symptoms and root causes and taking a holistic approach.<sup>40</sup>

When the JPOA was extended for the second time in July 2014, Wang Qun, Director General of the Department of Arms Control at the Foreign Ministry termed the development as a 'hard won period of opportunity' which would enable both sides to 'mull things over, stride forward and meet each other halfway ...'<sup>41</sup> Qun asserted that the Chinese side put forward 'multiple proposals ... with the aim of bridging the divergence among all parties' and added that 'not long ago, the Chinese side overcame various difficulties and paid a special visit to Vienna to attend the Six-Nation Ministerial Meeting'.<sup>42</sup> It is pertinent to note that at the fag end of the negotiations ahead of the July 20, 2014 deadline in Vienna, the Foreign Ministers of all the other P5+1 countries, except for Russia and China, were in attendance. The Chinese delegation which was initially led by Qun was later joined by Vice FM Baodong.

President Rouhani met with President Jinping ahead of the Conference on Interaction and Confidence-building Measures in Asia (CICA) Summit in Shanghai in May 2014, where China agreed to increase its 'communication' with

Iran over the negotiations. The theme of the Summit was 'On Enhancing Dialogue, Trust and Coordination for a New Asia of Peace, Stability and Cooperation'.<sup>43</sup>

The Chinese Foreign Ministry Spokesperson, in reply to a question on June 9, 2014 welcomed direct, bilateral consultations between Iran and its interlocutors to arrive at a solution.<sup>44</sup> Foreign Minister Wang Yi received the Iranian Deputy Foreign Minister Ebrahim Rahimpour in Beijing on August 26, 2014. Significantly, Yi, echoing the Jinping-Rouhani interaction at Shanghai, affirmed that China was 'ready to make joint efforts ... to better safeguard the common interests of both countries and even the vast developing countries, so as to promote the process of global multi-polarization and the democratisation of international relations'.<sup>45</sup>

During informal negotiations in Muscat on November 14, 2014, Qun held discussions with Russian Deputy Foreign Minister Sergei Ryabkov, Deputy Secretary of State Wendy Sherman, as well as Deputy Foreign Minister Abbas Araghchi of Iran. It is pertinent to point out that while Qun as the head of the Arms Control department at the Chinese Foreign Ministry was leading the delegation, his interlocutors were definitely senior to him, protocol-wise. This does indicate the relatively lower level of political investment that the Chinese side brought to the negotiations.

While Vice FM Zhang Ming visited Tehran in December 2014 and met with Mr. Zarif among others, Foreign Minister Wang Yi made his first trip to Tehran in February 2015 (He had assumed office in March 2013). Yi noted that 'the two sides could complement advantages for common development' by 'combining China's advantageous surplus capacity and Iran's needs of promoting industrialisation'. He further affirmed that China would 'promote democratisation in international relations and safeguard the legitimate rights and interests of the developing countries'.<sup>46</sup> Addressing a joint press conference with Foreign Minister Zarif, Yi compared the negotiations to the last stages of a marathon, and indicated the possible last mile difficulties by quoting a Chinese proverb that 'the ninety miles is only half of a hundred-mile journey'.<sup>47</sup>

Foreign Minister Yi had a bilateral meeting with Kerry on March 29, 2015 in Lausanne. Kerry was quoted by the Chinese Foreign Ministry as stating that the Chinese side was 'making accurate judgment of the situation, (had) put forward multiple insightful and constructive approaches and schemes, and played a significant and constructive role in the negotiations on the Iranian nuclear issue'.<sup>48</sup> The Chinese Foreign Ministry termed as 'special' the effort invested by Yi in going to Lausanne, when corresponding officials from the US like Secretary Kerry had been camping for many days at the venue of the talks in pursuit of a solution.<sup>49</sup> Yi flew back to Beijing ahead of the announcement of the Lausanne Framework on April 2, 2015.



The Foreign Ministry Spokesperson at the April 1, 2015 press conference stated that China had put forward a 'four-point' proposal to help take the negotiations forward. These were: the need for 'political guidance' given that the Iranian nuclear issue 'is an issue of political security'; all parties should 'meet each other halfway'; a 'step-by-step and reciprocal' process; and the need to pursue a 'package solution' given that all issues are 'inter-connected'.<sup>50</sup> In end-June 2015, Vice FM Baodong met with the Foreign Ministers of the remaining P5+1 countries during the 'final frontier' talks at Vienna, except Russia which was again represented by Deputy FM Ryabkov. It is hard not to flag such repeated instances of lower profile Russian and Chinese representations, in the EU-led process dominated by the Americans.

