



China Yearbook 2012

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China Yearbook 2012

Editor
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The covers shows delegates at the 18th National Congress of the Communist Party of China, 2012.

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Introduction

As China has grown in economic, military and diplomatic clout, so has the interest in understanding more deeply a country with whose fortunes much of the world's future lies intertwined. For China-watchers, 2012 was a year of high intensity drama. In the domestic arena, China's political landscape seemed poised for upheaval given the revelations brought in the wake of Bo Xilai's fall. Added to this was frenzied speculation over the leadership transition and attendant behind-the-scenes political bargaining. The balance of power between various political groups, between the Communist Party of China and the People's Liberation Army and the continuing influence of retired leaders were much commented upon. State-society relations in the aftermath of the Wukan incident of 2011 too were ostensibly in flux. Even as unrest in minority regions continued unabated, other parts of the country saw rising demands for greater accountability and better governance. Recourse to media and legal tools were a common feature in these incidents. Even as China faced an economic slowdown, its military modernization program continued. The launching of its first aircraft carrier, *Liaoning*, was in the background of renewed tensions over maritime issues with neighbours. Not only did China and the Philippines have a stand-off over territorial disputes in the South China Sea, but China's long standing differences with Japan in the East China Sea also resurfaced in 2012. Thus, in the external domain too the year 2012 saw many noteworthy developments. The centrality of China's maritime and territorial disputes with neighbours in determining its foreign

policy orientation was made obvious with the oblique involvement of the United States in the issue of the South China Sea and its categorical recognition of Japanese administrative control over the disputed *Diaoyu/Senkaku* islands.

This yearbook, the second in the series, seeks to document and analyse important developments related to China in the year 2012. Chinese politics, society, economy, important foreign relations as well as China's involvement in global 'hotspots' are the subject matter of the 12 chapters that comprise this publication. A review of developments across these spheres is undertaken with a view to understanding the future trajectory of China's development.

The first section of the yearbook consists of four chapters which delve into issues relevant to China's domestic sphere. The first chapter reviews the 18th Party Congress of the Communist Party of China and examines the power transition during the Party Congress, the issue of power vs. ideology as exemplified in the Bo Xilai case and posits that as far as domestic politics is concerned the characteristic of "strong state and weak leaders" will continue.

Chapter two examines state-society relations through the prism of the challenges faced by the state in the year 2012. Mass incidents, ethnic unrest, political participation via the internet are challenges identified which indicate the continuing centrality of economic grievances across protests, a growing Not-In-My-Backyard

movement in China related to environmental concerns, the utilization of legal tools and the internet in demands for greater accountability in government.

The Chinese economy is reviewed in chapter three which explains the reasons for the bearish outlook at the beginning of 2012 and economic recovery in 2012 driven by state-owned investment. Given the dependence on state investment, acute structural imbalances and stronger resource and environmental constraints it is believed that the task of adjusting economic structures and maintaining a stable high growth economy will remain problematic.

Chapter four deals with developments regarding the military in the year 2012. Beginning with an examination of the changes in the Central Military Commission in the wake of the 18th Party Congress, the chapter reviews the military exercises undertaken by the Chinese military in the past year and concludes with a comprehensive documentation of the military acquisitions made in 2012.

The second section of the yearbook examining external relations consists of five chapters. The fifth chapter of the yearbook looks at China's relations with South Asia in the year 2012. Not only is the progression of China's bilateral relations in the region charted but a comparison is made with India's relations with these same countries.

Chapter six takes a look at the important issues in the Chinese relationship with the United States and argues that China's territorial and maritime disputes with neighbours and the American 'rebalance' to Asia have deepened strategic mistrust between the two countries.

China's relations with countries of East Asia – Japan, the Republic of Korea and the Democratic People's Republic of Korea – are the subject matter of chapter seven. The domestic debate within Japan, its impact on the Japanese relationship with China and the events surrounding the exacerbation of tensions in the East China Sea are catalogued in this chapter. China's relations with the two Koreas are also studied with an emphasis on the economic investments made by China in the Korean peninsula.

2012 marked the twentieth anniversary of China's diplomatic relations with many important countries of Central Asia. Chapter eight underlines the strides made by China in cultivating relations with Central Asia in the bilateral as well as multilateral setting.

The key developments in China's relations with Africa, Australia, Europe and Latin America during the course of the past year are encapsulated in chapter nine. By underling the progression of Chinese diplomatic engagement across such widely distributed regions, the rise in China's global reach and clout is sought to be highlighted.

The remaining three chapters of the yearbook fall within the ambit of China's external relations but focus on areas that could be considered 'hotspots' in foreign policy terms. Chapter ten provides a comprehensive narrative on the developments in the South China Sea in the past year and the position of the major powers involved.

Chapter eleven examines expanding Chinese investment in Pakistan Occupied Kashmir (PoK) and suggests that the onus lies on India to proactively check Chinese presence in the region.

China's relations with two countries of West Asia – Iran and Syria – are the focus the twelfth chapter. A brief background on China's diplomatic relations with these two countries is followed by a detailed account of Chinese position on issues of current concern. The volume ends with a chronology of important events through 2012.

This annual compendium would not have been possible without the commitment and

support of scholars at the Institute of Defence Studies and Analysis, the East Asia Centre in particular, many thanks are due to them and to the publication section. Although by no means exhaustive, the chapters in this volume review important developments with a view to deepen understanding about China. As such, it is hoped that the reader will find this yearbook useful.

New Delhi
September 2013

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Section I: Internal Issues

1

Politics in China in 2012: Systemic Incrementalism and Beyond

Avinash Godbole

For the People's Republic of China (PRC), 2012 was a year of much anticipation given the once in a decade leadership change that was expected. Mounting domestic and external pressures formed the background to this political transition in the PRC. An examination of the politics of the Communist Party of China (CPC) as reflected in the leadership transition and prevailing political issues is useful not only in terms of understanding the politics within the CPC but also for comprehending its relationship with the state.

Three outstanding aspects of Party politics in 2012 were: 1) Power transition during the Party Congress and the ascendancy of conservatives 2) Bo Xilai and the issue of power vis-à-vis ideology 3) The future of Chinese domestic politics in the era of strong state and weak leaders. Of these, the third in particular provides food for thought in what to expect in the future as far as China's domestic politics is concerned.

Salient Features of the CPC Leadership after the Party Congress:

The 18th Congress of the CPC marked many firsts. It was the first transfer of power that was not overseen by the revolutionary leaders of the PRC. It was the first time that the twin important posts,

the General Secretary of the Party and Chairman of the Central Military Commission (CMC) were handed over in one go, setting a new precedent. It will also be the first time that all the members of the Politburo Standing Committee (PSC), except the incoming President and Premier, will serve only one term. The youngest new member of the PSC inaugurated in 2012, Wang Qishan, 64, will no longer be eligible for retaining his post in 2017 when the next Party Congress takes place.¹ In addition, six of the 18 remaining members of the 25-member Politburo would also be retiring for the same reason.

With the retirement age criteria firmly in place, the 18th Congress saw the biggest turnover of leadership compared to the previous congresses with significantly larger proportion of leaders retiring from their posts. This could perhaps explain why the Congress was delayed by a month. The average age of the members of the new Politburo is 61; leaders continue to be highly educated with 19 having University degrees, one having Military Academy degree and five members have credentials from the Party School. The new trend also shows more members with education in social sciences and lesser representation of engineers unlike the Politburos in the 1980s and 1990s. Alice Miller argues that the slight dip in the number of degree holders indicated the

generation's disrupted education during the era of Cultural Revolution.² There is a possibility that beyond political considerations, these leaders' early career or experiences of the disruptive impact of Cultural Revolution during their education years is directing their overarching desire stability. The coastal bias continues with 14 of the 25 members representing coastal provinces. The trend of reduced military experience among the members also continues. Once again there is no female member in the PSC, thus perhaps an important opportunity to correct the gender imbalance in the CPC is lost.³ Hu Chunhua, aged 49, presently the Guangdong Party Secretary and Sun Zhengcai, also 49, Tianjin Party Secretary, are the youngest members of the Politburo, and are already being seen as the sixth generational leaders.

At the end of the 18th Party Congress, China's then Vice President Xi Jinping took over the position of the General Secretary of the CPC from Hu Jintao. (Xi became the President of China in March 2013 when China's representative body the National People's Congress, NPC, convened.) It is now amply clear that Xi is leader of a conservative PSC. Xi Jinping is the son of Xi Zhongxun, who was Vice Premier under Mao and was purged during the Cultural Revolution. Thus, Xi is from the "Princelings" faction. However, unlike many others from this group, Xi himself has had a relatively long tenure in rural China when he began his political career in a small village named Liangjiahe, Shaanxi. Following this, he has had an interesting career. His national image as clean and tough on corruption is based on his tenure in Shanghai, where he was appointed after a major financial fraud by a party official. His last major assignment as a national leader before his elevation as future president was confirmed was the Beijing Olympics where he was in-charge of overall preparations. His earlier tenures as senior official in Zhejiang and

Fujian means that he has had closely dealt with the Taiwanese business and official interests. He is expected to push for more integration leading to unification. His closer ties with the military have been viewed closely as a reason for the possible rise of People's Liberation Army (PLA) in stature in decision-making. However, from time to time he might also have to use the closeness in restraining the PLA if it helps in reassuring the smaller neighbours. In the last two years, Xi has visited 50 countries in order to increase his global outreach, an area where he had lacked experience.

Li Keqiang, who is the second ranked member in the Politburo, became China's next Premier, replacing Wen Jiabao, at the 12th NPC. Like Xi, Li Keqiang's career also began with rural education in Fengyang County of Anhui. He studied Law and acquired PhD from Peking University where he joined the Communist Youth League (CYL). He rose in the CYL hierarchy like Hu Jintao, and later joined the CPC. He became the Governor and party Secretary in Henan, and is credited for the economic transformation of the province. He is known to be a tough economic administrator, coordinator and organiser.

Major Observations on the Outcomes of the Party Congress

1. Power Transition and the ascendancy of conservatives

The 18th Party Congress began on November 8, 2012 with the presentation of the work report by the outgoing Party Secretary Hu Jintao in Beijing.⁴ The work report had certain important messages. First, the report was self-congratulatory and involved reiteration of the achievements since Hu

took over party leadership; these achievements have undoubtedly been substantial. Second, an important element in Hu's report was the inclusion of his ideology, *the scientific outlook on development*, into the Chinese constitution as a legacy of Hu's generation of leadership. Third, Hu openly expressed concern over corruption by high-level party officials, which could no longer be ignored given the spate of high-profile cases involving party officials. In a note of caution, Hu said, "If we fail to handle this issue well, it could prove fatal to the party, and even cause the collapse of the party and the fall of the state. We must thus make unremitting efforts to combat corruption." Fourth, Hu's report also set the new economic targets for the future, which involved doubling of the urban and rural per capita income by 2020. Besides these, it mentioned Taiwan's unification with the mainland and China's peaceful rise, notwithstanding the anxiety that China's aggressive postures have caused in the recent past.

2. Core Party Politics before the Grand Finale

Three important developments leading up to the 18th Party Congress had been seen by observers of China's domestic politics as indicators of things to come as far as the intra-Party politics was concerned. First, the convening of the congress was postponed by a month just about a fortnight before its scheduled start. Second, the then General secretary in waiting, Xi Jinping, disappeared from public life for a period of nearly two weeks barely a month before the congress. Third, and perhaps the most important, was the reduction in the strength of the PSC from 9 to 7.

One of the reasons for the delay in convening the Party Congress is said to be behind-the-scenes

bargaining for power among different interest groups within the CPC. Chinese domestic politics in the decade of Hu Jintao was extremely complex. Hu Jintao was the first post-revolutionary leader. Hu represented the technocrat generation that has been known more for its business acumen than for charisma. Moreover, Hu was selected by a revolutionary leader, Deng Xiaoping. In contrast, Xi Jinping is the first leader who was not anointed by a paramount leader. At the same time, the transfer of power from Hu to Xi is significant also because this inter-generational power transfer is also an inter-factional power transfer. It is significant to note that Hu Jintao also quit as the Chairman of the Central Military Commission, unlike his predecessor who continued on the post for two years after quitting as the General Secretary of the Party.

The delay in convening the congress is likely to be related to the reduction in the number of the PSC members. The period between the 16th and the 18th Party Congresses was the first time in the history of the CPC when "collective leadership" was the order of the day and there was no paramount leader. Especially, in his second term as the General Secretary, Hu Jintao did not announce any new political philosophy. This was in contrast to his first phase when every year there was a new idea.⁵ This sort of a silence especially in the period in which the Party's functioning was increasingly being questioned is taken as a sign of the political obfuscation caused by the political disagreements within the top echelons of the CPC.

Lack of "collective" leadership during the last five years might not be the only reason for the reduced size of the PSC. The non-inclusion of Director of Organisation Department Li Yuanchao

and Guangdong Party Chief Wang Yang, widely associated with the Hu Jintao faction, raised many eyebrows. These two leaders are known to have more liberal, democratic and welfare oriented stand towards matters of policy. Their exclusion is being seen as being associated with the return of the old patriarch Jiang Zemin as a central figure in the decision-making leading up to and during the Party Congress. This brings back the point discussed above that perhaps owing to their early career experiences during the Cultural Revolution, the fifth and sixth generation leaders of the CPC prefer status quo over radical change left or right of the ideology. Moreover, ambiguous political positions suit their non-ideological politics as the leadership can swing from nationalism to a caring state orientation in matter of no time.

Bo Xilai's mysterious disappearance from public life during this critical period before the Congress attracted a lot of attention. The CPC officials or spokespersons refused to comment on his whereabouts further adding to the misinformation and speculation. Various theories regarding his health, an alleged attack on life, political infighting were attributed for his absence. Whether it was a bargain strategy involving the debate leading to the Congress is unclear; at the same time, it cannot be ruled out.

Conclusion

Chinese domestic politics in the era of strong state and weak leaders

One of the most important differences in the present CPC regime, as opposed to the regime in its earlier days, is that China has moved from a strong paramount leader, who guided the

country on the basis of ideology, and a weak country to a system of strong country and weak and fragmented leadership, mainly because of the diversity of interests involved. At the same time, selections to the top echelons of the party are opaque, often based on network and lineage. This means that in general there is resistance to changing the status quo as interest groups within the party do not want to harm the structures that have benefited them in the first place. Therefore, despite being at the top of affairs, the PSC only looks to maintain consensus for smooth administration, and there are no newer ideas on politics or economy beyond the extension of the country's national power. The process of institutionalisation has hurt the CPC as a vibrant ideology-based organisation. The two factions within the present day CPC, the Princelings or Taizidang, sons of the former top leaders and the Tuanpai or the ones without any political lineage and from the Communist Youth League have jostled for the party positions. In the new generation of leaders, the Princelings have been a dominating force due to the backing from former President Jiang Zemin who has influenced their selection to a large extent.

One misfortune of the Hu-Wen leadership was that they faced criticism from both the factions; the left criticised them for the failure of the welfare state amidst rising inequalities and inflation, while reformers saw them as being timid and not being active enough in continuing with reforms. In addition, the external observers criticised Hu as being too silent a president of an important global power. Xi-Li's difficulties come from this fact that their space for bargain will already be limited, and their deftness and resolve will be put to a real test during their tenure. This is primarily because of the systemic transformation of the

Chinese leadership structure discussed above. In an era where there is no paramount leader, when the General Secretary is just one among the equals and not *above* the rest of his colleagues in the PSC and when collective decision-making is prioritised, leadership will be much less visible and more understated.

21 years ago, in 1992, Deng Xiaoping undertook the famous Southern Tour that set in stone China's socialist market economy. This tour was significant as it came in the aftermath of the revival of ultra-left voices within the CPC calling for shunning of the reforms and opening up. Jiang Zemin's return to centre stage after years of hibernation could have the same impact on China's domestic politics akin to what the southern tour did to China's political economy. While Deng's tour chose to ignore the colour of that famous mice-catching cat, Jiang has chosen to see the red. This brings back the point of hopes of further reforms and opening that was expected from the new leaders of China.

From the discussion above, it is amply clear that conservatives and Princelings have impacted the outcome of the 18th Party Congress. Far from the anticipated liberal China, what we now have is a more conservative Party hierarchy wherein there is even less scope for diversity of opinions as the deliberative space seems to have shrunk even further. After the 18th Party Congress, the CPC has come full circle as its conservative left stance is completely, and perhaps, irrevocably replaced by a generally neo-conservative right leadership at the top.