The JCPOA was eventually agreed upon on July 14, 2015. China however claimed credit for helping resolve a critical point of contention. In the aftermath of the deal, Foreign Minister Yi told reporters in Vienna that a Joint Working Group made up of China and the US would prepare a road map for the modification of the Arak reactor, given that China had put forward the idea for its modification.<sup>51</sup>

### **Aftermath of the JCPOA**

It is pertinent to note that Russian president Vladimir Putin and President Xi Jinping were the first two high-ranking dignitaries to visit Tehran post the JCPOA in November 2015 and January 2016 respectively. While Putin was in Tehran to attend the Third Gas Exporting Countries Forum (GECF) Summit, Jinping's was the first bilateral state visit. Jinping also visited Riyadh and Cairo during the same trip, with Tehran being the third stop in the itinerary. China and Iran agreed to take forward their bilateral trade to \$600 billion over the course of the next decade. As noted in Table 2, bilateral trade stood at about \$52 billion in 2014. Both sides agreed upon a 'Comprehensive Strategic Partnership' for 25 years and signed a slew of agreements ranging from cooperation in nuclear energy to infrastructure projects like the One Belt, One Road (OBOR) Initiative.

The Supreme Leader Ayatollah Khamenei was cited as stating that Iran was looking to expand energy cooperation with 'independent' countries like China and that the US was 'not honest' about the fight against terrorism in the region.<sup>52</sup> It is pertinent to note that during his visit to Riyadh prior to arriving in Tehran, reports noted that President Jinping had expressed China's support for Yemen's government, which was supported by Saudi Arabia but was fighting rebels allegedly sponsored by Tehran.

Both sides would continue to sidestep such inconsistencies as they seek to rapidly expand cooperation for each other's mutual benefit. Reports note that initiatives like OBOR are custom-made for both countries, as Iran needs the

foreign investment and technological support to strengthen its infrastructure while China seeks to bring to greater fruition its signature policy initiative launched in 2013. In a significant development, the first train from the Chinese trading hub of Yiwu arrived in Tehran on February 15, 2016, after traversing a distance of over 10,000 kms. According to reports the journey time was a good 30 days less than taken by maritime containers to reach Bandar Abbas from Shanghai.

One growth area in Iran-China bilateral ties (apart from increasing cooperation in the energy sector) could be military relations. Reports suggest that China could become an important avenue for Iran to meet its defence requirements, including fighter aircrafts, among others.<sup>53</sup> The aftermath of the JPOA saw enhanced interactions between the security establishments of the two sides. Two Peoples Liberation Army-Navy (PLAN) destroyers visited the port of Bandar Abbas in September 2014. Analysts noted that this visit was significant because PLAN ships had not visited Iranian ports between February 2009 and April 2013, when they had called on 68 Indian Ocean littoral ports as part of the anti-piracy mission, in which China began to participate since December 2008.<sup>54</sup>

Iran and China had earlier reached a framework agreement for defence cooperation in May 2014, when the Iranian Defence Minister Hossein Dehqan had visited Beijing. High-level interactions since then have included meetings of: Admiral Wu Shengli, PLAN Chief with Habibollah Sayyari, the Iranian Naval chief in October 2014; Admiral Sun Jianguo, Deputy Chief of the PLA General Staff with Minister Dehqan and Chief of Staff of Iranian armed forces Hassan Firouzabadi in October 2015; and PLA Air Force Commander Ma Xiaotian with his visiting counterpart Hassan Shah Safi in November 2015. During the meeting with Adm. Jianguo, Brig. Gen. Dehqan called for the formation of 'powerful regional coalitions' to block US influence in the region.<sup>55</sup>

In the aftermath of the JCPOA Implementation Day, Chinese energy imports will witness a rise since restrictions on sourcing Iranian energy have been lifted. Iran would look to Chinese investments to develop its oil infrastructure, while there are reports that it would seek superior European technological know-how for extracting gas. A senior Iranian oil industry official was cited as stating that Iran had opened up 16 petro-chemical projects worth over \$16 billion for Chinese investments.<sup>56</sup> Clearly, Iran-China ties across the political, military and economic spectrums – some of which have been delineated above, are set to witness an upward trajectory post the JCPOA.

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## China-EU Relations: Marco Polo Arrives from the East?

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### Introduction

The 13<sup>th</sup> century Venetian merchant Marco Polo travelled to China during the rule of the Yuan dynasty. Marking the 40<sup>th</sup> anniversary of China and European Union (EU) relations, China now wants to build a road right up to Marco Polo's Venice, hoping that just as the Venetian merchant returned to Europe a wealthy man, the road will lead China to greater prosperity. President Xi Jinping in his speech on "Build a Bridge of Friendship and Cooperation Across the Eurasian Continent" on April 1, 2014 at the College of Europe in Brussels<sup>1</sup> spoke of building "four bridges" for peace growth, reform and progress of civilisation. The 'bridge' probably symbolised the 'One Road One Belt' (OROB) initiative which in 2015 marked its presence as an important element of EU-China relations.

Chinese economic interests are building infrastructure projects and trade links through promotion of "One Road One Belt" initiative; the transition from low value production to high technology manufacturing; and the internationalisation of the Yuan. The European Union's economic interests are geared to preserving European integration, which means delivering the promised prosperity to its people. This calls for curbing deflationary tendencies and restarting investment activity. The need for fresh capital and investment opportunities is the foremost reason for the European Union's enthusiastic support for Chinese initiatives like the AIIB and the OROB. This paper argues that the pivot of relations between EU and China revolves around synergising their economic interests. While fresh capital can kick start investment activity, Europe also needs to protect its industries to avoid job losses. China on the other hand needs to manage its transition phase.

Section one discusses the OROB in detail; Section 2 focuses on economic issues; Sections three and four elucidate the major political and strategic aspects of the relationship and its human rights dimension. The last section summarises the likely future prospects of the relationship. The paper mostly focuses on China and EU relations in 2015, as individual EU member states are not the focus of this paper. However, wherever necessary, the member states have been mentioned for analytical purposes.

### **One Road One Belt: Linking Chinese Transition with European Growth?**

The defining event in the economic sphere of China-EU relations was the “One Road One Belt” (OROB). The EU-China summit held in June 2015 extensively discussed the synergies between EU’s Euro 315 billion Investment for Europe Plan and OROB.<sup>2</sup> Later during the High Level Dialogue on Economics and Trade on September 28, 2015 China became the first non-EU member to contribute to the Investment for Europe Plan.<sup>3</sup> The two sides agreed to set up a joint working group to boost cooperation between China and the EU on all aspects of investment.<sup>4</sup> The working group would draw experts from China’s Silk Road Fund, the European Investment Bank, and the European Commission. A Memorandum of Understanding was signed between the European Commission and the Chinese government on establishing the EU-China Connectivity Platform to enhance synergies between China’s OROB initiative and the EU’s connectivity initiatives such as the Trans-European Transport Network policy (TEN-T).<sup>5</sup> The Platform will promote cooperation in areas such as, infrastructure, equipment, technologies and standards. The objective is to create multiple business opportunities and encourage employment, growth and development for both sides. The EIB will be part of this initiative.<sup>6</sup> TEN-T has identified nine core corridors out of which the Baltic-Adriatic corridor and the North Sea Baltic corridor may be well positioned to connect with Chinese Silk Road.

The OROB or the ‘Silk Road’ Strategy as it is termed by the Chinese, has three major objectives. Firstly, the OROB is connected with the Chinese programme to develop its western region that lags behind the richer eastern provinces in economic terms. The OROB can thus be interpreted as the internationalisation of Great Development Programme of Western China.<sup>7</sup> Connecting these western provinces with developed European markets will give a growth impetus to these provinces because of the supply of cheap goods and the inflow of capital from the EU and its member states. Secondly, China’s ‘look west’ strategy is meant to reduce its dependence on the Malacca Strait that makes its supply routes increasingly vulnerable to any naval blockades.<sup>8</sup> The relevance

of the 'Silk Road' assumes increased importance at a time when China is mired in maritime disputes with neighbours on its eastern flank and the threat posed by the United States naval presence. In this context the 'Eurasian Land Bridge' that OROB aims to build will provide China strategic access to Europe through Central Asia and Eastern Europe where the United States presence is relatively less marked.<sup>9</sup> Moreover, involving EU in the OROB may assuage the suspicions of the United States and other Asian countries, regarding China's clandestine geo-strategic motives for promoting the 'Silk Road'.<sup>10</sup> Thirdly, China wants to resolve the issue of overcapacity and the lack of competitiveness facing its State Owned Enterprises (SOE).<sup>11</sup> The large investments that China made in its infrastructure sectors like cement and steel have created overcapacity that is exacerbated by the lack of domestic demand. Therefore the OROB is a means of utilising this overcapacity by building infrastructure in countries along the Silk Road route. China has reached a stage in its economic development where its future productivity will depend on efficiency and technical innovation, rather than capital and labour inputs. Thus it needs to encourage innovation, efficient managerial practices and research and development. But more importantly, this has to be done while ensuring job creation for the Chinese workforce. The OROB is an opportunity for China to learn the best practices in corporate governance and management from the EU, along with technological innovation. It is an opportune time for China to break the existing monopolies in various sectors, like financial institutions, banking and transport, in order to spur private investment and encourage the growth of the services sector to absorb the surplus labour from the manufacturing sector. Lastly, China wants to gain time to manage the structural transition of its economy from an export oriented model to one based on domestic consumption.<sup>12</sup> It needs to cultivate new markets and new regions for its goods. Hence it may not come as a surprise that the OROB was a major talking point on the agenda of the 4<sup>th</sup> China-Central and Eastern Europe (CEE) summit, held on May 4, 2015 in China.<sup>13</sup> Also known as the '16+1' forum, the summit was hosted for the first time in China, in the eastern city of Suzhou.<sup>14</sup> China intends to invest heavily in infrastructure building in CEE countries. It aims to double the bilateral trade between China and CEE countries by 2019, thereby tapping the untapped demand in these markets. The total trade volume between the two was \$60.2 billion in 2014.<sup>15</sup> The OROB very craftily amalgamates the geo-political with the geo-economic interests of China.