Notes

- 1 In the process of institutionalising the party processes, the CPC has set a fixed retirement age of 68.
- 2 Alice Miller, "The New Party Politburo leadership", *China Leadership Monitor*, No. 40, 2012, pp. 1-14.
- 3 Many believed that Liu Yandong, State Councillor, was very close to becoming the PSC member. For more detail see Zhuang Pinghui, "Breaking the Glass Ceiling of the Politburo Standing Committee", *South China Morning Post Online*, September 18, 2012, at <http://www.scmp.com/news/china/article/1040175/breaking-glass-ceiling-politburo-standing-committee> (Accessed January 6, 2013).
- 4 Xinhuanet, "Full Text of Hu Jintao's Report to the 18th Congress", November 17, 2012, at http://news.xinhuanet.com/english/special/18cpcnc/2012-11/17/c_131981259.htm (Accessed January 4, 2013).
- 5 Miller, no. 2, p. 5.

2

State and Society in 2012 – Protesting for Responsive Governance Structures

Rukmani Gupta

In view of the 18th Party Congress in November 2012, which formalized the transition to the fifth generation of leaders in China, the overwhelming concern for the Chinese state and its leaders has been the maintenance of stability. That the state is well aware of the challenges to stability in the domestic realm is attested to by the fact that expenditure on “public security” has outstripped that on “national defence” for two consecutive years. For 2012 the central and local government budget for “public security” grew by 11.5 per cent to reach 701.8 billion Renminbi (US\$111.4 billion), compared with 629.3 billion Renminbi in 2011,¹ while the defence budget rose by 11.2 per cent to 670.3 billion Renminbi (US\$106.4 billion).

The establishment of a “social management system” for maintaining social stability involves not only the civilian component of the Chinese state but also the military. During the National People’s Congress in March 2012, President Hu Jintao called upon the People’s Liberation Army (PLA) and People’s Armed Police (PAP) “to pay more attention to safeguarding social stability, including that of military personnel.” Not only are the PLA and PAP to help the state in combating the sources of instability but must also stay vigilant against such forces within the armed forces themselves.² It is abundantly clear that for China’s leaders the core interest of “maintaining stability

in the form of government, political system and social order” is foremost. Yet, the state continues to confront both social and political challenges in its quest for stability. This chapter looks at some of the challenges faced by the Chinese state in the year 2012.

Challenges faced by the Chinese state in the social realm can broadly be classified into three categories: mass incidents, ethnic unrest/separatism and political participation via new media.

Mass Incidents

As far as “mass incidents” are concerned, 2012 saw the triggers of past years being reinforced, even as the character of incidents saw changes.

For example, July 2012 also saw protests in Renhuai, Guizhou over inadequate compensation offered to farmers after the local government expropriated their land to make way for an industrial park that will turn the city into “the Liquor Capital of China.”³

In July 2012, China’s Ministry of Land and Natural resources released information stating that a total of 29,000 cases of illegal land use were discovered till June 2012. As in previous years, the figures recorded were highlighted to indicate

a drop in such illegal activity. Till June 2012, US\$ 103.2 million was collected in fines for these violations and 313 persons were punished.⁴ The Xinhua report noted that, "China has been striving to crack down on illegal land grabs to ensure sufficient arable land to feed its people and protect farmers. However, local governments rely heavily on land sales for revenue and have been known to give preferential treatment to property developers."⁵ Despite official records that claim the problem of illegal land-use has been reducing year on year, the fact that a report published by China's official news agency acknowledges the propensity of local officials to collude with land developers attests to the depth of the problem.

Apart from incidents related to land acquisition, there was a noticeable increase in incidents involving local residents and migrant labour in 2012. As in 2011, relatively small altercations involving migrant workers flared into large scale incidents.⁶

In June 2012, more than 300 migrant workers from Chongqing attended a meeting of the Longshan village committee in Shaxi township of Zhongshan in search of answers after a 15-year-old boy from Chongqing was tied up and injured by local villagers. Angered by the attack on the boy, migrant workers threw stones at the village committee building and vandalized police cars.⁷

Again in June 2012, a meeting of the officials of Foshan's Zuotan village was interrupted by a group of villagers who abducted the head of the village and his deputy, holding them captive in a minibus.⁸ The two officials were held without food or water for more than nine hours before being rescued by police officers the next morning. Two villagers were injured and a police car was damaged in the incident. Police claimed to have no knowledge of the reason why the

two officials were kidnapped. However, it was widely speculated in the Chinese media that the disparities in government services provided to resident and migrant workers were to blame for such clashes.⁹ Along with the continuing debate on the reform of the *hukou* (residence permit), calls for better health and education services for migrants are on the rise.

That labour agitations have not resulted in improved labour conditions is attributed to the limitations in rights for collective bargaining in China and the support that manufacturers receive from local government and police officials.¹⁰ Throughout 2012 there have been incidents of worker suicides or threats of mass suicides over issues of adequate compensation.¹¹ This only highlights the deep rooted problems in China's labour sector that are surfacing more frequently in these times of economic stress.

In July 2012 environmental protests erupted in Qidong, Jiangsu and in Shifang, Sichuan within a span of a few weeks. In Shifang, where teargas was used to disperse protestors, the government decided to halt a multimillion-pound copper alloy plant project in view of public opposition.¹² In Qidong, about 1000 demonstrators occupied a government office, overturned cars, destroyed computers and beat police officers, eventually forcing officials to cancel the planned industrial waste pipeline project that would have dumped waste water from a paper factory into the sea near Qidong.¹³ In spite of the violence, both incidents were quickly resolved once local governments suspended the projects in question. These incidents are not the first instances of the government compromising in the event of a protest, especially with regard to unwanted construction projects. Environmental demonstrations in recent years have included

protests against the construction of a garbage incinerator project in Panyu district of Guangzhou in 2009. Local authorities eventually decided to involve local residents in understanding the project and participating in the feasibility and environmental assessment study. A similar proposal in Beijing's Liulitun area, listed as a key infrastructure project in Beijing's 11th Five-Year Plan (2006–2010), was also called off after relentless protests from residents.¹⁴ In August 2011 several thousand residents in China's coastal city of Dalian successfully demonstrated for the relocation of a petrochemical plant suspected to have led to toxic chemical spills.¹⁵

In the aftermath of the environmental protests in July 2012, there has been speculation in China regarding the emergence of a Shifang-Qidong model of protest. Although official media in China lauded the efforts of local officials to take public opinion into consideration, it has also highlighted the need to refrain from violence while seeking redress of complaints.¹⁶ In August 2012, Xinhua reported that Chinese law makers are amending environmental laws to take into account the concerns of the public.¹⁷ Data from the Ministry of Environmental Protection cited in the news report reflected an annual increase of 30 per cent in mass demonstrations related to environmental concerns. In November 2012, environment minister Zhou Shengxian announced that all future industrial projects must include a "social-risk assessment" before they can launch. This is aimed at reducing "the number of emergencies and mass incidents."¹⁸

Ethnic Unrest

Apart from "mass incidents," ethnic unrest and separatism have re-emerged as serious sources

of domestic instability since 2008. In February 2012, knife attacks in Yecheng resulted in at least 12 deaths.¹⁹ This was followed by an explosion at an Islamic school in Hotan in June in which more than a dozen persons were injured.²⁰

In areas of Tibetan concentration, primarily outside of the Tibetan Autonomous Region which can be considered part of 'greater Tibet', self immolations have continued since 2009. By early 2013, 100 such incidents had taken place.²¹ It is speculated that these protests are related to demands for greater religious freedom and the resettlement of nomadic herders in the Sichuan region.

Political participation via new media

Political participation facilitated by new media especially electronic communication is becoming increasingly important in the Chinese political discourse. According to The Statistical Report on Internet Development in China published by the China Internet Network Information Center in January 2012,²² the number of internet users had reached over 500 million, with 136 million rural internet users constituting 26.5 per cent of the total number. The number of internet users aged between 30–39 increased remarkably, up 2.3 per cent in the course of one year, and microblogs also developed rapidly, being used by nearly half (48.7 per cent) of total internet users.

The internet was the force behind the release of Tang Hui, sentenced to 18 months in a labour camp for "disturbing order in workplaces and society", while simultaneously pushing for tougher punishment for those who raped her daughter.²³ In May 2012, the death sentence given to

businesswoman Wu Ying was commuted to a life sentence – it is speculated that this occurred largely on the basis of opinions expressed on the internet.²⁴ Thus the internet has come to play an important role, even in the organization of strikes and labour movements.²⁵

Apart from the positive aspects of encouraging greater political participation, internet commentary and rumours originating from online posts have been at the heart of other mass incidents that used emotive issues to fan public opinion. Protests against Japan are a good example of this. In 2005, as well as in the wake of strained bilateral ties over the Senkaku/Diaoyu issue in 2012, the internet has been the forum through which protests have been organized.²⁶

The internet has also become the primary forum for interaction between state and society on political issues such as corruption and misuse of power by government officials. Chinese internet users have regularly posted updates regarding misdemeanours of public officials on social networking websites such as *weibo*. Large scale participation in online discussions on corruption among public officials has focused attention on those that violated party discipline and work guidelines. In many cases, the conviction of numerous officials holding high posts within the government is attributed to online exposes.²⁷ Soon after election, the new leadership of China under Xi Jinping elaborated upon eight requirements on how top leaders should improve their work style to “practically respond to strong public concern” and “win trust and support from the people”.²⁸ Corruption, bureaucracy and extravagance were all highlighted as issues that need to be tackled.

In light of the centrality on internet based evidence and discussion in the conviction of Party officials, the Crisis Management Research Center at Renmin University in Beijing published a report titled “The Public Image Crisis of Government Officials” reviewing the corrupt practices of officials exposed on the internet in the year 2012. According to this report published in the *Yanzhao Evening News*,²⁹ which surveyed 24 cases of official corruption and misdemeanour that were hotly debated on the internet, 95 per cent of corrupt officials have been punished for keeping mistresses and more than 60 per cent of corrupt cadres had “second wives”. According to the report, the Central Commission for Discipline Inspection Supervision Bulletin reported that 30,315 persons were charged in corruption and bribery cases, accounting for 18.9 per cent of all cases in the year. The report also stated that 2012 saw the most robust implementation of anti-corruption policies in the recent past.

Conclusion

A survey of the challenges faced by the Chinese state in the societal realm during 2012 clearly indicates the following main trends: Increased competition for social services between migrant labour and local population highlights the governance challenges faced by the Chinese state. The debate over the reform of the *hukou* is closely related to the ability of the state to provide social services.

Economic issues continue to lie at the centre of mass incidents as the sale of community assets, and land in particular, generates dissatisfaction over the distribution of compensation.

Environmental concerns seem to encourage widespread NIMBY (Not In My Back Yard) protests across China. Whether in the long term this indicates an acceptance of slower economic development for improved environmental conditions remains to be seen. It is, however, clear that the state has had to respond quickly to these concerns and tweak industrial policies accordingly.

The utility of the internet in holding government officials accountable is only increasing. This is attested to by the quick response that internet exposes of corruption and misdemeanour elicit from official agencies. That the state acknowledges the importance of engaging with the online population is evidenced by the use of internet forums and tools of social media by official agencies for the dissemination of information.

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3

China's Economy in 2012 – A Review

G. Balachandran

The Chinese economy experienced a surge in the closing months of 2011, and entered 2012 echoing a bearish sentiment around the globe about its economy. The reasons for such a sentiment were not unanticipated even though the overall GDP growth in 2011 was a healthy 9.8 per cent and the inflation rate for the year had been contained to a respectable 5.4 per cent on a year-on-year basis – 2.1 percentage points higher as compared to 2010.

The first was the declining quarterly growth rates during 2011. From Q1 through Q4, GDP growth stood at 9.7 per cent, 9.5 per cent, 9.1 per cent and 8.9 per cent, respectively, showing slight slowdown

The second was the sentiment in China about the growth prospects for 2012. The China Economic Monitoring and Analysis Center (CEMAC): National Business Climate Survey for the fourth quarter of the year showed that both the Business Climate Index (BCI) and the Entrepreneur Confidence Index (ECI) declined for the second consecutive quarter in 2011.

The third was the drop in the current account surplus, which declined sharply in 2011, reaching the lowest level since 2005, from a peak of 10.1

per cent of GDP in 2007 to 2.8 per cent of GDP in 2011, primarily, due to a reduction in the trade surplus. With dimming global growth prospects, the current account balance was not expected to improve in the immediate coming years.

The fourth was real estate investment, which accounted for a substantial portion of total fixed asset investment in China. The Confidence Index for National Real Estate Development dropped below 100 for the first time. The residential property market was cooling, with nearly two-thirds of the 70 major cities tracked in the official index witnessing sustained price declines. There was potential risk that measures to cool the real estate market would overshoot and lead to a sharper-than-anticipated decline. A disorderly decline in real estate investment could have had significant implications for growth in China and the global economy. Moreover, a decline in real estate investment would have negatively impacted activities in a broad range of sectors, given the real estate industry's strong backward linkages to other domestic industries.

Finally, there were the structural problems in the economy that needed rectification—the growing income inequality, the weakness of local government finances, the inefficiencies in

the State owned Enterprises (SOE), etc—which too needed to be looked into for long-range sustainability of the Chinese economic growth.

Thus, the question was not whether the economy would be heading towards a landing in 2012, but whether it would be a hard or soft landing depending on the corrective measures that the Chinese Government took during the course of the year. It was not as if the Chinese Government did not have enough instruments at hand to manage the economic downturn.

The People's Bank of China (PBC, the central bank) has shifted towards a more accommodative monetary policy stance since late 2011, owing to concerns over the extent of the economic slowdown and evidence of weak credit demand. The PBC decided to cut the RMB deposit reserve requirement ratio of depository financial institutions for the first time in three years by 0.5 percentage points, effective from December 5.

In addition, inflation had been managed in 2011 with prudent fiscal and monetary instruments. The rate of inflation had reached an all-time high in July with CPI at 6.5 per cent and PPI at 7.5 per cent, but had been brought down to a level of CPI at 4.1 per cent and PPI at 1.7 per cent by December 2011.

The government's capacity to counteract the economic crisis was strong, as it proved during the 2008–09 global financial crisis, but its ability to do so without aggravating the imbalances that already threaten the economy was less certain. The government had to strike a balance between maintaining stable and relatively rapid economic growth and restructuring and managing inflationary expectation, so as to meet the goals for economic and social development. All this

had to be done when a major once-in-a-decade political transition was underway with a run-up to the CCP congress in late 2012, which would see a new generation of politicians promoted to the party leadership.

Economy in 2012

In the first quarter of 2012, following the cut of 0.5 percentage points on December 5, 2011, the PBC further lowered the reserve requirement ratio on February 24, 2012 another 0.5 percentage points to keep liquidity in the banking system at a proper level.

The quarterly growth rate GDP slid further to 1.6 per cent although the year-on-year growth rate was still a healthy 8.1 per cent. However, on the inflation front, the hike in consumer prices moderated. In the first quarter, the CPI gained 3.8 per cent year on year, decelerating by 0.8 percentage points from the previous quarter.

Growth of industrial production rebounded, whereas corporate profits slid. In March 2012, the value-added of statistically large enterprises grew by 11.9 per cent year on year. Imports and exports continued to grow. In the first quarter, exports increased by 7.6 per cent year on year to US\$ 430 billion, and imports were up 6.9 per cent year on year to US\$ 429.4 billion, resulting in a trade surplus of US\$ 670 million.

Given the strong backward linkages that real estate sector had with other domestic industries and the potential risk that measures to cool the real estate market could overshoot and lead to a sharper-than-anticipated decline, the government chose to make use of the fiscal space it had, in view of the low fiscal deficits, to accelerate the

social housing program and selectively loosen some of the restrictions that hold back housing demand, notably those affecting first-time buyers, owner-occupied housing and low-income groups. Credit support to government-subsidised housing was gradually reinforced. In 2012, seven million units of government-subsidised housing and renovations of shanty housing were planned to break ground, out of which five million units would be completed. As a result, outstanding loans for government-subsidised housing increased by Renminbi 39.1 billion in the first quarter of 2012, accounting for 47.1 per cent of the new loans to real estate development during the same period.

The second quarter of 2012 saw a slight improvement in GDP growth from 1.6 per cent in the first quarter to 1.9 per cent during the second quarter even though on a year-to-year basis the growth the GDP growth slid to 7.6 per cent

The consumer price hike continued to pull back. In the second quarter of 2012, the CPI gained 2.9 per cent year on year. The monthly CPI grew 3.4 per cent, 3.0 per cent, and 2.2 per cent, respectively, in the three months of the second quarter. As inflationary expectations moderated, the PBC cut the benchmark deposit and lending rates on June 8, 2012: lowering the one-year benchmark deposit rate from 3.50 per cent to 3.25 per cent and the one-year benchmark lending rate from 6.56 per cent to 6.31 per cent. Simultaneously, the floating bands of deposit and lending rates were adjusted, with the ceiling for deposit rates raised to 110 per cent of the benchmark deposit rate, and the floor for lending rates lowered to 70 per cent of the benchmark lending rate. These timely interest rate cuts and adjustments in the floating band were expected to promote a decline in interest rates and create a

more favourable policy environment for reducing borrowing costs for companies

There was a slight drop in industrial production in the first half of 2012, with the value-added of statistically large enterprises falling to 10.5 per cent year on year, representing a decrease of 1.1 and 3.8 percentage points from the previous quarter and the same period of the last year.