China has been building rail networks in Europe since 2011 (refer Table 1). China continued its 'rail diplomacy' at the China-CEE summit by signing separate deals with Serbia and Hungary to build a high speed rail link connecting Belgrade and Budapest. Serbia is looking to modernise its transport infrastructure so as to become a major player in the pan-European transport network. Efforts will be



made to simplify customs procedures between China, Serbia, Hungary and Macedonia. China has lent its official backing to the Ukraine-Georgia-Azerbaijan-Kazakhstan train route that will become operational in early 2016.<sup>16</sup> The route stretches from the Illichivik port in Ukraine to the Kazakh-China border.<sup>17</sup> The journey time would be 14 days compared to the 40 days taken by the maritime route. The CEE countries form an important part of the 'Eurasian land bridge' that China aspires to construct. Geographically they are located on the periphery of Western Europe and offer the perfect connection to Western Europe through three corridors that pass through these countries: the one leading to Southern Europe through Greek ports and the western Balkans; the one passing through Poland; and the routes heading to Northern Europe through the Baltic states.<sup>18</sup>

**Table 1: China-Europe Train Routes**

<i>Train Routes</i>	<i>Description</i>
Chongqing-Duisburg Line	Commencing in 2011, line connects Chongqing province with Duisburg in Germany passing through Kazakhstan, Russia, Belarus and Poland. The line is operated by a Sino-German joint venture (JV) between Yuxinou-Tel (DB Schenker). The journey takes 16 days as compared to the maritime journey of 36 days.
Chengdu-Lodz Line	Commencing in 2012, the line is operated by YHF – HaTrans. It runs via Dostyk, a town in Kazakhstan bordering Xingjian, China and Brest on the Belarus-Poland border. DHL couriers operate weekly cargo service on this line. The journey time is 12 to 14 days.
Zhengzhou-Hamburg Line	Commencing in 2013, the line is heavily subsidised by China and transports electronic components to Germany. It runs via Dostyk and Brest borders.
Suzhou-Warsaw Line	Commencing in 2014, the line transports electronic and automotive parts. It connects Suzhou, the Singapore Industrial Park with EU. It supports the Singapore Industrial Park based companies like Nokia and Bosch.
Yiwu-Madrid Line	Commencing in 2014, and covering a distance of 13000 kilometres, this is the longest train route. The route connects the Chinese production hub of Zhejiang, the Chinese financial hub of Shanghai and the largest Chinese wholesale distribution centre in Yiwu with Madrid. The journey takes 21 days.

*Source:* Alessandro Arduino, *China's One Belt One Road: Has the European Union missed the train?* Policy Report, RSIS, Singapore, March, 2016, pp. 1-20.

## **Economic Relations: The Geo-Economic Context**

The year 2015 saw some 'on the edge' moments, that included economic crises, stagnation of growth and falling oil prices. The year had a shaky start with the drama of Greece's exit from the EU (Grexit) playing out to its logical conclusion, for the time being. Ultimately, Greece reached a compromise with its creditors

by accepting most of their conditions. While, the EU did not show any miraculous economic recovery, the economic growth tethered around 1.9 per cent with the Southern European periphery still weathering an economic recession.<sup>19</sup> Even the European economic powerhouse, Germany witnessed a dip in economic growth. The Chinese growth figures dropped below double digit for the first time in three decades. Commodity prices continued their declining trend, this year. The two major triumphs for the Chinese economy this year were the successful negotiation of the Articles of Association of the Asian Infrastructure Investment Bank (AIIB) that were signed by many European countries despite the United States displeasure with the initiative. The second was the Yuan being accepted as a reserve currency by the International Monetary Fund. The European Central Bank (ECB) followed an expansionary monetary policy while the People's Bank of China (PBOC) let the Yuan depreciate against the dollar. The Federal Bank of United States ended its near zero interest rate policy that had prevailed since 2008. This led many countries, including China, to take into account the strength of the dollar vis-à-vis other currencies, while planning their economic policies.

Trade between EU and China has increased over the years and is to the tune of €1 billion a day. While China has been EU's largest trading partner since 2006, EU is China's second largest trading partner after the United States. The EU-China trade figures show that imports and exports are both on the rise (refer Table 2). China's exports to EU grew at a much faster rate of 15.9 per cent from 2014 to 2015, while China's imports from EU grew by a mere 3.5 per cent for the same period (refer Table 2). This meant that the deficit between EU and China went up by 30.8 per cent (refer Table 2). The trade deficit has important implications for China and EU relations, as it has always been a thorny issue. It will also impact the EU's decision to grant Market Status to China, and China's plans of extending the OROB to Europe. There are fears in the EU that both these measures will exacerbate the trade deficit, thereby benefiting China more than the EU.

**Table 2: EU's Trade with China: 2014-2015 (Million Euros)**

	2014	2015	Year-on Year Growth (Percentage)
EU's Imports from China	302,146	350,357	15.9
EU's Exports to China	164,623	170,393	3.5
Total Trade Volume	466,769	520,750	11.5
Trade Balance	-137,523	-179,964	30.8

Source: Eurostat.

The Chinese Outbound FDI (OFDI) increased significantly in 2015. The gap between Chinese inbound and outbound FDI is narrowing. Chinese

Outbound FDI added up to \$56 billion in first half of 2015, up 29 per cent compared to last year.<sup>20</sup> This is a new record for first half of the year OFDI outflows and brings the outflows very close to the figure for inward FDI.<sup>21</sup> The total OFDI for 2015 was \$118 billion.<sup>22</sup> Chinese investment into EU rose to EUR 20 billion in 2015 from EUR 14 billion in 2014, culminating in a 36 per cent rise.<sup>23</sup> The top three destinations for Chinese investment in EU were Italy, France and the United Kingdom.<sup>24</sup> Chinese investment into EU was directed towards the automobile industry, followed by real estate and hospitality.<sup>25</sup> The increase in Chinese mergers and acquisitions in Europe was the primary reason for the Chinese OFDI into EU. The total M&As amounted to \$21 billion from 90 deals. ChemChina's \$7 billion takeover of Italian tire maker Pirelli was, the all-time, largest Chinese outbound M&A transaction in the EU.<sup>26</sup> Another high profile deal that seems to be back on the table is the China Ocean Shipping Corporation's (COSCO) bid for a majority ownership stake in the Port of Piraeus. The acquisition of this port is part of the OROB initiative to link Central and Eastern Europe to the Mediterranean Sea.

**Table 3: Major Chinese Merger and Acquisition and Investments in EU**

<i>Transactions</i>	<i>Value of the deal</i>
Fosun's acquisition of Club Med	\$527 million
Shanghai Jin Jiang's investment in Louvre Hotels	\$1.5 billion
Ping An Insurance's investment in London Tower Palace	\$495 million
Anbang's acquisition of Dutch government owned Insurance company Reaal NV	\$713 million
China Investment Corporation's (CIC) acquisition of two shopping centres in France and Belgium	\$700 million
Chem China's acquisition of Italian tire maker Pirelli	\$7 billion
JianGuang Asset Management's acquisition of NXP Semiconductors' RF unit	\$1.8 billion
CIC's acquisition of Germany's Tank and Rast	\$385 million

*Source:* EU-China FDI Monitor.

Overall, China witnessed a modest increase in Foreign Direct Investment (FDI) inflows in 2015. The FDI inflows increased by 6.4 per cent—from \$118 billion in 2014 to \$126 billion in 2015.<sup>1</sup> The macro trends in the sectoral distribution of FDI show that the FDI in the services sector is growing at a faster rate than other sectors. The services sector received 61 per cent of total FDI. The manufacturing sector received almost 31 per cent of FDI and the FDI mix shifted to high tech manufacturing owing to rising labour costs in China.<sup>2</sup> Approvals were made tougher for investments in sectors with overcapacity.

There was a slowdown in the EU's FDI in China, which declined by 9 per

cent. In 2014 the FDI inflows into China from EU stood at EUR 9.9 billion (\$13 billion), while in 2015 they amounted to EUR 9.3 billion (\$10 billion).<sup>3</sup> Autos and chemicals continue to dominate European investment in China, with several significant new facilities and expansions under way. The rankings of investor countries continue to be dominated by Germany, with France in second position followed by the United Kingdom and the Netherlands. The new investment activities may have been kept on hold due to the pending Merger and Acquisition Framework Agreement.

**Table 4: Major EU's Merger and Acquisition and Investments in China**

<i>Transactions</i>	<i>Value of the deal</i>
Volkswagen's investment to raise its stake in the joint venture with automaker FAW from 40 to 50 per cent	\$5 billion
Lego's plant in Jiaxing	\$471 million
Airbus's assembly plant in Tianjin	Not known
Volkswagen's JV with SAIC to produce electric vehicle models in Anting or Shanghai	Not Known
ThyssenKrupp's new hot-dip coating line JV with Ansteel	Not known

*Source: EU-China FDI Monitor.*

## Major Economic Milestones and Roadblocks

The trade between the EU and China will be facilitated by the mutual recognition agreement that has come into force in November 2015, which will enable trusted traders to enjoy lower costs, simplified procedures and greater predictability in their activities.<sup>4</sup> Mutual Recognition of Authorised Economic Operator means that companies will benefit from better controls and reduced administration for customs clearance.<sup>5</sup> Mutual recognition of trusted traders also allows the customs department to focus its resources on the real risk areas, which improves supply chain security on both sides.<sup>6</sup> The EU is the first trading partner to enter into such an agreement with China, having earlier signed similar deals with the USA (2012) and Japan (2011).