On the foreign trade front, however, the Chinese economy in 2012 performed much better with both imports and exports rebounding slightly. In the first half of 2012, imports and exports grew 8.0 per cent year on year, an increase of 0.8 percentage points from the first quarter. Exports increased by 9.2 per cent year on year to US\$ 954.4 billion, representing an increase of 1.6 percentage points from the first quarter imports were up 6.7 per cent year on year to US\$ 885.5 billion, a decrease of 0.2 percentage points from the first quarter. As a result, the trade surplus improved substantially in the second quarter taking the trade surplus to US\$ 68.92 billion.

On the fiscal front, the government continued with its support for investment in real estate with increased support to subsidised housing construction. In the first half of 2012, new loans for government-subsidised housing increased by Renminbi 86.9 billion, accounting for 65.8 per cent of the new loans to real estate development.

In the beginning of the third quarter, the PBC further cut the benchmark deposit and lending rates on July 6, 2012, lowering the one-year benchmark deposit rate from 3.25 per cent to 3.00 per cent and the one-year benchmark lending rate from 6.31 per cent to 6.00 per cent, down by 0.25 percentage points and 0.31 percentage points,

respectively. The third quarter witnessed a pick up in the GDP growth rate to 2.1 per cent. In the third quarter, inflation, the increase in consumer prices, declined. In Q3, the Consumer Price Index (CPI) rose 1.9 per cent year on year, representing a decrease of 1.0 percentage points compared with that in Q2 of 2012.

Although industrial production showed positive signs in September 2012, in the first three quarters, the value-added of statistically large enterprises grew only 10.0 per cent year on year, showing a decrease of 0.5 percentage points. The value-added of industrial production grew 9.2 per cent year on year, representing an increase of 0.3 percentage points.

Fiscal support for subsidised housing continued to grow. In the first three quarters of this year, new affordable housing development loans registered Renminbi 130 billion, accounting for 86.4 per cent of new loans for real-estate development

Exports continued to grow in 2012. In the first three quarters of 2012 exports amounted to US\$ 1.5 trillion, up 7.4 per cent year on year. In particular, exports in September 2012 hit a record high, rising by 9.9 per cent year on year, which was faster than that in the previous two months. Imports registered US\$ 1.3 trillion, up 4.8 per cent year on year. The trade surplus in the first three quarters was US\$ 148.3 billion, representing an increase of US\$ 41.2 billion year on year.

All in all, notwithstanding the pessimistic projections at the beginning of 2012, the Chinese economy withstood the shocks and registered a creditable 7.8 per cent GDP growth in 2012 against a projected growth of 7.5 per cent. Inflation was controlled and the CPI was up 2.6 per cent year on year, down 2.8 percentage points

from 2011 although it did pick up slightly in the last quarter of 2012. The growth of industrial output picked up in 2012. In particular, the value-added of statistically large enterprises grew 10.0 per cent year on year, representing a decrease of 3.9 percentage points.

Due to sluggish external demand, the rate of growth of exports declined in 2012. In fact total imports and exports posted US\$ 3.9 trillion, up 6.2 per cent year on year. In particular, exports registered US\$ 2.0 trillion, up 7.9 per cent year on year, a decrease of 12.4 percentage points from 2011; imports posted US\$ 1.8 trillion, up 4.3 per cent year on year. The trade surplus in 2012 was US\$ 231.1 billion, and the current account surplus as a percentage of GDP declined to 2.6 per cent.

Credit support for welfare housing was gradually reinforced in 2012. As of end-2012, outstanding loans for welfare housing reached Renminbi 571.1 billion, accounting for 25.1 per cent of the total real estate development loans. In particular, new loans in 2012 posted Renminbi 179.6 billion, accounting for 89.3 per cent of the total new real estate development loans

Although the growth, inflation and other economic parameters were managed adequately in the short run in 2012, certain structural imbalances continued to be present, such as the local government finances, inefficiencies in the State Owned Enterprises (SOEs), reliance on investment for growth, etc.

On the domestic front, the investment recovery in 2012 was driven mainly by state-owned investment and entities with the state holding the controlling shares; thus, the basis for continued stable performance was not sufficiently solid. There was presence of both a strong

investment impulse in some sectors and a lack of endogenous drivers in the wider economy. With acute structural imbalances and stronger resource and environmental constraints, the task of adjusting economic structure and building a sustainable high growth economy still remained an acute problem.

In addition, in 2012, new problems had arisen which would impact future economic growth. According to the survey data of export-oriented enterprises, 53.3 per cent of export-oriented enterprises regarded “rising labour cost and difficulty in hiring” as the most prominent issue in the fourth quarter of 2012. A statistical analysis conducted by the China Human Resources Market Information Monitoring Center in the fourth quarter on public employment service agencies in 103 cities shows that labour supply fell slightly short of demand in Q4, and the ratio of job seekers to job vacancies exceeded 1 for 10 consecutive months. In the labour market, there was a shortage of talent with a medium-to-high level in the category of skills, and the ratio of job vacancies to job seekers of technicians, senior technicians, and senior engineers was relatively high. As the Chinese economy strives to become a high technology high value added economy, this mismatch between the supply and demand of highly skilled labour may pose a problem.

The performance of the economy during the current year 2013 so far has been mixed. GDP growth declined in the first quarter to 1.6 per cent, and in the first quarter it grew only by 7.7 per cent year on year, a decline of 0.1 per cent from the previous quarter. The first quarter CPI growth was 2.4 per cent, slightly higher than the previous quarter by 0.3 per cent. Food inflation was 3.8 per cent.

In 2013, export growth picked up, the trade surplus increased. The first quarter, total imports and exports posted US\$ 974.61 billion, an increase of 13.4 per cent. In particular, exports registered US\$ 508.87 billion: up 18.4 per cent from the previous quarter, and 10.8 per cent higher than the same period last year. Imports posted US\$ 465.74 billion, an increase of 8.4 per cent from the previous quarter, and 1.5 per cent higher than the same period last year. Trade surplus of US\$ 43.1 billion was an increase of US\$ 42.9 billion over the same period last year. In the first quarter of 2013, China's current account surplus at \$ 47.6 billion more than doubled, compared to the current account surplus year on year. International reserve assets increased by US\$ 157 billion (excluding exchange rates, prices and other non-transaction value changes).

4

The Chinese Military in 2012

Mandip Singh

New Leadership

The most significant happening in the People's Liberation Army (PLA) in 2012 was the leadership transition and election of the new Central Military Commission (CMC) at the 18th Party Congress (see Table 1). Eight out of 12 members of the CMC were replaced. There were two big surprises; Hu Jintao handing over the reins of Chairman CMC to Xi Jinping at the end of the Party Congress and the nomination of General Fan Changlong as Vice Chairman directly after command of a Military Region (MR), an unprecedented first in PLA history. General Chang Wanquan, the Chief of General Armaments Department (GAD) and member of 16th and 17th CMC was sidelined to be the Minister of National Defence, a post held by a non-Politburo member, indirectly superseding him for Vice Chairman. The appointment of General Xu Qiliang to Vice Chairman is the first ever by an Air Force officer. In addition, four out of seven MR Commanders were replaced beside the commanders of People's Liberation Army Air Force (PLAAF) and Second Artillery Corps (SAC)—also an unprecedented overhaul of senior appointments in the PLA. At least five out of these 10 uniformed members will retire after a five-year term in 2017 before the next Party Congress, having completed 68 years of age, while the two Vice Chairs are likely to continue beyond as they

would not have completed 70 years of age, which is mandated for Politburo members.

The leadership transition has brought out a few observations. Firstly, there appear to be no laid down norms for selection of CMC members—loyalty to the party and guanxi or personal relationships continue to be important. Secondly, there appears to be gradual erosion in the clout wielded by the PLA ground forces. As many as four out of 10 uniform members in the CMC are from other services. Just a decade ago there were just two. Thirdly, the “princelings”, particularly, the “Liu Princelings”—Generals Liu Yuan, Liu Yazhou, Liu Xiaojiang—and Zhang Haiyang find no place in the CMC, suggesting that the aura of the old guard has slowly faded in the modern PLA.

Internal Disquiet

The run up to the leadership transition has seen signs of internal disquiet in the PLA. There has been a debate on nationalising the PLA. The rumblings within the military can be best gauged by an open editorial written by General Li Jinai, a member of the CMC and the Director of the PLA General Political Department, on the front page of the PLA Daily. He said, “We must resolutely reject these false political ideas (of PLA disassociating itself from Party) and unswervingly listen to and

Table 1: Members of the CMC of the 18th Party Congress

SR. NO.	NAME	PREVIOUS APPOINTMENT	NEW APPOINTMENT	REMARKS
1	Mr Xi Jinping	Vice President and Vice Chairman CMC	Chairman CMC	
2	VACANT		Vice Chairman	To be appointed later
3	Gen Chang Wanquan	Chief of General Armaments Dept (GAD)		Minister for National Defence. To be appointed in Mar 2013
4	Gen Xu Qiliang	Commander PLAAF		Vice Chairman CMC
5	Gen Fan Changlong	Commander Jinan MR		Vice Chairman CMC
6	Gen Fang Fenghui	Commander Beijing MR	Chief of General Staff Dept (GSD)	Member CMC
7	Gen Zhang Yang	Political Commissar Guangzhou MR	Chief of General Political Dept (GPD)	Member CMC
8	Gen Zhao Keshi	Commander Nanjing MR	Chief of General Logistics Dept (GLD)	Member CMC
9	Gen Zhang Youxia	Commander Shenyang MR	Chief of GAD	Member CMC
10	Gen Ma Xiaotian	Dy Chief of GSD	Commander PLAAF	Member CMC
11	Adm Wu Shengli	Commander PLAN		Member CMC
12	Gen Wei Fenghe	Dy Chief of GSD	Commander Second Artillery Corps (SAC)	Member CMC

follow the Party”, adding that “[D]omestic and foreign hostile forces” have a purpose in criticising the principle with calls for “nationalization [sic] of the military” and “non-affiliation between the military and the CPC and depoliticizing [sic] the military.”¹ The Global Times, a popular China newspaper said, “Discussion about nationalization [sic] of the PLA, namely stripping the Party of its leadership over the military, has caught some attention this year, reflecting dissident thinking within the PLA and among scholars” while another report suggests that the concern over Party control and PLA loyalty could be “possible calls for ‘nationalization’ [sic] of the PLA, which would threaten to fundamentally transform the role of an institution”.² Essentially the demand for a national army implies that the PLA be divorced from the Communist Party. A national army would be apolitical and answerable to the government of the day and NOT the Party. The development challenges the very foundation of the PLA and its foremost responsibility to safeguard the stability of the Party. Liu Xiaojiang, Political Commissar of People’s Liberation Army Navy (PLAN), wrote in the PLA Daily that we must “resist the interference of various erroneous ideas of ‘the army of non-party depoliticize’ [sic] and ‘the nationalization [sic] of the military’, and always adhere to the fundamental principles of the Party’s absolute leadership and systems”.³ The next day, Yin Fanlong, Political Director of Second Artillery Force, exhorted the troops, “You must first remember (your) political discipline and political influence. Do not recklessly surmise, listen to every rumor [sic]; don’t listen, don’t believe it, don’t take whispers and murmurs; do not decide to make irresponsible remarks, commentary or retell absurd stories to your teams and groups.”⁴ However, post the leadership transition, it appears that the Party has successfully controlled the disquiet.

Doctrinal Changes

Information Warfare

Major improvements have been reported in the information warfare capability of the PLA. The entire PLA information transmission is optic-fibre based. Navigation satellites, communication satellites and Airborne Early Warning (AEW) aircraft have been integrated with the joint operations command, and all three services of the PLA are capable of sharing “situation maps, reconnaissance intelligence, command control and mapping, and meteorology and hydrology environmental information of battlefields”. This is indicative of a “network centric warfare” capability, which enables higher headquarters to monitor, direct and control combat units besides sharing of real-time intelligence and information laterally and vertically.

Space and Cyber Warfare

China uses two types of satellites for secure military communications: the Fenghuo series and the Shentong series. The Fenghuo series is for secure tactical level communication providing secure digital data and voice communication to Chinese military forces (C-band and UHF), while the Shentong series are geostationary satellites which provide secured voice and data communications services for ground users using Ku-band (12–18 GHz). The Chinese are currently operating the DFH-4-based Fenghuo-2 second generation satellite Zhongxing-1A and the Shentong based on the DFH-3 (Dongfanghong-3) satellite platform. On May 27, 2012, China launched the Zhongxing-2A (Chinasat-2A) by a Chang Zheng-3B (Y17) (Long March 3B) rocket from the Xichang Satellite Launch Center. The

Chinasat-2A satellite was built on the DFH-4 platform, with a launch mass around 5,200 kg and is the first of a second generation DFH-4-based Shentong-2 satellite in operation. This will greatly enhance the PLA's voice and data usage capabilities as it gets "informationalised".⁵

Among the other space-based programmes, there are plans to launch the Tiangong-2 space lab in 2014 and the Hard X-ray Modulation Telescope (HXMT), the country's first astronomy satellite, around 2015. It may be recalled that the Tiangong-1 was launched into space in September 2012, and it docked with the Shenzhou-8 and -9 spacecraft, which perfected docking procedures. The HXMT, on the other hand, will observe black holes, neutron stars and other phenomena based on their X-ray and gamma ray emissions, according to Zhang Shuangnan, an astrophysicist at the Institute of High Energy Physics of the Chinese Academy of Sciences.⁶

China has also implemented the Beidou Navigation System, an independently established and operated system that provides accurate, reliable all-time, all-weather positioning, navigation and timing services.⁷ According to Ren Chengqi, Director of China Navigation Satellite Office, "The first step was achieved in 2000 when the Beidou satellite demonstration system was established. It made China the third in the world to possess its own independent navigation satellite system. The second step is that the system will be able to provide services to the Asia-Pacific region by 2012. The third step is that by the year 2020, the system will be completed with global coverage." At present Beidou covers an area bound by 84 degrees East to 160 degrees East longitude and 55 degrees North to 55 degrees South latitude.⁸ This covers South Asia and large parts of the West

Pacific ocean. There are reports that China has offered Pakistan access to this navigation system.

Institutional Changes

Military Industrial Complex

Zhejiang Provincial Military Command (PMC) has enhanced its military industrial complex in Zhejiang with over 130 private enterprises covering 20-plus technical fields such as aviation, optoelectronic, environmental protection, health care and energy. More than 350 scientific research and production projects of military-civilian-used equipment and military industrial support products such as the bulletproof tyres and the aircraft black box are in various stages of implementation.⁹ In another report, 100 private enterprises have been given licences to produce military equipment in a policy aimed at reducing R&D costs, improving quality of equipment used by the PLA and promote technological progress in promoting military industrial complex of China.¹⁰ While China is attempting to give an impetus to its military industrial complex, it continues to be beset by charges of fake and counterfeit parts being produced from these factories. Reuters reported 1800 incidents of bogus parts in an investigation carried out between 2009–10 in the Department of Defence supply chain of the US Army¹¹. United Technologies Corporation subsidiaries were penalised US\$ 75 million for illegally selling technology used to develop the engine for the Z-10 attack helicopter, suggesting that the Chinese military complex is yet to develop hi-tech products.¹² That notwithstanding, China is supplying military hardware to a few countries mostly in Africa: eight K-8 jet trainer aircraft to the Zambian Air Force and 34 military trucks, trailers and wagons to South Sudan.

China is also increasing defence patents at a frenetic pace. In the last decade, the annual rate of increase is 34.9 per cent with a bulk of the patents being in the IT space.¹³ This flags the independent innovation capability of China's military industrial complex and the growing impetus to science and technology.

Sansha Military Command

The PLA established the Sansha Garrison Command on the Sansha islands, a part of Hainan Province, in May this year. The garrison is responsible for "national defense mobilization [sic] and the militia and reserve forces in Sansha City". This was earlier part of Xisha Maritime Garrison Command directly under the PLAN.¹⁴ People's Daily reports that "its national defense [sic] function will become more complete, its comprehensive defensive capabilities more strengthened, and its joint combat capabilities more enhanced" by setting up this division size command. Located on Yongxing Island, this 1.9-km long island is devoid of fresh water and depends on the mainland for almost everything for sustenance. According to Global Times, "Top priority of the work of the Sansha City is to maintain the sovereignty over the islands (Xisha, Zhongsha and Nansha), reefs and waters, and it needs a matched garrison command that integrates island, sea and air garrison capabilities".¹⁵ The establishment of the Sansha Military command is viewed by some nations as an assertion of the PLA on its claims on the South China Sea.