The year was also marked by an increase in the numbers of trade disputes, between EU and China. At the beginning of the year the EU won the dispute over the anti-dumping duties imposed on EU's stainless steel imports by China in 2012, which were declared illegal.<sup>7</sup> Another trade dispute, that brewed in 2015, was over the measures taken by the EU to curb cheap steel imports from China which had led to a fall in steel prices and the loss of 5000 jobs in the steel sector due to closure of units.<sup>8</sup> The United Kingdom was particularly concerned about this and called a meeting of Competitive Council on November 9, 2015 to discuss

the issue. China makes nearly half the world's production of 1.6 billion tonnes of steel. It was expected that China would export a record 100 million tonnes of steel to world markets in 2015 to deal with its spare steel making capacity, which is estimated to be 300 million tonnes. Global steel prices are at their lowest levels in over a decade due poor demand growth and structural over supply. Consultants from CRU estimate that some 700 million of the total 2.3 billion tonnes of the global steelmaking capacity is spare.<sup>9</sup> By the end of 2015, 53 of the 87 anti-dumping cases and 5 of the 22 anti-subsidy measures, put in place, were related to China.<sup>10</sup> The highest number of EU trade defence cases, were concerned with iron and steel. The European chemical industry and, now increasingly the energy industry (solar panels, biofuels) are the other sectors using the anti-dumping instruments. While the Chinese claim that this is unfair, the EU counters by saying that the impact of these instruments on bilateral trade is marginal. The 53 anti-dumping measures in force against Chinese imports, constitute only 1.38 per cent of bilateral trade.<sup>11</sup> Solar panel anti-dumping duties, alone, account for 0.7 per cent of the bilateral EU China trade.

The two sides signed an important agreement on enhancing cooperation in 5G networks.<sup>12</sup> The joint declaration was signed by Günther Oettinger, European Commissioner in charge of the Digital Economy and Society and Miao Wei, Chinese Minister of Industry and Information Technology during the High Level Dialogue on Economics and Trade.<sup>13</sup> The declaration called for enhanced cooperation: for building a global consensus on 5G networks by end of 2015; identifying and undertaking joint research in the area of 5G and Internet of Things; cooperating in identifying spectrum requirements for 5G; and promoting the global standardisation of 5G.<sup>14</sup> The declaration is significant because China is likely to be a major player in the development of 5G and also potentially the world's largest market for 5G technologies, products and services.<sup>15</sup> The country will also have a substantial role in establishing a 5G global standard. Under this agreement, EU companies, particularly the EU telecoms and ICT industry are likely to have easier access to the Chinese market. In particular, European companies will be able to access and participate in China's publicly funded 5G research, development and innovation initiatives on the same terms on which Chinese companies currently participate in the EU's 5G activities.<sup>16</sup>

One of the major achievements of China in 2015 was the successful negotiation of the Articles of Association of the Asian Infrastructure Investment Bank (AIIB). Fourteen EU member states have joined AIIB. The first to join was the United Kingdom, followed by France, Germany and Italy joining it.<sup>17</sup> Austria, Denmark, Finland, Luxembourg, Malta, the Netherlands, Poland, Portugal, Spain and Sweden are other EU member states that have joined the AIIB. While the EU member states that joined the AIIB might claim that they

did it to maintain good governance standards within the institution, ultimately it was the massive business opportunity that the AIIB, clubbed with other Chinese initiatives like the New Development Bank (NDB), offered that lured the member states to join up. The AIIB has an initial subscribed capital of \$100 billion, which is one third of the EIB and twice that of the European Bank of Reconstruction and Development (EBRD).<sup>18</sup> The NDB has a subscribed capital of \$50 billion, which makes the joint subscribed capital of both AIIB and NDB more than that of most Multilateral Development Banks (MBD) except the EIB, World Bank and Asian Development Bank. Taking into account the capital of the \$30 billion for supporting the Silk Road Fund, the \$100 billion BRICS Contingency Reserve Arrangement and the \$240 billion Ching Mai initiative, there is a large corpus of Chinese led funds that can be pumped into emerging markets.<sup>19</sup> By supporting initiatives like AIIB, the member states of the EU, hope to get Chinese funding for large projects in emerging markets. The EU however is not a member of the AIIB. The failure of the EU to take a call on the AIIB membership illustrates the lack of coordination and cohesion within the Union. Even though the EU has supported AIIB, it has reserved judgement on the governance practice of the institution.

### **Political and Strategic Relations**

In the backdrop of Paris Climate Conference at the end of 2015, the China-EU summit issued a separate joint statement on climate change. The aim was to reach an effective draft deal in Paris and make sure China stayed on board with legally binding commitments on emissions. The China visit of French President Francois Hollande that took place a month before the Paris summit signified the importance of taking China on board.<sup>20</sup> The final outcome of Paris climate agreement was that a legally binding deal was produced in Paris and China accepted it. In the Intended Nationally Determined Contribution, China pledged that it aims to hit the carbon dioxide (CO<sub>2</sub>) emissions peak by around 2030 and slash CO<sub>2</sub> emissions per unit of the Gross Domestic Product (GDP) by 60-65 per cent from the 2005 levels.<sup>21</sup> This commitment reflects China's domestic concerns over rising pollution levels and the hazards they pose for China's development. However, the cooperation between the China and EU in respect of climate change will be limited to technical areas. The high politics of climate change will be managed by China's engagement with big powers like the United States or bilaterally, with EU member states like Germany. On the technical side of the cooperation there has been significant focus on the issue of urbanisation, this year. China has seen unprecedented urbanisation,—like no other in history. Since 1978, 500 million people have shifted to cities.<sup>22</sup> In the next two decades or so, another 200 to 300 million people are likely to move to cities. The

urbanisation rate was 55 per cent in 2014 and is likely to rise to 60 per cent by 2020.<sup>23</sup> Recognising this challenge, the China-EU Urbanisation Partnership was formed in 2012. A meeting of the China-EU Urbanisation Partnership Forum took place on the side-lines of the 4<sup>th</sup> EU-China Summit, The forum was addressed by Premier Li Keqiang<sup>24</sup> who pinpointed three areas of cooperation: smart cities; energy saving and environmental protection; and public services.<sup>25</sup>

The issues related to security, defence and strategic interests got minimal attention this year. The EU's High Representative Federica Mogherini visited China in the month of May.<sup>26</sup> Except for customary statements on the Ukraine, and the situation in Libya, Syria and Yemen there was nothing much to report.<sup>27</sup> The summit joint statement highlighted the successful partnership between EU's NAVFOR and PLA's Navy for fighting piracy in the Gulf of Aden. The China-EU engagement in security in Africa, may also fructify in the coming years especially with China acquiring a military base Djibouti.<sup>28</sup> The constructive role played by both China and the EU during the Iran nuclear talks was probably the highlight of the year. The EU maintained its posture of neutrality in maritime disputes in East Asia. It did not comment on the Hague's decision to hear the case on the maritime dispute between the Philippines and China. The EU's High Representative Federica Mogherini along with other G7 leaders, did raise the issue of maritime disputes in East Asia at the G7 summit despite Chinese reservations.<sup>29</sup> On the whole, this year was one in which both EU and China focussed on their geo-economic interests.

## **Human Rights in China-EU Relations**

The EU External Action Service issued statements on the arrest and detention of women's rights activists in China and the sentencing of veteran journalist Gao Yu to seven years imprisonment, on grounds that they wanted to launch a campaign against sexual harassment on International Women's Day<sup>30</sup> The EU Special Representative for Human Rights, Stavros Lambrinidis visited Beijing, Guangzhou, Shenzhen and Hong Kong-SAR.<sup>31</sup> The Special Representative also had discussions on package of security laws that China will introduce, which include an Anti-terrorism Law, Cyber-Security Law and a Law on the Management of International NGOs.<sup>32</sup> The EUSR urged China to amend the provisions that could curtail freedom of expression and association, freedom of religion and belief, and people-to-people contacts, in order to bring the draft legislation in line with international law and standards.<sup>33</sup> The EU member states did not raise the human rights issue with China. Such issues were, instead, delegated to the EU. In view of the economic stakes involved, the EU member states do not want to face the repercussions of being isolated by China. Agricultural imports from the Baltic states of Estonia and Lithuania were banned

by China when the leaders of both countries received the Dalai Lama in 2011 and 2013 respectively. The sanctions on Russia following the Crimean crisis forced these agricultural producers to reach out to China. The coming of the OROB into Eastern Europe will give China further leverage on human rights issues. Another reason for the European countries' silence on human rights issues is that the crisis in Syria may require Chinese intervention in some form. The Syrian crisis and the resultant refugee inflows have given China further leverage to criticise the EU on human rights issues. During the 34<sup>th</sup> High Level Dialogue on Human Rights, Chinese raised the issue of migrant integration, religious discrimination and xenophobia in Europe.<sup>34</sup>

### **The Road Ahead**

Looking ahead, one of the biggest challenges for trade relations will be the issue of granting Market Economy Status (MES) to China. When China joined the WTO in 2001, it was seen to be a centrally planned economy, and the terms of its accession required the country to be treated as a “non-market economy” for 15 years.<sup>35</sup> In a nutshell, prices and costs in China, were regarded as being artificially low and unreflective of normal market forces, owing to the state subsidies that its domestic industries enjoyed.<sup>36</sup> As a result, it was easier for other countries to initiate anti-dumping probes and impose high duties on Chinese exports. Beijing has long interpreted the accord to mean that it would automatically be given MES at the end of 2016. Already, more than 90 countries, including the ASEAN states, recognise the MES of China. Australia and New Zealand have agreed to an FTA with China.<sup>37</sup> However, the United States, the EU and Japan have not granted MES to China.<sup>38</sup> They would need to do so by the end of 2016. In Europe, there are strong views that are often marked by misunderstandings, or disagreements over the various facts and figures, relating to the repercussions of granting China MES. According to paper released by the European Commission, which is not yet out in the public domain, the job losses following such a move would be around 63,600 to 211,000. However the European industry alliance, AGEIS, claims that the figure is too conservative and the actual job losses would be 311,000.<sup>39</sup> Ultimately, the position taken by member states will have an impact on EU's decision to grant China MES. Italy's steel sector suffered the most due to cheap Chinese steel imports and it will be in the forefront to campaign against granting China MES status.<sup>40</sup> United Kingdom does have a steel lobby but steel sector employs around 18000 people and therefore it's insignificant than the powerful London based financial sector which will benefit from Chinese investments.<sup>41</sup> London issued the first yuan dominated bond this year and is looking eagerly to capture the renminbi trading market. Germany will favour China's MES status as China is an important trading



partner. The German superior steel industry can compete with cheap imports from China and the domestic demand by German auto manufacturers will keep its steel industry profitable.<sup>42</sup> In the end, EU is likely grant China MES status in 2016.