Exercises and Training

The PLAAF rehearsed the mobilisation by air of "airborne troops" and equipment and vehicles to the Tibetan Plateau in five civil aircraft on May 29, 2012. The exercise appears to have been

aimed at validating loading, timings and airfield capacities in the TAR. All airfields have undergone major upgradation of runway lengths and cargo handling capacities in recent years. At least one has a dual runway constructed recently.¹⁶ Five aircraft suggest possibly up to a battalion of troops, ammunition and light command vehicles with medical ambulances belonging to a RRF division was transported from a distant base in "hinterland of central China" to an airfield on the TAR. The fact that the planes took almost five hours to travel suggests that the PLA plans to move paratroopers and RRF troops on the TAR from as far as 3,000–4,000 km. According to PLA Daily, the exercise was aimed to "further temper the remote-mobile-combat capability of the airborne troops."¹⁷ The shortage of heavy lift aircraft in the PLAAF has been overcome by use of civil aircraft by the 15 Airborne Corps to execute intra regional moves and strategic power projection. However, China has an ambitious heavy aircraft construction programme in the 60-ton and 150-ton categories, which are likely to be inducted after 2014. It would decrease the dependence of the PLAAF on civil resources for operational moves.

The Chengdu Military Area Command (CMAC) conducted a joint ground-air exercise in the TAR in August 2012. The exercise aimed at ensuring that "all assault groups should maneuver [sic] to the assembly area within 48 hours"—an order that demands all attacking formations must be available in the area of operations within 48 hours of mobilisation. Since CMAC is responsible for operations opposite Arunachal Pradesh this exercise is of particular significance to India. Units of the CMAC have to negotiate routes that are treacherous and pass through 14 mountain ranges and 10 rivers including Mekong and Salween as they mobilise along the 2415-km long

Sichuan-Lhasa highway, known to be susceptible to frequent closures due to landslides and rock falls. The road is a vital link for all formations and units of Chengdu Military Region which mobilise to Tibet, essentially the 13 Group Army's 37 Division, located at Chongqing, 300 km south east of Chengdu and 149 Mechanised Infantry Division located at Leshan, 120 km south of Chengdu. The engineer regiments were exercised in laying heavy-duty pontoon bridges over the Yalung Zombo (Brahmaputra) river in just 30 minutes to enable armoured units to cross. In addition, the Aviation Brigade exercised air dropping small teams of platoon size on the mountains to demonstrate "emergency delivery capacity to project the assault force during the wartime." The exercise also explored the support plans for "long-range three-dimensional projection of the organic troop units at the brigade and regiment levels", suggesting the review of road, rail and air for mobilisation and transportation within the theatre of operations.¹⁸

The exercise seems to be as a result of an information-based wargame conducted by the CMAC in June at a combined tactics training base in the Daliang Mountains, an area of southwest China's Sichuan province. A total of over 100 high-ranking officers from the leading organs and troop units above regiment level of the Chengdu MAC of the PLA "studied and explored the ways of command and confrontation training of the command-and-staff organs under information-based conditions". The wargame appears to have been digitised with responses from commanders at regiment and above level been factored before carrying out a "summing up" of the methods of rapid information flow, operational plan optimization and real-time control of operations. The exercise demonstrates PLA capability to have

mastered integration of command and decision support system at the division and above level.¹⁹

In the attack phase, a mountain infantry brigade under the Tibet Military Command (MC) and a division of the PLA AF launched a three-dimensional attack on a defensive enemy employing a joint-coordinated air-ground offensive using fighter aircraft, armed helicopters from the air and an armoured assault supported by infantry, artillery, guided missiles. The exercise appears to have tested effects of high altitude and low temperatures on man and machine and validated joint training and joint operations on the Tibetan plateau between the PLA AF and PLA ground forces of the CMAC.²⁰ The PLA AF had only recently deployed J-10 fighters to the Tibetan plateau in June 2011.

The Shijiazhuang Army Command College of the Jinan Military Area Command conducted "Joint Teaching 2012 Queshan", a joint training event which had participants from 19 colleges and academies, scientific research institutions and combat troop units of the PLA at the Queshan Combined Tactics Training Base. Over a period of one week from June 7-14, 2012, representatives from the four services totalling 3,000 persons including 533 persons undergoing various courses at military colleges and academies participated in this unique event. The entire focus appears to be on jointness at lower levels of command (brigade and below). The exercise included "joint organization and planning, joint fire attack, joint attacking and capturing fortress, joint maneuvering [sic] attack and annihilation and joint occupation and control", according to PLA Daily. The entire exercise was probably digitised and conducted using "the combat command information system" for organisation and planning

and combat implementation.²¹ One mechanised brigade of the JMAC was made available for the practical phase. The exercise seems to suggest that the PLA has developed a Standard Operating Procedure (SOP) for joint training at Brigade-and-below levels, which was being disseminated widely across all academic and training institutions of the PLA to ensure uniformity and consistency in its application throughout the PLA.²²

Other major exercises of relevance to India are as follows:

- Two anti-terrorism exercises at the Lhasa Railway Station and Gongkar Airport were held by the Tibet Military District on August 14, 2012. Named Ex “Plateau Guards 2012” the exercise was also held in June in 2011. It aims at thwarting any attempts by extremists to undermine the stability of the country. The TAR authorities possibly consider the 18th National Congress an opportune time for hostile and inimical forces to spread chaos and attract world attention by acts of terrorism in TAR.
- Lanzhou Military Area Command conducted a live firing exercise with troops in Northwest China in the month of August. The exercise comprised of PLAAF, PLA Ground Forces Aviation and Air Defence units. The exercise focussed on joint air defence combat in an electromagnetic environment and culminated in live firing of “new equipment”. The PLAAF has inducted J-10 fighter aircraft recently while there are reports of Z-9 armed helicopter entering service in the aviation branch of the PLAA.²³
- The PLAAF of Chengdu MAC conducted a large-scale exercise involving “100 fighter

jets of 10 types” on an airfield in southwest China on December 6–7. The exercise tested the capability and feasibility of exploiting dual runways. The exercise, probably held in TAR, and involved transport aircraft and helicopters besides fighters, suggests that PLAAF has created redundancy using two runways in the airfield, increased capability of dual use including air transported operations and enhanced basing of greater number of aircraft at the select airbases.²⁴

Military Diplomacy

China conducted its first-ever joint exercise with a foreign army in 2002. Ever since, the PLA has embarked on a comprehensive and institutionalised programme of joint exercises with over 30 countries in the last decade. While the PLA Army has played a predominant role in as much as 50 per cent of the 60 joint exercises conducted so far, PLAN and PLAAF have also increased their interaction with foreign armies.

The seventh Sino-Russian naval exercise was held in the Yellow Sea off the naval base of Qingdao from April 22–27, 2012. The exercise was held under the framework of the Shanghai Cooperation Organisation (SCO). According to a press release, the exercise focused on “defense of air routes and maritime traffic routes, search and rescue operations and anti-submarine tactics, as well as joint rescues of hijacked vessels.”²⁵ China and Russia have been conducting joint naval exercises since 2003 besides combating piracy in the Gulf of Aden. According to Xinhua, the participants include 25 naval vessels, 13 aircraft, nine helicopters and two special fighting groups, making it the largest joint navy drill between the two nations in recent years.²⁶ The exercise

raised speculations of a growing China-Russia relationship to balance the US strategy of pivot to Asia-Pacific although Chen Hu, editor-in-chief of World Military Magazine, believed that the exercise was a routine drill and not targeted at any third party.²⁷

“Peace Mission 2012”, a joint anti-terrorism military exercise of the member states of the Shanghai Cooperation Organization (SCO) commenced in Khujand, Tajikistan, on June 7, 2012. The military leaders of all the participating countries held a press conference and unanimously agreed that the “Peace Mission 2012” joint anti-terrorism military exercise has demonstrated the will, determination and capability of the militaries of the SCO member states to jointly fight against terrorism, separatism and extremism. This exercise is the ninth joint military exercise held under the SCO framework, after the heads of the six SCO member countries decided in August 2007 to regularly hold moderate-scale joint exercises every 2–3 years.²⁸

In October 2012, the Donghai Fleet comprising of 11 vessels, eight aircraft and over 1,000 personnel took part in a joint exercise in the East China Sea along with China’s Fishery Administration and Marine Surveillance Agency close to Okinawa in Japan. The fleet passed through the Okinawa and Osumi straits prompting protests from Japan that China had violated the “crisis management mechanism”. China responded by saying that “in terms of international laws and bilateral relations China has the right to sail freely in relevant waters and bears no responsibility of notification in advance.”²⁹ The exercise was a show of force as a part of ongoing confrontation between the two countries on the Diaoyu/Senkaku islands issue.

On November 28, 2012, five warships of the East China Sea Fleet of the Chinese PLAN sailed through the Miyako Strait into the Western Pacific and carried out blue water training.³⁰ Geng Yansheng, spokesman of the MND, announced at the regular press conference that the “blue water training” of the PLA Navy in 2012 would be conducted as planned, and such trainings would continue in the future. The exercise was based on the “scenario of some local law-enforcing vessels being confronted by foreign warships while carrying out their duties” suggesting that the PLAN will continue to keep a naval presence in the disputed area of Diaoyu/Senkaku islands to ward off any Japanese naval vessels which may patrol the region.³¹ On December 13, 2012, a Chinese Oceanic Administration aircraft was intercepted by four Japanese Self Defence Force F-15 jets as it reportedly flew over the disputed Diaoyu/Senkaku airspace raising tensions to a new high between the two countries. This was the first time since 1958 that there had been a report of airspace violation by China.³² The year 2012 witnessed the worst breakdown in relations on the Senkaku issue between the two countries affecting trade and economic ties and a standoff between the two militaries. The US has promised to provide an umbrella over Japan according to the US-Japan treaty, which includes Okinawa prefecture.

“Cooperation Spirit 2012”, a China-Australia-New Zealand joint exercise on humanitarian rescue and disaster relief was held in Brisbane in Australia on October 30–31, 2012.³³ The scope of the exercise included the organisation and planning of military humanitarian rescue and disaster relief, emergency response preparations, troop projection and support, command and control, force formation and armaments, organization and implementation of medical rescue. The

planning phase was followed by an actual troop level exercise in which medical teams, medical evacuation and joint rescue were practised between the three militaries.

From November 28–29, 2012, the US and PLA armed forces had a joint exercise in Chengdu in Sichuan province on Humanitarian Aid and Disaster Relief (HADR). The exercise was based on a post-earthquake relief scenario and comprised of four stages: task initiation; force projection; joint rescue and relief operation; and task handover and evacuation. This is the eighth humanitarian assistance and disaster reduction exchange activity held by the Chinese and American Armed Forces since 1997.³⁴

Development and Induction of New Equipment

China's first aircraft carrier christened Liaoning was delivered and commissioned to the PLAN in an impressive ceremony attended by Hu Jintao, the then Chinese President on September 25, 2012 at Dalian naval base. The technical specifications of the aircraft carrier have been covered in China Year Book 2011. On November 25, 2012, it was reported that the J-15 aircraft had successfully landed on the Liaoning. The J-15, a clone of the Su-33 is reportedly "China's first generation multi-purpose carrier-borne fighter jet", carrying "multi-type anti-ship, air-to-air and air-to-ground missiles, as well as precision-guided bombs".³⁵ The Liaoning is still some time away from being a fully operational carrier.

China has reportedly signed a deal to purchase 55 Mi-171 multi-purpose helicopters from Russia. Signed on August 22, 2012 and confirmed by Interfax and RIA Novosti, a Russian paper, the

deal envisages manufacture of the helicopters at the Ulan-Ude aviation plant in Eastern Siberia at the cost of about \$ 10–12 million each. The PLA has been found woefully wanting in medium lift helicopters to lift troops and material to high altitude and remote areas. The Mi-171, with minor modification, can carry weapons or other special-use devices. It can be equipped with advanced Russian anti-tank missiles, C-8 unguided rockets, two-door double 23 mm air guns, and 7.62 mm mobile machine guns in the nose and tail in an armed helicopter role in support of ground operations.³⁶

In the furtherance of implementation of its "anti-intervention and regional isolation operations", PLA has embarked on an ambitious programme to develop Unmanned Aerial Vehicles (UAVs) capable of interfering with the navigation of US Aircraft carriers in the Taiwan Strait and the South China Sea. Jane's Defence Weekly reported that the Japan Maritime Self-Defense Force displayed two pictures captured by its surveillance aircraft that show three PLAN vessels crossing the Miyako waterway into the Western Pacific on April 29, 2012. One of the pictures shows three UAVs practising vertical take-offs and landings on the rear deck of China's Type 054A frigate "Zhoushan". Based on the picture, analysts speculated that the UAVs have good stealth capability and can carry 34 kg for six hours. The UAVs are similar to the Camcopter S-100s built by Austria-based Schiebel Corp although the company stressed that the UAVs shown in the photos were not S-100s. The company suspected they might be products developed independently by the Chinese Army.³⁷ UAVs enhance the "look in" capability of the PLA and the development of a sea-based platform will give the PLAN a quantum increase in its maritime Intelligence, Surveillance and Reconnaissance (ISR) capability.

There are reports of two hulls of new class of guided-missile destroyer, the Type 052D, under construction at the China State Shipbuilding Corp, Jiangnan Changxing shipyard near Shanghai. They state that as many as 10 Type 052D DDGs could currently be under construction. At 160 m long and 18 m wide, the Type 052D is slightly larger than its predecessor, the Type 052C, and is believed to weigh just over 6,000 tonnes. Reports indicate the vessel will use Type 346 Active Phased Array Radar System and Type 518 L-band long-range radar. The main 100 mm gun on the Type 052C appears to have been replaced by a new PJ-38 130 mm gun in addition to a helicopter-landing platform and close-in weapon system. According to China Military News, the new destroyers are equipped with two 32-unit vertical launch systems capable of launching HQ-9B air-defence missiles, anti-ship and anti-submarine missiles. Also the YJ-62 missile launchers used on the Type 052C appear to have been replaced by a naval version of the DH-10 land-attack cruise missile.³⁸ The DDGs are the most potent platforms of the PLAN and the backbone of the Carrier Strike Groups (CSGs).

The other new acquisition by the PLA has been the 36,000 ton Bohai Emerald Bead, a “passenger and roll on/roll off ship”, which can carry 2,000 troops and 300 vehicles of various types. The 178-m long and 28-m wide ship is the first of the four such vessels to be constructed for the PLAN to be used in maritime operations for transportation of troops and equipment. “This is a new leap-forward in enhancing PLA’s strategic projection capability by civilian ships”, said Zhang Wei, director of the Military Transportation under the PLA General Logistics Department. He added, “It boasts an important significance in ensuring troop units to fulfil diversified missions.”³⁹ The ships will be a part

of the amphibious force employed for seaborne offensives, particularly, in the first island chain.

On July 24, there were reports that China had tested a new missile. The DF-41, a three-stage solid propellant ICBM with Multiple Independently Targetable Re-entry Vehicle (MIRV) capability, was reportedly test fired from Wuzhai test centre. The DF-41 has a range of 12,000–14,000 km, and can carry three to 11 warheads with a CEP of 100–500 m. It is capable of rail and road transportation, can be fired from rail cars or TEL vehicles and is likely to be stored in caves.⁴⁰ The missile would give China a capability to hit targets anywhere in Europe, Asia and mainland US.

China’s J-31, the new stealth fighter prototype developed by AVIC Shenyang Aircraft Corporation (SAC) took off on its maiden flight on October 31. The J-31 is a fifth generation stealth fighter which looks like the F-35 of the US. Reports suggest that Russian Yakovlev Aircraft Corporation sold the Yak-141 engine to China sometime early last decade, which was used by Chengdu Aircraft Industry Group to develop the J-20, the country’s first stealth fighter, while Shenyang Aircraft Corporation developed the J-31.⁴¹ The J-31 being smaller and more technologically superior is likely to replace the J-15 for service on the aircraft carriers in the future. Although details are sketchy, Xinhua only released undated photographs of the flight, and no official confirmation of its capability has been released by the official media. Aviation Week, which covered the Zhuhai Air show where the J-31 was displayed, has, however, quoted AVIC as describing the fighter with a typical take-off weight of 17.5 metric tons, is 16.9-m (55.5 ft.) long and 4.8-m high with a wingspan of 11.5 m. It has a combat radius of 1,250 km on internal fuel or 2,000 km with external tanks. Maximum speed is Mach 1.8, and take-off distance is 400 m and

its landing distance 600 m.⁴² The J-31 appears to be China's main maritime strike aircraft and is likely to enter service at the end of this decade.

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Section II: External Relations

5

Sino-Indian Jostling in South Asia

Rup Narayan Das

The leaders of both India and China have often claimed that there is enough space in the world for both India and China to cooperate and coexist. Their assertions assume strategic significance; particularly, at a time when both India and China have emerged as major economic powers in the world, although China has surged far ahead of India. This article attempts to assess and analyse assertions of cooperation and coexistence in the context of Sino-Indian relations and India's extended neighbourhood in South Asia for 2012.

Sino-Indian Relations: Learning to live together

The resilience that the complex India-China relationship has acquired over the years continued to persist in 2012 suggesting that the two countries have learnt to live together and handle their differences amicably. Although there is no institutional mechanism of annual summit level meetings between the leaders of the two countries at the highest political level, India's Prime Minister Dr. Manmohan Singh and the then President of China, Hu Jintao met on the margins of the BRICS (Brazil, Russia, India, China and South Africa) summit meeting in New Delhi in March 2012. Since it was a meeting on the sidelines, there was not much expectation on bilateral issues. Nevertheless, it was an

appropriate occasion to demonstrate strategic partnership among the BRICS countries. Further, Prime Minister Dr. Manmohan Singh and his Chinese counterpart Wen Jiabao also met twice in 2012 on the margins of multilateral meeting – in Rio de Janeiro (Brazil) at the UN Conference on Sustainable Development in June 2012 and then in Phnom Penh on the margins of East Asia Summit. While at the Rio Summit, they had extensive discussions on bilateral and regional issues, the Phnom Penh meeting was more of a courtesy call. These meetings, however, should not be trivialised as mere photo opportunities, as they provided forums for communication and dialogue.

The regular dialogue and institutional mechanism between the two countries functioned satisfactorily and produced reasonable results in 2012. The first major institutional dialogue was the 15th round of Special Representative Talks between National Security Adviser of India Shivshankar Menon and the State Councillor of China Dai Binggou in New Delhi in January 2012. The way the two sides rescheduled the meeting slated for November 2011 suggested the accommodative spirit of the two sides. It also reflected the increasing maturity of their relationship. It may be mentioned in this connection that the dates of the meeting slated for November 2011 coincided with the

international Buddhist conclave held in New Delhi. Anticipating protests and demonstrations by the Tibetan Buddhists, the two countries presumably postponed the meeting to January 2012. Considering the sensitive nature of the talks, not much is known about the outcome of the meeting. After the leadership transition in China in mid-November 2012, Menon visited China in early December, and had interactions with Chinese leaders including Dai Bingguo. Later, Menon told the media that India and China made “considerable” progress on border dispute. It was also reported that the two sides prepared a “common understanding” report reviewing the long-running negotiations on a framework for settling the boundary dispute, which was to be submitted to the leaders of both the countries. The exercise is part of an effort to ensure continuity in the talks following the retirement of Mr. Dai in March 2013. Commenting on the boundary issue, Mr. Wu Bangguo, who is the head of the National People’s Congress (NPC), said that he was “convinced that the two countries had the capability and wisdom to resolve boundary issues.”¹

Describing the boundary question as “a tiny part of China-India relations”, an editorial in the China Daily stated that the meeting “has sent a clear message to the outside world: The two emerging powers in the region are taking steps to solve their problems and will not allow their differences to stand in the way of developing bilateral ties”. Alluding to the resilience that the relationship has acquired in recent years, it said, “The two countries have blazed new trails in coping with their disagreements”². Such overtures should also be seen in the context of “rebalancing” in the Asia-Pacific by the USA, whereby India is the linchpin in the strategy. In addition to the Special Representatives Talks, the newly constituted

Working Mechanism on Consultation and Coordination on India-China Border Affairs met in Beijing in March 2012. The Working Mechanism, comprising diplomats and military officials of the two countries, is envisaged to address issues that may arise in the border areas affecting peace and tranquillity. The second meeting of the Mechanism took place in New Delhi in November 2012. The establishment of the Working Mechanism was necessitated due to the reported incidence of border transgressions in the Line of Actual Control (LAC).

Yet another important issue that has a bearing on the bilateral relations between the two countries is trade, which has crossed US\$75.4 billion in the financial year 2012 and is projected to reach US\$100 billion by 2015. China has already emerged as India’s largest trading partner, but the ballooning trade gap against India which has touched almost US\$ 40 billion is a matter of concern for India. If this is not set right soon, the bilateral trade may become unsustainable in times to come. The two institutional mechanisms—the Joint Economic Group and the Economic and Strategic Dialogue (ESD)—are tackling the issue. China should not only provide better market access to Indian IT and pharmaceutical industries but also invest and manufacture in India for a durable and sustainable economic engagement.

Pakistan

The much touted “all-weather friendship” between China and Pakistan continued in 2012, but there was a subtle decline in the claims of solidarity and camaraderie between the two countries, particularly by Pakistan. On the contrary, Beijing’s persuasive role to encourage Indo-Pak rapprochements continued. The year

witnessed a number of peace initiatives for the improvement of India-Pakistan relationship both at the governmental level and at people-to-people level. While in Pakistan there was some appreciation of India-China model of engagement for a win-win situation, Beijing extended its goodwill and support in the peace process between India and Pakistan. China welcomed the improvement in relations between India and Pakistan, which it claimed was “vital” for regional prosperity and China’s own development. This assertion was made in the context of Pakistani President Asif Ali Zardari’s private visit to Ajmer shrine in April 2012. Lauding the visit of Zardari, a commentary in the official Xinhua news agency said that Beijing was “happy to witness continued improvement” of India-Pakistan ties. It further said, “The two countries’ efforts in warming up their ties certainly are welcomed and applauded by the international community including China, which neighbours both nations and maintains significant ties with them.”³

The fact that there was no report of China issuing stapled visa to Indian citizens from Jammu and Kashmir was suggestive of China’s softening stance on the issue and its nuanced position on India-Pakistan dispute over Kashmir. There seems to have been some progress on China’s position on Jammu and Kashmir. For example, a senior Foreign Ministry official of China Sun Weidong, who is the Deputy Director-General of the Asia Department told Indian media in Beijing in March 2012 that China’s focus in PoK was the development of the local economy of the region, which borders China’s far western Xijiang, and did not mean that China was ratifying Pakistani claims or moving away from its long standing position on the issue. He also hinted that the stapled visa issue had been resolved, pointing out that there had been no media reports on the matter in recent

months. He said, “The dispute is between India and Pakistan. So, whenever there are disputes or tensions, China will not be judgemental”⁴. Thus, it can be interpreted that China views its involvement in the infrastructural development in the PoK projects without any prejudice to disputes between India and Pakistan.

Notwithstanding the subtle shift in China-Pakistan relations in 2012, exchange of visits between the two countries continued, particularly, from the Pakistan side. In fact, Pakistani President Asif Ali Zardari attended the 12th Shanghai Cooperation Organisation (SCO) summit meeting in Beijing in June 2012, and signed three memoranda of understanding (MoUs) and an agreement. The MoUs encompass the supply of water from Tarbela to Islamabad, the establishment of a Special Economic Zone in Zulfikarabad and the building of 6,000 apartments on private-public partnership basis, as well as an agreement for the de-silting of canals and barrages in Sindh. The then Prime Minister Parvez Asraff also met his Chinese counterpart Wen Jiabao on the sidelines of World Economic Forum held in Tianjin in September 2012. During the discussion, the two sides agreed on exploiting the full potential of the two business communities to boost their economy and trade. They renewed their focus on achieving the target of US\$ 15 billion trade⁵.

Nepal

As far as Nepal is concerned, 2012 witnessed India’s slow but gradual retrieval of lost ground after the Maoist ascendancy in Nepal. For example, when the then Chinese Premier Wen Jiabao visited Kathmandu on January 14, 2012, after deferment of his earlier scheduled visit, while

the largesse of economic aid and assistance hogged media headlines, discerning observers could not miss the diplomatic nuances of Nepal's foreign policy postures towards China and India. During the five-hour visit the then Chinese Premier announced a "one-time special grant" of US\$ 20 million as well as assistance of US\$ 119 million for the year, under 750 million RMB grant spread over three years. China also committed to provide both economic and technical support to strengthen Nepal's police force⁶.

Another highlight of the visit was that Premier Wen Jiabao impressed upon the Prime Minister Baburam Bhattarai of Nepal to continue Nepal's warm and friendly ties with India. Wen's overture found its resonance in New Delhi when Prime Minister Dr. Manmohan Singh echoed the same sentiment nine days later to the visiting Deputy Prime Minister of Nepal Bijay Gachhadar. Such overtures neither suggest that the two countries are on the same page with regard to Nepal nor indicate the extent of their convergence. For long, China's engagement in South Asia vis-à-vis India has been perceived in the prism of zero-sum game of China with India. Since Baburam Bhattarai became the Prime Minister in August 2011, he had been trying very hard to change this perception. It may be recalled that when Bhattarai was appointed Prime Minister, he said in the Nepalese Parliament that Nepal is not a buffer, but a bridge between India and China. Bhattarai, who studied at the New Delhi's left-leaning Jawaharlal Nehru University, has an affinity with India. Another illustration of Bhattarai's smart diplomacy was his proposal to integrate the much-touted Lumbini project, supported by China, with Sarnath, Kushinagar and Bodh Gaya. Mr. Bhattarai was well aware that in the gargantuan task of bringing about peace and prosperity in Nepal, the support and cooperation of both India

and China would be vital. Mr. Bhattarai seemed to have realised the wisdom of equi-proximity to the two neighbours.

Sri Lanka

Sri Lanka is another important country in South Asia where both India and China are competing for economic and strategic space. In recent years, Beijing's footprints in Sri Lanka, particularly during and after the end of the internecine civil war in the island nation in 2009, have been quite impressive, notwithstanding India's own narrative of cultural, linguistic and political proximity and contiguity.

India's engagement in Sri Lanka was constrained by ethnic strife on the island, which had its resonance on domestic politics in India in Tamil Nadu. New Delhi, however, is executing a number of projects in Sri Lanka after the termination of the ethnic war in the island. Important projects which India has under taken in Sri Lanka include construction of 50,000 houses for Sri Lanka's internally displaced persons. During the visit of Indian External Affairs Minister Shri S.M. Krishna to Sri Lanka in January 2012, 1,000 such houses were handed over to the intended beneficiaries. During the visit, he also signed an MoU with his Sri Lankan counterpart G.L. Peiris for the construction of another 49,000 houses, the construction of which has already commenced. Other humanitarian projects include repairing of schools damaged during the war, supplying of critical medical equipment and bicycles to the internally displaced persons, construction of railway lines and repairing of ports, etc.⁷

There are qualitative differences in Indian and Chinese engagement in Sri Lanka. While China engages in capital intensive projects as it has

the requisite resources, Indian engagement in Sri Lanka is humanitarian in nature, dedicated to human settlement and welfare of the people. However, India-Sri Lanka ties suffered somewhat due to the dynamics of domestic politics when India joined 23 other nations to vote for a US-sponsored resolution at the United Nations Human Rights Council (UNHRC) urging Sri Lanka to credibly investigate allegations of human rights violations during the last phase of its war against the Tamil Tigers in 2009. China had voted against the resolution. The growing strategic nexus between China and Sri Lanka was evident when the Chinese Defence Minister Liang Guanglie first visited Sri Lanka and then New Delhi in September 2012.

India's engagement with Sri Lanka, thus, suffered a setback when Colombo turned down India's offer to develop the Palali airport and instead decided to handle it under the Sri Lankan Ministry of Civil Aviation. In yet another development, Sri Lanka's first satellite was launched into space from Western China in November, 2012. SupremeSAT, a private company which has an agreement with the Chinese Government-run Great Wall Industry Corporation, carried out the launch at the Xichang satellite Launch Centre in Western Sichuan Province. According to press reports, Sri Lankan government had "distanced itself from the launch insisting that there is no state involvement".⁸ Considering India's expertise in satellite technology, it may be considered a reflection of India's lack of vision.

Maldives

Indian engagement of Maldives vis-à-vis China seemingly suffered a jolt on December 7, 2012 when GMR, a premier Indian infrastructural development company that had a largest ever

FDI investment there for the modernisation and operation of the Male International airport, had to stop its operation in compliance with the ruling of a Singapore Court. The strategic implication of the development was succinctly captured in the title of an article, written by the strategic affairs editor of a leading Indian daily, which said, "GMR lost an Airport, India an Island".⁹ To put the issue in perspective, it may be mentioned that in 2011 GMR had signed an agreement with concerned airport authorities in Maldives, then under the regime of President Mohamed Nasheed for the upgradation and maintenance of the Male international airport. GMR levied an airport development charge (ADC) on the departing passengers. This practice was struck down by a Maldivian court. Interested political parties inimical to President Nasheed tried to politicise the issue. It was against this background of a brewing controversy that President Nasheed was ousted, and his beta-noire Mohammad Washeed Hassan was installed as the new President of Maldives. Allaying anxieties in some quarters that he might drift away from India and tilt towards China, he stressed that India has a "special relationship" with Maldives and that New Delhi didn't have to worry over any growing Chinese influence in his country. Referring to the likelihood of a defence agreement with China, he clarified that Maldives had not signed any agreement with China ever since he became President. Turning to India, he said, "We will respect all the strategic and commercial agreements we have signed with India. This is not to be questioned."¹⁰ The tilt of strategic posturing was discernable from a statement carried by the official Chinese news agency Xinhua during President Dr. Mahammed Waheed's visit to China in August wherein he said that unlike other influential countries, China looks at the international affairs of small countries such as Maldives from a unique perspective.¹¹

Bangladesh

Considering Bangladesh's complex domestic politics and anti-India feeling in some sections of the domestic constituency, China's inroads into Bangladesh have been an issue of anxiety, if not, concern to India. While China's involvement with the Chittagong port has been a matter of speculation for India, New Delhi can ill afford to be complacent about Dhaka's offer to China to develop a deep seaport in Sonadia Island, which is of strategic importance. During Prime Minister Ms. Sheikh Hasina's visit to Beijing last year, Bangladesh had sought Chinese assistance to build the deep seaport. Beijing's interest in the project can be gauged from a statement of the Chinese Ambassador to Bangladesh, "So long Bangladesh side shows enough will and determination, this project can obtain positive progress very soon". Sino-Bangladesh relationship received a major boost in the year when Dhaka signed a deal with China for the construction of the Seventh Bangladesh-China Friendship Bridge in January 2012. The 700-metre bridge over the river flowing through Madaripur and Shariatpur districts will cost Tk 275 crore. In striking a balance between India, a country which provided Bangladesh moral and material support, and shares historical, cultural, social linkage and geographical contiguity, and China, which can offer resources, Dhaka should weigh all the pros and cons for its overall growth and development.

Bhutan

India's sway in the tiny Himalayan Kingdom was seen as threatened when its Premier Jigmi Y. Thinley met then Chinese Premier Wen Jiabao on the sidelines at the UN Conference on Sustainable Development in Rio de Janeiro (Brazil) in June 2012. Considering the strategic

location of the tiny landlocked country sharing border with India and China, the news report that there could be diplomatic relations between China and Bhutan is worrisome for India. In all likelihood, Beijing may offer a favourable deal to Bhutan for settlement of the border dispute with China, which may put India in a disadvantageous position. China in the bargain may offer its support to Bhutan for a non-permanent membership of the United Nations Security Council. These are the possibilities for which New Delhi has to be prepared diplomatically.

Conclusion

Sino-Indian cooperative competition in South Asia is characterised by attempts of regional countries to maximise their economic leverage from the two major powers, while at the same time maintaining good neighbourly relationships with both India and China. This is particularly true of Nepal and Sri Lanka. Ever since the Maoist entry into Nepalese politics, India has been trying its best to retain its influence in Nepal. Kathmandu also found itself in an extremely delicate position of keeping its two giant neighbours in good humour. Similarly, India has lost some leverage in Sri Lanka and Maldives. However, every move of China's should not be seen in the prism of the zero-sum game. What is required is that New Delhi should be more proactive in its engagement in South Asia. Another evolving trend of the geopolitics of the subcontinent in 2012 was the recognition by the Indian and Chinese officials that "China-Pakistan relations are no longer a major factor influencing the overall bilateral relationship".