Annual investments by Chinese companies in EU member states soared from virtually zero in the mid-2000s to \$15 billion in 2014.<sup>43</sup> The over 1,000 Chinese greenfield projects and acquisitions in the EU, together accounted for Chinese investments of more than \$50 billion for the period 2000-2014. According to projections, Chinese global assets will rise to almost \$20 trillion by 2020. The new wave of Chinese capital will gradually shift from natural resource based investment in developing countries to technology, brands, real estate and other assets in advanced economies. As China shifts its economy to high technology production, it will increasingly look for assets and manufacturing capabilities that aid this transition.

China has been steadily working towards internationalising the Yuan. The increase in interest rates by the US Federal Reserve ended the era of cheap dollars inflows into the Chinese economy. As the dollar gets stronger, China will be buying more dollars, and selling off the Yuan. This will depreciate the Yuan further. Having more dollars in hand would help China finance its OROB initiatives, as a stronger dollar would be able to purchase more value. It could further internationalise Yuan by asking that dollar denominated loans be paid back in the Yuan. On the other hand, Chinese companies will reduce their exposure to dollar denominated loans and move to other currencies like the Euro.

Major milestone in China-EU relations in 2015 was the OBOR and it will probably be a key factor in determining the dynamics of the relationship in coming years. The OROB can become a major multiplier in China-EU relations for several reasons. Firstly, if transportation costs and travel time along the route are lower than the maritime route, the OROB would lead to an increase in trade. Secondly, the OROB offers China an opportunity to work closely with EU countries and thus acquire high tech infrastructure building know-how and best management practices. The EU can use the OROB as leverage to push China to reform its markets and state owned enterprises. Thirdly, OROB will improve infrastructure in the CEE countries and give them access to the much needed Chinese capital at a time when the EU is in crisis. The Chinese economic involvement in CEE countries may not raise Russian anxieties as China is too far to engage in strategic competition for influence on Russia's western flank. Thus it will free CEE countries from the EU/West-Russia tussle. While China's involvement in CEE countries may give it some influence vis-à-vis EU's policies towards China but the EU will not be worried since China favours EU integration and it will never seek to break it up. This can be evidenced by the fact, that the China-CEE summit was attended

by representatives of the EU and the EBRD. China even talked about the integrating its policy towards the CEE with its EU policy. On the other hand, the OROB as an idea is very ambiguous and China has not yet clearly defined it. This leaves concerns among the EU member states about the financial and economic benefits that it will bring to EU economy. The EU already has a burgeoning trade deficit with China. Greater connectivity, lower logistics costs and the grant of MES to China in 2016, will amplify apprehensions of cheap Chinese goods flooding the European markets. In such a scenario, the cargo trains will go empty from EU to China, and will return to Europe laden with Chinese goods. Hence, China may have to make concessions by reforming its own market and allow investment opportunities to European companies. China also heavily subsidises the cargo from China thereby keeping the logistic costs artificially low. The EU on the other hand lets market forces decide the price. This gives China an unfair advantage and does not truly reflect the actual cost of transportation. This distortion will have to be resolved. China will also have to engage in active public diplomacy to increase awareness about the OROB initiative among the European public. At a time when Euroscepticism is on the rise in Europe, China cannot overlook the role of domestic politics of the EU member states, and its impact on OROB related investments and acquisition. For example, COSCO's acquisition of the Port of Piraeus is still hanging in the balance due to Greek politics over the issue of privatisation. Marco Polo returned a rich man from China, but whether China will prosper from its journey to the West, still remains to be seen.

#### NOTES

1. Xi, Jinping, "Building a Bridge of Friendship and Cooperation Across the Eurasian Continent", *The Governance of China*, Beijing, Foreign Languages Press, 2014, pp. 309-3011.
2. The Investment Plan for Europe has three objectives: removing obstacles to investment by deepening the single market, providing visibility and technical assistance to investment projects, and making smarter use of new and existing financial resources. According to European Commission estimates, the Investment Plan has the potential to add at least Euro 330 to Euro 410 billion to the EU's GDP and create 1 to 1.3 million new jobs over the coming years. It aims to address the current situation where the EU has sufficient liquidity, but private investors are not investing at the levels needed.
3. European Commission, "Investment Plan for Europe goes global: China announces its contribution to #investEU", September 28, 2015, at [http://europa.eu/rapid/press-release\\_IP-15-5723\\_en.htm](http://europa.eu/rapid/press-release_IP-15-5723_en.htm) (Accessed February 3, 2016)
4. Ibid.
5. Ibid.
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