As far as Sino-Indian relations are concerned, given the dynamism and unpredictable nature of geopolitics, it is prudent to make earnest efforts to

solve the border problem at the earliest, at a time when the relationship between the two countries is robust and strong. As the boundary dispute involves the nationalism of the two countries, it would be extremely difficult to handle the issue if the relationship between the two countries were to deteriorate. The two countries lost opportunities earlier to solve the border problem; now, we cannot afford to miss yet another opportunity.

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6

China-United States' Relations in 2012: Pivoting to Mistrust

Rukmani Gupta

It can be posited that the importance accorded to the relationship between the United States (US) and the People's Republic of China (PRC/China) in the past few years has grown in proportion with the development of China's strategic and economic power. This bilateral relationship, conceivably the most important for both countries, covers a broad range of issues – bilateral, regional and global. Despite the 90 odd modes of engagement between the two governments at various levels, contentious differences between the two countries persist. The professed will of leaders from both countries to deepen cooperation notwithstanding, the year 2012 saw growing tensions between the United States and China on a number of issues; primarily the US “rebalancing” policy, maritime disputes in the South China and East China Seas, and human rights.

American Rebalancing to Asia

Since former US Secretary of State, Hilary Clinton, first announced an American national interest in the freedom of navigation in the South China Seas at the ASEAN Regional Forum in July 2010, Chinese officials have been wary of American involvement in maritime and territorial disputes along China's periphery. Thus, it is hardly surprising that the fleshing out of the ‘pivot’ or

‘rebalance’ to Asia espoused by the Obama administration has raised hackles in China. The military component of the rebalancing strategy was outlined in the Defense Strategic Guidance document released by the US Department of Defense in January 2012.¹ This document highlights American plans to strengthen existing alliances in Asia and to seek greater cooperation with emerging partners. India is identified as a lynchpin in this strategy. The American relationship with India, the Strategic Guideline avers, is aimed at supporting India's “ability to serve as a regional economic anchor and provider of security in the broader Indian Ocean region”. Given Chinese apprehensions of an evolving US-India partnership for containment of China and the outstanding border dispute between China and India, it is not surprising that Chinese threat perceptions have been exacerbated.

In addition, the document seemingly lays blame for regional tensions on the Chinese doorstep by stating that the growth of China's military power must be accompanied by “greater clarity of its strategic intentions in order to avoid causing friction in the region.” Both Iran and China are mentioned in the document as countries that will continue to pursue “asymmetric means” to counter American power projection capabilities. It would thus appear to suggest that the US

clubs China, a permanent member of the United Nations Security Council, with Iran which has been identified as a 'rogue state' by some American officials in the past. Overall, Chinese commentators have seen the 'pivot' to Asia as a clear signal of US intentions to intervene in China's relations with its neighbours.²

High Level Exchanges Continue

Vice President Xi Jinping's high profile visit to the US in February 2012 was seen by some as laying the groundwork for a thaw in the relationship. Xi, in remarks during the trip, said that the two countries would establish a 'new path of cooperative partnership between major countries featuring harmonious coexistence, sound interactions and win-win cooperation.'³ During this trip Xi also made an unusual visit to the Pentagon. This was taken as a good sign for increased military to military engagement between the two sides. However, a few months after Xi's successful visit, the Strategic and Economic Dialogue (SED) of May 2012 (an annual event that is aimed at bringing together officials at the highest level to discuss contentious matters), was almost derailed by the asylum appeal of blind-activist Chen Guangcheng. The case of Chen highlighted the fragility of the relationship regarding issues such as human rights. Chen, who had escaped from house arrest and sought refuge at the US embassy in Beijing, ultimately seeking asylum in the US, could not be unceremoniously handed back to Chinese authorities – this would belie American commitment to human rights in China. Yet, Chen's continued stay at the US embassy could derail the SED – refusal to hand Chen over to the Chinese would signal an obvious challenge to Chinese authority and an acceptance of China's dismal human rights record. Therefore, a face

saving compromise was reached, with Assistant Secretary of State, Kurt Campbell, making a trip to Beijing and facilitating the negotiation over Chen's departure from the US embassy in Beijing and his subsequent travels to the United States.

It can be argued that the fact that the 2012 SED and the Strategic Security Dialogue (SSD), (which is held between military officials from both sides), proceeded as scheduled despite the Chen Guangcheng fracas was the single largest success of the meetings. In essence, the meetings reinforced earlier propositions to cooperate on a number of strategic and economic issues as well as matters related to maritime and cyber security. President Hu Jintao's speech at the SED proposed the establishment of a new type of major power relationship between the two countries "that is reassuring to the peoples of both nations and gives the peoples of other countries peace of mind."⁴

Bilateral military exchanges between the US and China that had suffered following US arms sales to Taiwan in 2011 resumed at the highest levels in 2012. China's Defence Minister, Liang Guanglie led a delegation to visit the US for the first time in nine years. During his meeting with US Secretary of Defence, Leon Panetta, Liang stated that the two countries were not "predestined to engage in confrontation or conflict."⁵ Thus at both the political as well as the military level, during the first half of the year the bilateral relationship seemed fairly positive.

Sovereignty and Security Issues

China's territorial and sovereignty disputes with neighbours which do not directly involve the

United States are what consistently tested the goodwill in bilateral relations throughout 2012.

A clear escalation of tensions in the South China Sea was evident in the stand-off between China and the Philippines over the Scarborough Shoal that began on April 10, 2012. Manila's attempt to intercept a group of Chinese fishing vessels that it claimed were fishing illegally in the waters around the shoal was prevented by two Chinese maritime surveillance vessels. The stand-off between maritime agencies of the two sides continued till early June with the US playing an instrumental role in de-escalation of tensions. Even as the stand-off had continued, the US and Philippines held their first ever "2+2" meeting in April 2012. This meeting, intended as a consultation for defence, security, political, and economic policies between the two countries, followed the format of other such meetings held between the US and its key Asian allies – Japan and the Republic of Korea.

On July 24, 2012 the Chinese government announced the creation of Sansha city to strengthen administrative control over the Paracel islands, the Spratly island chain, as well as the Macclesfield Bank, all of which are disputed regions in the South China Sea. Subsequently, on August 3, 2012, the US department of State released a statement on the South China Sea expressing concern over China's unilateral moves regarding the upgrading of Sansha to a prefecture-level city and plans to establish a military garrison there. The statement also made references to China's "coercive economic actions" (restrictions on imports of fruit from the Philippines) and "use of barriers to deny access" (preventing Filipino fishing vessels access to waters around the shoal).⁶

Chinese reaction to the statement was far from muted. Chinese foreign ministry spokesperson Qin Gang, while commenting on the American reaction, said that, "The US statement ignored the facts and sent a totally inaccurate signal." Chinese media was likewise replete with statements of outrage at "biased" American perceptions of the situation.⁷

In addition to prevailing tensions in the South China Sea and perceptions of American duplicity in the matter,⁸ Japan-China tensions over the Senkaku/Diaoyu islands in the East China Sea have also impacted upon China-US relations. The Japanese government purchased three of the disputed islands from private owners in September 2012. This "nationalization" of the islands is viewed by China as an attempt to change the existing status quo on the issue. Chinese maritime vessels and planes have since maintained a presence in the area, aggressively patrolling the region around the islands. US officials have refrained from taking a position on the issue of sovereignty over the disputed territory but have reaffirmed that they recognize Okinawa's administrative control of the islands and, as such, these would fall within the ambit of the US-Japan security treaty.⁹ The US would thus come to the aid of Japan in the event of external aggression on the islands. Chinese commentaries have decried the US-Japan Security alliance as an unreliable remnant of the past.¹⁰ In the backdrop of these territorial spats, the United States held military exercises with the Philippines (April 2012) and Japan (November 2012). The reinvigoration of military relationships between the US and countries of the region, particularly those which have territorial disputes with China, is unlikely to mitigate Chinese threat perceptions

Conclusion

Although both China and the US have a great interest in maintaining stable bilateral relations, the threat perceptions shaping their world views continue to pose a challenge to stability in their relationship. For China, the concerns centre on the seeming inability and unwillingness of the United States to accept China's emergence as a global power centre. The United States, on the other hand, continues to remain wary of the future trajectory of China's growth and its implications for American pre-eminence in the world order.

This is evident even in their seemingly symbiotic economic relationship. 2012 was marred by trade disputes between the two at the WTO¹¹ and allegations from the US Department of Defense regarding Chinese cyber espionage and theft of intellectual property.¹² It is thus hardly surprising that the Pew Research Center's Global Attitudes Project¹³ on American and Chinese perceptions of each other found that the people in both countries were increasingly wary of each other. 68 per cent of Americans surveyed said that China could not be trusted too much, while the number of Chinese who regard the US favourably has fallen 15 percentage points since 2010 to 43 per cent. It can be expected that economic and strategic tensions between the two countries will only heighten in the next year. Although each seeks to avoid confrontation, especially militarily, domestic imperatives as well as international obligations and aspirations can be expected to deepen competition between the two countries in the economic and strategic realms.

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7

China's Relations with East Asian Countries in 2012

Shamshad A. Khan

China-Japan relations could not emerge from the “Senkaku shadow” even in 2012. Rather, the crisis over the disputed territory deepened following Japan’s nationalisation of the Senkakus. The dispute remained relevant, as the new government in Japan stated that sovereignty of the Senkaku was “not negotiable”. Simultaneously, China had been reasserting its sovereignty claim by sending its naval ships and planes to the disputed region on a regular basis. In contrast, China’s relations with South Korea remained relatively stable despite some irritants that developed over Chinese fishermen’s spats with South Korean Coastguard in the Yellow Sea. Further, China maintained strong ties with Pyongyang, and signed some agreements for developing two Special Economic Zones (SEZs) in North Korea. This chapter highlights some key developments in the region during 2012 that are expected to impact China’s relations with the East Asia in coming years.

China-Japan relations in 2012

China-Japan relations touched the lowest ebb in 2012 over Japan’s nationalisation of three of five Senkaku Islands:¹ a contested territory among China, Japan and Taiwan. Japan took this step on September 11, 2012 a few weeks before the 40th anniversary of normalisation of China-

Japan diplomatic ties. As a result, September 29, the date of normalisation of China-Japan relations, was marked not by celebrations but by a diplomatic standoff between the two nations. The Senkaku purchase has affected all aspects of Japan-China relations including people-to-people and economic relations, which during the previous diplomatic and political crisis had remained largely unaffected. Apart from the issue of territorial disputes, other incidents also put a strain on the bilateral relationship between China and Japan.

In January, Japan identified some 39 smaller islands in the East China Sea which were still un-named in Japan with the view of mapping and naming them.² China protested this move, and termed it as a “blatant move to damage China’s core interest.”³ Japan remained undeterred and went ahead with its plan of naming the islands. In a quid pro quo, China also gave the islands Chinese names. Later, in June, a group of Japanese lawmakers visited the disputed islands around Senkaku, drawing protests from China which demanded that Japan stop making “new troubles” and reiterated that these islands formed an “inherent” Chinese territory from ancient times.⁴

In 2012, historical issues also resurfaced between Japan and China. In February 2012, the Mayor of Nagoya made a comment denying that the

Japanese Imperial army was responsible for the Nanjing massacre. He informed visiting delegates of Nanjing, with which Nagoya has signed sister city relationship in 1978, that “only conventional act of combat” took place there, not mass murder and rape of civilians.⁵ These remarks drew expected reactions. A large anti-Japanese protest broke out in Nanjing prompting the city to suspend sister city ties with Nagoya.⁶ The Chinese government while expressing strong dissatisfaction over the Mayor’s remark stated that “the Nanjing massacre was an atrocity committed by the Japanese military as part of a war aggression against China.”⁷

Japan irked China on yet another issue – the hosting of Uyghurs. Japan allowed Uyghurs to hold World Uyghur Congress (WUC) in Tokyo despite China’s request not to host Uyghur activists, which Beijing termed “splitist”. It is interesting to note that the WUC coincided with Japan-China-South Korea trilateral summit meeting in Beijing. Despite an official request from Beijing, Tokyo went ahead with hosting the disenfranchised Uyghurs.⁸ In an apparent retaliation for allowing WUC in Japan, then Chinese President Hu Jintao cancelled a scheduled meeting with the then Japanese Prime Minister Yoshihiko Noda, while keeping appointments with his South Korean counterpart Lee Myung Bak.⁹

The bickering between Tokyo and Beijing resulted into a full-blown diplomatic standoff when Japan nationalised three islands of Senkakus. The nationalisation of these islands in East China Sea was driven by Japan’s domestic political factors¹⁰. The nationalisation debate was raked up by the then Tokyo Governor Shintaro Ishihara, who announced in April 2012 that the Tokyo Metropolitan Government was in negotiations with the Saitama-based businessman who

owned these islands in order to “protect” these from China. Soon other political parties including the Liberal Democratic Party (LDP),¹¹ which was then the main opposition party, joined the fray and announced that it would nationalise the Senkaku islands if it were voted back to power.¹² A section in the ruling Democratic Party of Japan (DPJ) also wanted political mileage out of it. Amidst this internal debate, Hong Kong-based Chinese activists landed on one of the disputed islands¹³ defying the Japanese Government’s prohibitory order and asserted Chinese sovereignty. Their brief detention led to a diplomatic diatribe between Tokyo and Beijing. In response, a group of Japanese nationalists also landed on the islands asserting Japanese sovereignty.¹⁴ These developments prompted Japan’s Central Government to expedite the negotiation process with the private businessman to buy the land. The central government offered Japanese Yen 2.05 billion (about US\$ 25.95 million) to the owners and clinched the deal.¹⁵

This move certainly angered Beijing which had reasserted its claim over the territory during the last few years. The Chinese Government termed Japan’s purchase of the islands a “gross violation” of Chinese sovereignty over the territory, and warned that it would take “necessary measures” to safeguard its interest: a statement it issued on previous occasions with regard to the dispute. The Chinese Ministry of Defence (MoD), however, issued a rather harsh statement: “Chinese Government and armed forces stand firm... in their determination to safeguard the nation’s sovereignty and territory.”¹⁶

In a bid to exert pressure on the Japanese Government to nullify the land purchase agreement, China allowed its citizens to vent their anger against Japan. The anti-Japanese rallies

spread to more than 100 Chinese cities. Chinese activists ransacked various stores and factories owned by Japanese companies.¹⁷ Japanese citizens were also attacked in China, something which was not witnessed during previous anti-Japanese protests. One of the probable reasons for such a harsh reaction by China was that it believed that Tokyo would station Japanese troops to counter China. It was argued by Chinese strategic thinkers that Japan, in the near future, would deploy troops on these islands closer to China's maritime boundary to counter the former's military assertions. Few people in China also saw it as a move by Japan to "draw Washington into a conflict between Beijing and Tokyo."¹⁸

Realising the sensitivity of this issue and apprehending a strong reaction from Beijing after the land purchase, Japanese leaders were careful to describe the development as nationalization of the territory. Instead, they stated that Japan has put the territory under state ownership in order to secure its "peaceful and stable management". The Noda cabinet did not consider the Japanese nationalists' calls to use the Senkakus for deploying the defence forces to strengthen its sovereignty claim seriously. Japanese media reports suggest that prior to the land purchase, the Noda cabinet discussed various soft and tough plans, including keeping the islets as they are, repairing the light house, constructing a shelter for fishing boats and the toughest option of deploying troops. However, the cabinet later arrived at a decision not to "provoke China further over the issue" and decided to maintain the status quo.¹⁹

On the election campaign trail in December 2012, various nationalist parties, including the LDP which wrested power, however, pledged to station troops on Senkakus, challenging the status quo

policy of the then DPJ government.²⁰ However, after assuming office, the current Japanese Prime Minister Shinzo Abe has dialled down his pledge in an effort to not further affront China.²¹

Amid rising nationalism in both countries, the Japanese Government continues with its stance that there is no territorial dispute over the Senkaku Islands with any country. However, a section of the Japanese, though in a minority, has been demanding the government to "reconsider" this stance and refer the issue to the International Court of Justice (ICJ) for mediation. Interestingly, Senkaku islets' former owner also favours referring this issue to ICJ.²² There are voices within Japan which call for deepening economic relations²³ as well as revival of the idea of jointly sharing the resources around Senkakus, which both countries had agreed in principle in 2006, but postponed the signing of a treaty following the Senkaku incident of September 2010.

China-Japan economic relations in 2012

Despite downslides at the political level, Japan-China economic relations in 2012 showed some encouraging signs as they signed a direct Yen-Yuan trade pact. This development came few weeks after Japan hosted Rebiya Qadeer, Uyghur rebel leader, in Tokyo despite protests from Beijing. Political economists argued that China's initiative to clinch the deal despite political bickering with Japan was motivated by its ambition to challenge the dollar's dominance in the financial market.²⁴ Prior to the agreement, trade between Japan and China was mainly settled in US dollars. The agreement that came into effect on June 1, 2012 has brought a number of benefits to the business communities of the

two countries. It has helped them avoid potential losses caused by exchange rate fluctuations. It has also helped them reduce transaction costs and lower the risks involved in settlements.²⁵ It was expected that the direct Yen-Yuan trade will help promote trade between the two countries, but the “nationalisation” of Senkakus by Japan watered down these expectations. Following Senkakus purchase, mass protests broke out in China, which spread to more than 100 cities in the mainland. Japanese companies and the utility stores bore the brunt of angry agitators, who pelted stones at the stores and torched Japanese factories. Japanese Government’s estimates suggest that the anti-Japan protests may have cost Japanese firms as much as Yen 10 billion²⁶. The estimate includes vandalism of the buildings and indirect effects such as reduced sales. Further, the estimate released by the Ministry of Foreign Affairs (MOFA) of Japan does not include effects of the consumer boycott of Japanese goods that has strongly hit automakers. A survey, conducted by research firm Searchina (Shangahi) Co. and Nippon Research Centre (NRC), however, suggest that almost two-thirds of Chinese boycotted Japanese goods.²⁷ Japanese media reports citing recently issued data by China’s General Administration of Customs (GAC) has reported that China’s trade with Japan fell 3.9 per cent in 2012 to \$ 329 billion. A report in *Japan Times* stated that “the drop reflects a Chinese consumer boycott of Japanese goods... which led to an 8.6 per cent fall in imports from Japan in 2012.” As a result Japan fell from being China’s fourth-largest trading partner to its fifth.²⁸

The hardest hit Japanese companies in China are its automakers. Toyota Motor Corps, Japan’s number one automaker announced in October 2012, a month after the Senkakus purchase, that its sales in China plunged to 44.1 per cent It could

sell only 45,600 vehicles out of its total production of 79,000 units. Other automakers such as Honda and Nissan have faced similar fates²⁹, prompting the Japanese companies to “move some eggs out of China basket”.³⁰ The Japanese entrepreneurs had envisaged “China+one” concept few years ago, whereby they looked to gain foothold in other Asian counties. This concept is gaining attention after the large-scale boycott of Japanese products following the Senkakus nationalisation by Japan. Toyota has been at the forefront to shift some of its manufacturing bases to Southeast Asian countries,³¹ and other companies are mulling similar measures. However, it would be premature to conclude that a territorial dispute will lead to a mass exodus of Japanese companies. A recent survey shows that not more than 9 per cent of the Japanese are considering pulling out of China. Interestingly, the poll conducted by NNA Japan found that some 30 per cent of Japanese companies are planning to expand their operation by making new investments believing that trend of boycotting Japanese products are “temporary” and demand of their products will “rebound”.³² Moreover, those firms who want to scale down their presence in China want to relocate to countries from where they can gain easy access to China. Vietnam, Myanmar, Cambodia, Laos and Indonesia have emerged as favourite destinations for the Japanese companies who are averse to taking risks in China.³³

Those who closely watch political economy have argued that Japan has already felt the economic consequences of China’s wrath. Japan’s September 2012 figure showed an unprecedented deficit of US\$7 billion as export dropped by 10.3 per cent. Kevin Rafferty speculates that it was a combine result of “global slowdown and to Beijing’s determination to teach Tokyo a lesson”. He speculates that in short term

“Japan is likely to suffer more since it is more vulnerable both to a Chinese boycott as well as to Beijing’s official inspiration and orchestration of such a boycott.”³⁴ Contrary to it, *Sentaku*, Japan’s monthly magazine covering political and economic scene, argued that China will be heading to “economic self-destruction” if it continues to “ostracise foreign-owned business” that provide it with state-of-the-art technologies and products.³⁵ *Sentaku’s* argument is based on the fact that Japanese companies working in China have helped “build human resources among local Chinese staff” in fields such as production management, quantity assurance and product management. A number of local employees have moved to Chinese firms, which in turn have been able to “elevate their technological standards”. It further argues that Western manufacturers have kept their production process in the “black box” so that the Chinese cannot imitate them.³⁶

Strategic implications of territorial dispute

Apart from reasserting its claim at the political level, China has adopted a strategy to send its naval fleet in the East China Sea closer to Senkakus, apparently to strengthen its sovereignty. And most of the time it has entered deep inside Japanese maritime zone. Japan has been blaming it for violating its territory, a claim China has not denied, but has continued on its stance that those ships have been navigating in Chinese waters. Japanese media quoting Coast Guard headquarters has stated that as of January 7, 2013, Chinese marine surveillance ships intruded into Japanese territorial waters 21 times since the nationalisation of Senkakus.³⁷ In a bid to strengthen its sovereignty over the disputed territories, Chinese planes also entered

into Japanese air space on December 13, 2012 prompting Japan to scramble its fighter jets. The Japanese MoD said that it was first known violation by Chinese planes of its airspace. China, however, blamed Japan for encroaching its airspace by scrambling its jets.³⁸ Such Chinese attempts to intimidate Japan have continued thereafter as well.

Japan’s political circle did not take much cognizance of the Chinese surveillance ships playing the game of cat and mouse till China prolonged the timing of navigation of its maritime vessels. During the January 7, 2013 intrusion, Chinese ships stayed for more than 13 hours in the Japanese territorial waters prompting it to summon Chinese envoy in Tokyo and lodged a formal protest. However, China remained undeterred and snubbed the protest stating that “Beijing cannot accept the Japanese protest, since the operations of the Chinese vessels were within the scope of normal public duties”.³⁹

China’s stance however, has strengthened the hand of those people in Tokyo who had been demanding greater defence spending to counter China’s territorial assertion in East China Sea. Japan’s new government headed by Shinzo Abe is planning to review the defence guidelines adopted in 2010 by the previous government. Tokyo wants to review those parts of the guidelines that called for gradual reduction of defence spending by reducing the number of tanks and infantry.⁴⁰ This move will increase Japan’s defence budget further. Japanese media has noted that the budget appropriation request for defence spending is expected to increase by more than Yen 100 billion, “part of which will be used for research and radar technology”.⁴¹ Japan also plans to acquire the Global Hawk: a high altitude, long distance unmanned surveillance and

reconnaissance aircraft from the US to enhance its defence forces ability to collect information.⁴² The Japanese media has also reported that the MoD plans to procure the US Osprey: tilt-rotor transport aircraft for its Self-Defence Forces (SDF).⁴³ This has not gone unnoticed in China. *China Daily* has quoted Chinese strategic thinkers as saying that the defence increase is targeted at China and it will increase “unnecessary tension” in the region.⁴⁴

In the midst of brewing tensions over the territorial issue Japan has taken some steps to get bilateral relations with China back on track. Japan’s new envoy to China Masato Kitera has held meetings with authorities in China and has stated that his “mission number one is to improve Japan-China relationship.”⁴⁵ The newly elected Japanese Prime Minister Shinzo Abe has sent Masahiko Komura, LDP’s Vice President to China as a special envoy to improve relations. However, Abe has repeatedly said that Japan’s sovereignty over Senkaku is “not-negotiable”, and he has pledged that he will “resolutely protect Japanese territory.”⁴⁶ The unrelenting stance adopted by both China and Japan over the territory suggest that the tension is likely to persist in the relationship of both the countries and any adventure may further escalate the regional tension.

China’s relations with the Koreas

China maintained close diplomatic relations with North Korea in 2012 giving legitimacy to the newly appointed leader Kim Jong-un. Two high-level North Korean delegations visited China during the phase of tension in Korean peninsula over North Korean failed rocket launch⁴⁷. The first delegation after Kim Jong-il’s death arrived in April 2012 led by Kim Yong-il, a top leader

of North Korean Workers’ Party (KWP). In a meeting with Kim Yong-il, the then Chinese President Hu Jintao emphasised close relations with Pyongyang. The international media quoted Hu as saying: “We will carry on the tradition... boost strategic communication and coordination on key international issues and work for peace and stability in the Korean peninsula.”⁴⁸ The statement came from Chinese top leadership amidst allegations on Beijing that it supplied the missile launcher to North Korea despite a ban by the UN on supplying such technology to the hermit state. In February, *Jane’s Defence Weekly* and some Japanese media reported that the missile launcher that the North displayed during a military parade resembled with a Chinese Vehicle. The *Yomiuri Shimbun* reported that in October 2011 the missile launch vehicle was transported to North Korea in a Cambodian registered vessel. The Japanese Government did not make it an issue considering that it could undermine Japan-China relations. The *Japanese Daily* in its editorial stated that China’s missile technology export to North Korea has made the UN sanctions against Pyongyang “virtually toothless”. It demanded that, “Japan should ask China exactly how and why those vehicles were exported to North Korea and again strongly call for strict enforcement of the sanctions against that country.”⁴⁹ It also noted that Japan made enquiries via the US government, and Beijing replied that it was “for carrying timber” and, therefore, does not violate the UN Security Council (UNSC) resolution. The daily argued that the “timber” excuse is “just a fig leaf”⁵⁰. In the wake of revelation of the media reports China denied exporting missile launcher to North Korea. The *BBC* quoted Chinese ministry as stating that “no rules had been broken by China with regards to UN resolutions on the export of banned goods and weapons to North Korea”.⁵¹

In the midst of this criticism of China by the international community for its controversial role in North Korea, yet another high-level delegation from North Korea visited Beijing in May 2012. The North Korean delegation was led by Chang Song-taek, uncle of Kim Jong-un. This visit assumed significance because it took place a week after military reshuffle by North Korea in which the Army Chief of the reclusive state was removed. The international media viewed this visit an apparent move to seek Beijing's approval of its high-level military reshuffle.⁵²

In a rare move, China started to put in place stricter rules for North Korean illegal migrants in 2012. Many North Koreans have been slipping into Chinese border before migrating to South Korea or other countries through Yanbian border. Chinese media in May 2012 stated that authorities in Jilin province launched a five-month drive to prevent "illegal entry of foreigners". The media quoted a police official as saying that "foreigners, who illegally enter, work and over stay are hidden troubles, and they might pose potential threat to social stability."⁵³

At the economic front, China tried to further strengthen North Korean economic situation by promising to develop two economic zones. Beijing signed agreement in May 2012 during Chang-Song-taek's visit to China. The agreements include developing one economic zone in Rason, on North Korea's east Coast and another in Hwanggumphyong, bordering China. Both the countries also signed agreements on agricultural cooperation and electricity supply during Chang's visit.⁵⁴ However, as economic ties prospered with China, the complaints about Chinese firms have also started coming to the surface. A North Korean spokesman issued a statement

criticising Xian, a Chinese mining company, for not honouring its investment promise. *Korean Central News Agency (KCNA)* quoted a statement from North Korean spokesperson as saying that Xian "is chiefly to blame from the legal point of view". Xian on its part said that North Korea has no "legal and social foundation" and have "no condition for foreigners to invest".⁵⁵ The development suggests that this kind of friction may deepen further as more and more companies enter into the reclusive East Asian state.

China's relations with its other East Asian neighbour, South Korea, remained relatively stable in 2012. In fact, the year started on a positive note when South Korean President Lee Myung-bak visited North Korea in January on a three-day visit. He held talks with senior leaders including his Chinese counterpart Hu Jintao. This was the first meeting between the two leaders after the death of North Korean leader Kim Jong-il. The Chinese media stated that Lee discussed "ways to develop the strategic partnership between the two nations and co-operative measures to peace and stability on the Korean peninsula".⁵⁶

However, both the countries also witnessed some unhappy incidents over the fishing issues in Yellow Sea. On April 18, 2012 a Chinese fisherman was sentenced to 30 years of imprisonment for stabbing a South Korean coastguard to death in December 2011.⁵⁷ However, the sentencing did not deter Chinese fishermen from sailing in Yellow Sea. Following yet another scuffle between South Korean Coastguard and Chinese fishermen, Korean authorities arrested nine fishermen. The media reported that South Korea arrested the fishermen after the Chinese fisherman inflicted injuries on the officials who boarded their fishing trawlers to apprehend them.⁵⁸

Nevertheless, another positive development in their relations was celebrations of 20th anniversary of their diplomatic relations in August 2012. South Korea and China celebrated 20 years of diplomatic relations despite signs of strains over Beijing's patronage to North Korea and a suspected supply of missile launcher to North Korea. Both the countries had established their diplomatic ties in August 1992. *The Chosun Ilbo*, a South Korean daily, against the backdrop of the 20th anniversary of the diplomatic ties stated in its editorial that "ties with China are key to Korea's future", adding that "bilateral relations (with China) have evolved to encompass cooperation not only in issues involving the two countries but regional and global ones".⁵⁹

Conclusion

The aforementioned developments suggest that China's relations with North and South Korea will remain largely stable in the days to come. Beijing's relations with Tokyo, however, will remain tense. The change of leadership both in Beijing and Tokyo has not brought any change. Both the countries continue to issue strong statements amid fighter jets and naval vessels coming close to each other around disputed territory in East China Sea. An untoward incident will escalate the tension between the two further impacting the security situation in East Asia.

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8

China's Central Asia Reach in 2012: Beyond Continuity

Jagannath P. Panda

The year 2012 not only marked the 20th anniversary of China's establishment of diplomatic relations with key countries in the Central Asian region, such as Uzbekistan, Tajikistan, Kazakhstan, Kyrgyzstan and Turkmenistan, but also saw China slowly emerging as the most preferred neighbour at both bilateral and multilateral levels for these countries. The Shanghai Cooperation Organisation (SCO), China's preferred multilateral platform, entered the second decade of its existence and successfully inducted Afghanistan as a new observer member and Turkey as a new dialogue partner. While the SCO has been the key multilateral medium for China in addressing and tackling the security and political concerns in the Central Asian region for many years, Beijing's thrust on building mutual cooperation and forging bilateral contact within the ambit of the "Shanghai Spirit", which the SCO purports to promote, has been the highlight of China's Central Asia reach in recent times.¹ Hu Jintao's speech at the Beijing SCO summit, held during June 6–7, 2012, reiterated the vitality of the *2007 Treaty on Long-Term Good-neighbourliness, Friendship and Cooperation* under the SCO framework, and stressed the need for increasing "communication and consultations to enhance mutual understanding and trust" among the SCO member states.² The focus in 2012 was to push the SCO further ahead as a regional

organisation. Progressive continuity was noticed in China's trade and economic contacts with the region, along with a set of new security, military and political contacts with individual countries, prompting many to ask whether forging "bilateral engagement" still remains the core medium in China's multilateral design within the SCO.

The Beijing Summit: New Design, New Reach

The summit in Beijing, where the SCO secretariat is located, represented the 12th round meeting of the Council of Heads of Member States of the SCO. For the Central Asian countries, it was an occasion to review the progress and vitality of the SCO after a decade of its existence: to what extent association with China under the SCO umbrella has served their own strategic interests. Nevertheless, from the Chinese perspective, it was an important occasion in regional politics, and former Chinese President Hu Jintao said at the summit: "The Beijing summit ... is an important meeting in terms of inheriting past traditions and breaking new ground".³ During the summit, new vision was articulated, new initiatives were taken and new breakthroughs were made.

Hu Jintao's speech was an inclusive one: it indicates China's growing interest and seriousness

in not only having closer trade and economic relations in Central Asia but also forging a solid socio-cultural relationship, which remains key to China's soft-power image in Central Asia. More importantly, the speech deliberated over a "new path" for the SCO in the next decade. Few progressive aspects can be observed in Hu's speech:

First, it emphasised sustained economic diplomacy along with soft-power diplomacy. The Chinese President promised to offer a US\$10 billion grant for the development and cooperation of the SCO members.⁴ This indicates that China wants to continue its economic supremacy over the countries in the region, and the SCO remains a medium in this regard. China along with Russia proposed the establishment of a developmental bank for the SCO, which suggests that Beijing is serious about upholding its economic supremacy in the region. The thrust of the 2012 SCO summit was to build a better road system across the region; a beginning was made by establishing a link between St. Petersburg in Russia and Lian-yu-gang in China. Hu Jintao also announced that China would grant approximately 30,000 government scholarships to the Central Asian countries and invite 10,000 faculty members and students to travel to and conduct research in China.⁵ The central idea behind this initiative is to connect the Central Asian region better, and prompt a better space for China by promoting Chinese language, culture and Confucius institutes; thus, carefully designing China's "soft" power image in the region as a big neighbour.

Second, Hu Jintao's speech called for making the SCO an "effective platform" in both regional and global politics. He appealed to the member states to push SCO as a "platform for increasing international exchange and influence", and also

envisioned a lead role for the SCO in regional vis-à-vis global affairs. He said: "We should enhance consultations with international and regional organisations through the platform to safeguard peace, promote development and boost world multipolarization and democratization of international relations."⁶ This is vital at a time when the debate with regard to SCO membership and mandate expansion is going on, and South Asian powers like India and Pakistan have applied for SCO's full membership. Afghanistan's entry into the SCO as an observer and Turkey's inclusion as a dialogue partner are conducive to China's aim of slowly extending the SCO as a pan-Asian organisation and bridging closer and better relations between Central Asia and other neighbouring countries of Asia. China's intentions with regard to the SCO seem to focus on developing its own multipolar grouping, whereby it can pressurise adversary and external powers like the USA more at the regional level, and build its own network at both regional and global levels.

Third, Hu reiterated the importance of the "Shanghai Pact" in fighting terrorism, separatism, and extremism, which China considers as "three evil forces", and urged the countries to make further attempts to eliminate drug smuggling and check transnational organized crimes in the region.⁷ He also urged China's fellow member states in the SCO to revisit the organisation's *Regulations on Political Diplomatic Measures and Mechanisms of Response* to check various threats and events that affect regional peace and security. He reiterated that the SCO members should not allow any external interference in the region and must resist such initiatives. These are undoubtedly key factors in the progress of the SCO's security mandate; most of these issues are close to China's security concerns in Xinjiang and in the adjacent Central Asian region. Notably,

China signed security agreements and held counterterrorism exercises with various Central Asian countries in 2012 both within and outside the ambit of the SCO.

Behind this multilateral thrust for the SCO, Beijing has equally focused on pushing its relations with individual countries in the Central Asian region. The thrust of this design was a set of agreements that China decided to sign with the SCO member states bilaterally. These included a range of initiatives in trade, economic, military and diplomatic relations. Beijing's idea behind these initiatives is to not only have a better clout in the Central Asian countries but also deny any advantage to other big or potential powers like Russia and the USA. The bilateral agreements between China and the various Central Asian countries in 2012 suggest that China has emerged as the most preferred big power in the region.

Bilateralism under the purview of Multilateralism

Pushing Ahead Bilateral Ties: Focus on trade, energy and infrastructural cooperation and forging better trade and economic contacts with Central Asia, both as a whole and with the individual countries, has been the main Chinese thrust in recent times, and this was clearly visible in 2012. While addressing the second China-Eurasia Economic Development and Cooperation Forum, the former Chinese Premier Wen Jiabao proposed a China-Central Asia Economic Cooperation Fund, Agricultural Cooperation Fund and establishment of trade zones and agricultural demonstration centres.⁸ The thrust was on infrastructural linkages, which would facilitate greater trade and economic flows between China

and Central Asia. China's seriousness about building infrastructural linkages with Central Asia and adjacent countries was clearly evident in 2012. In fact, in a significant move, China went on to sign an agreement defining the "tri-junction" point of national boundaries among China-Tajikistan-Afghanistan, and got it ratified by its Standing Committee of the National People's Congress (NPC) of China.⁹ This agreement carries immense strategic significance for China. It will help Beijing to not only establish closer cross-border trade and commercial engagement but also keep in check security challenges that emanate from the Uyghurs and extremist groups in this region. China has long-term strategic plans aiming to not only connect with Central Asia better but also pursue better economic and trade ties with individual countries in the region.

The highlight of the various bilateral and multilateral relations between China and Central Asia is continued and sustained trade growth, which often favours China. China's trade with Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan touched a total of \$86.8 billion in 2010, which was seven times bigger than in the previous decade.¹⁰ China is keen on expanding bilateral trade and energy cooperation with the Greater Central Asian countries even though some of them are not SCO members. China's growing energy needs explain why Beijing takes the region of Central Asia so seriously. Central Asian oil, gas and energy reserves are one of the prime markets for Chinese domestic consumption; they are also more easily accessible in terms of transportation costs compared to other places. At the beginning of 2012, Zhang Hanhui, Director General of the Department of European-Central Asian Affairs of the Chinese Foreign Ministry stated that "China will continue to expand energy ties with the Central Asian countries".¹¹ On August 1, 2012,

the China-Central Asia Gas Pipeline project was launched; the China Petroleum Pipeline Bureau also received an acceptance letter from the Trans-Asia Pipeline Company.¹² This pipeline is planned to start from the border of Turkmenistan and Uzbekistan, pass through Uzbekistan and Kazakhstan and end in China. China also played host to Turkmen officials to discuss enhancement of energy transportation.

Sino-Russian Relations

China has always been particular about forging a better understanding with Russia in a range of regional and global issues. Russia is an “anti-Western” country in the region, connects with China in Russia-India-China (RIC) and BRICS formulations and is a potential neighbouring country. With regard to Central Asia, China-Russia relations were stable and steady in 2012, and both parties discussed several bilateral and regional concerns. New Chinese Premier Le Keqiang (then Vice-Premier) visited Russia, which was seen as a progressive step in Sino-Russian relations. While China has a “comprehensive strategic partnership” with Russia, the linchpin of China-Russia relations has been closer trade and economic ties. In 2011, Sino-Russian bilateral trade reached \$80 billion, and China eventually became Russia’s top trading nation.¹³ Towards the end of 2012, the Russian Deputy Prime Minister and Chinese Vice-Premier (now Premier) signed an important financial cooperation agreement between China Development Bank and Russia’s Sberbank, and forged a commercial understanding between Agricultural Bank of China and Sberbank. The two countries decided to mark 2012 as the “Tourism Year”. It has also been stated that China will import 15 million tons of crude oil from Russia by the end of 2012 and some 300 million tons over the

next twenty years.¹⁴ Despite this stability in their relations, the two countries see Central Asia as mainly a competitive backyard, and want to keep their own supremacy alive in the region.

Central Asian countries

Though Russia was the key country in China’s broader Central Asian engagement, China did not take the other SCO countries lightly. In 2012, there were several agreements and engagements between China and the other SCO countries. Tajikistan was given special weightage in China’s reach towards the Central Asian countries. Trade cooperation between the two countries has increased by fifteen times in the last five years. The two countries have cooperated in a range of large- and medium-sized projects. Currently, Chinese companies are engaged in building the Sino-Tajik highway.¹⁵ Tajikistan has close proximity to China’s western regions, mainly Xinjiang, which is seen as an area where the two countries’ bilateral relations can be solidified. Rashid Alimov, Ambassador of Tajikistan to China, had stated: “If China and Tajikistan can make joint efforts, it is possible that Tajikistan can export electricity to China’s western regions, especially Xinjiang Uyghur Autonomous Region, in the future”.¹⁶ On the security front, Xinjiang continues to remain on the Chinese radar. A Chinese security official claimed that China foiled an attempted hijacking of Tianjin Airlines flight GS7554 in June 2012, which was allegedly masterminded by members of the Uyghur ethnic community.¹⁷

Sino-Uzbek bilateral ties have moved to a new level in 2012. During his visit to Beijing to attend the SCO summit, President Islam Karimov agreed to support China’s position on major regional and international issues and agreed to upgrade

the Sino-Uzbek relationship to a “strategic partnership”.¹⁸ A few agreements on energy, high-technological cooperation, currency swap and long-term trade cooperation were signed between the two countries. Similar trends are also seen in the Sino-Kazakh and Sino-Kyrgyz relationships. China advanced its bilateral relations with Kazakhstan, and decided to establish a high-level bilateral political channel for talks and exchange of ideas. This new initiative was originally decided in 2011 and was finalised during Premier Wen Jiabao’s visit to Kazakhstan. This is seen as a sustained effort for the advancement of a “comprehensive strategic partnership” between the two countries.¹⁹ China and Kazakhstan also signed a joint communiqué to push their bilateral relations ahead, mainly in trade and energy cooperation. Sino-Kyrgyz relations also grew to a higher level in 2012. Premier Wen Jiabao visited Kyrgyzstan in December 2012 and signed a number of bilateral agreements with Kyrgyzstan involving trade and economics, technology and preferential export buyer’s credit and geological collaboration.²⁰ Kyrgyzstan is an important country bordering China. Being located in the heart of Central Asia, it is a key country in the Chinese strategic design in the region. China has garnered diplomatic support from Kyrgyzstan on sensitive issues such as Xinjiang, Tibet and Taiwan.²¹ Similar trends of growing warmth have been noticed in Sino-Turkmen relations. Turkmenistan is one of the world’s largest natural gas reserves; its supply of gas to China has been growing steadily.²² Sino-Turkmen relations moved further ahead in 2012 when Zhou Yongkang, member of the Standing Committee of the Political Bureau of the CPC, visited Turkmenistan and discussed expansion of bilateral cooperation in the fields of trade, economics, science and high technology, energy, infrastructure, healthcare, etc.

Not overlooking Afghanistan

While Beijing is serious about Central Asia, it also takes other neighbouring countries seriously. Beijing has constantly sought to establish better relations with Afghanistan both at a bilateral level and through the SCO. The Chinese government has retained equal focus on Afghanistan while addressing various Central Asian issues. Recent trends suggest that the Sino-Afghan relationship is growing to foster broader institutional linkages between China, Afghanistan and the SCO. China shares only a 72 km long border with Afghanistan, but the Chinese investment, involvement and partaking in the politics involving Afghanistan at the regional and global levels has seen a massive resurgence. While the Beijing SCO summit formally inducted Afghanistan into the SCO fold as an observer member, a range of understandings were forged between the two countries in 2012, which suggests a new level of Chinese engagement in and with Afghanistan.

The highlight of the Sino-Afghan ties in 2012 was the understanding to establish an action plan for implementing China-Afghanistan Strategic and Cooperative Partnership. Diplomatic relations between the two countries were established way back in 1955. Now the Chinese government wants to shape the relationship in a new direction with this agreement. As per the planned Strategic and Cooperative Partnership, the two countries are aiming to maximise the relationship in a few co-related areas: (a) Establishing the relationship under the Five Principles of Peaceful Co-existence in line with the Charter of the United Nations (b) Five-pillar bilateral engagements in economic, political, cultural, security and regional and international affairs (c) High-level exchanges (d) Expanding bilateral trade and economic ties

(e) People-to-people exchanges (f) Security cooperation enhancement (g) Coordination under the UN framework in multilateral issues, etc.²³ All these initiatives are seen as Beijing's greater effort at establishing closer relations with Afghanistan keeping in view the planned withdrawal of NATO and Western forces from the region in 2014. The vitality of Afghanistan in China's foreign policy was noticed when China's domestic security chief, Zhou Yongkang, visited that country in September 2012. It may be noted that no top Chinese leader has visited Afghanistan in the last three decades.

People's Liberation Army's (PLA) Sustained Exercises

The contours of China's military and strategic diplomacy in Central Asia in the recent decades have rested on joint military exercises and exchanges. The PLA leaders give high priority to a range of joint military exercises both within and outside the ambit of the SCO. In 2012, the SCO conducted its customary "Peace Mission 2012" joint anti-terrorism military exercise. It was held in Khujand in Tajikistan and involved more than 2000 military personnel. This was the ninth such anti-terrorism joint military exercise under the framework of the SCO, and was the second multilateral joint military exercise held by the SCO members since 2007.²⁴ (The SCO did not hold the "Peace Mission" exercise in 2011.) In April 2012, China also conducted a joint naval exercise with the Russian navy, and the Yellow Sea of the Pacific Ocean was chosen for this exercise. This was the first exercise of its kind between the two navies,²⁵ indicating the growing depth in Sino-Russian relations; therefore, should not be overlooked. China also continued to enhance its bilateral military contacts with other countries in the region. The former Chief of the General Staff of the PLA,

Chen Bingde (now retired), visited Tajikistan and expressed an interest in maximising Sino-Tajik military-to-military relations.²⁶ In December 2012, Chinese and Kazakh military leaders also forged an understanding to promote bilateral military-to-military relations.

Conducive to both the SCO and Chinese clout, Uzbekistan withdrew from the Collective Security Treaty Organization (CSTO) in 2012. This is a significant development, since CSTO has always been seen in contrast to the SCO in Central Asia. Uzbekistan's withdrawal from the CSTO will be detrimental to Russia's strategic profile in the region, and will be conducive to the growing Chinese profile, because China wants the SCO to emerge as the most effective multilateral entity in this region. China is seen as a powerful country in this region, and the Central Asian countries are well aware of Chinese economic supremacy in Central Asia.

Summing-up

A set of geo-political factors along with political, economic and security priorities have shaped China's policy towards Central Asia, and this was clearly evident in China's policy approach to Central Asia in 2012. Beijing has reiterated the weight and vitality of the SCO in its foreign policy towards the region, but has equally stressed its interest in building trust and harmony among these countries through bilateral means. Few trends are evidenced in this regard: First, China continues to pursue a multi-pronged strategy towards Central Asia as a whole, which consists of trade, economic, political, military and diplomatic contacts; second, it continues to pursue security as the main thrust of its policy towards the region; third, it wants to push the SCO to the next level

as a vital organisation and wants to bind its Central Asian politics under the umbrella of this multilateral body; and fourth, China's emphasis is on trade and economic relations in Central Asia, yet the greater focus is on building its clout as a big power in the region.

Attaining its strategic interests through multilateral contacts within the prime design of the SCO has been a routine strategy for Beijing in Central Asia. In 2012, Beijing focused more on bilateral mode of contacts with the Central Asian countries under the premise and ethos of the "Shanghai Spirit"; thus, making a strong statement that a bilateral contact can be carefully crafted under a multilateral design. There has also been continuity reflected in China's approach towards Central Asia from 2011 to 2012; the continuity indicates that closer bilateral relations are central to China's broader regional strategy in Central Asia. Besides, China's rising influence in the security, cultural and economic affairs of the region indicates that Beijing is marching far ahead of others, and emerging as the most powerful neighbouring country in the region and the core decider of the regional politics as far as Central Asia is concerned.

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9

China's Foreign Relations Across the Geographies

Prashant Kumar Singh

China and Africa

In 2012, it was amply clear that China had long-term interests in Africa. It could even, in some senses, be seen as a countervailing force to the US in Africa. This gave rise to subtle tensions between China and the US in the African context. Generating positive perceptions about China's engagement with Africa was seen as a diplomatic priority for China. Also, China appeared to be concerned about the safety of its business interests, and citizens, in view of the worsening security situation in various parts of Africa. Even so, China continued its various trade and assistance activities across Africa throughout the year.

Sino-American Competition

In 2012, the Chinese media also responded to Hillary Clinton's oblique criticism of China. Her comment that the US wanted a "sustainable partnership" with Africa "that adds value" and supports "democracy and universal human rights", whereas other countries just want to exploit it was not lost on the Chinese media. It in turn highlighted the 'mutual benefits' of the Sino-African relationship: particularly, publishing quotes from foreign academics and policymakers to refute the charges of neocolonialism against

China.¹ The US too seems to have realised that China is in Africa for the long haul. Therefore, just one day after the then Chinese President Hu Jintao's announcement of US\$20 billion in credit to African countries, at the 5th Ministerial Conference of the Forum on China-Africa Cooperation in Beijing, the US State Department spokesperson Patrick Ventrell welcomed the announcement in July 2012. He, in fact, sought China's cooperation in Sub-Saharan Africa. The US itself, had unveiled a new strategy for Sub-Saharan Africa just a month before the Beijing conference, which had characterised Africa as "world's next major economic success story" and was designed to promote "democratic institutions, economic growth, trade and investment, peace and security, and opportunity and development"² in the region. Egypt's first democratically elected President Mohamed Morsi's three-day state visit to China, just few months after his becoming president, indicates the high acceptance and approval levels of China in Africa.³ In fact, China was seen as facilitating peace between Sudan and South Sudan, and Kumba, the chargé d'affaires ad interim at the South Sudan embassy in Beijing, appreciated the role played by China when the talks finally resumed between the two adversaries.⁴ In November 2012, China stated in the Security Council that the Chinese escort missions to counter Somali pirates were a 100

per cent success. It also appealed for greater international cooperation in this region.⁵

Instability in Africa: A Source of Concern

China was very concerned when hostilities broke out between Sudan and the breakaway South Sudan. China has major investments in the oil sector in these two countries. China repeatedly urged the two countries to maintain peace and “to protect the rights and interests of Chinese oil companies”.⁶ The military coup in Mali also prompted a Chinese appeal for the “safety, security and lawful rights” of Chinese individuals and companies there.⁷ The Libyan political turmoil in 2011 forced Chinese companies to wind up their businesses. However, they started looking forward to their return in 2012.⁸ The visiting Libyan foreign minister Ashour Ben Khayil received assurances of cooperation in reconstruction from the Chinese leadership. Although the Chinese Government has faced irritants in Africa like the court ruling in South Africa that regarded the South African government’s denial of a visa to the Dalai Lama by delaying it “unreasonably” as unlawful, they hardly had any impact on bilateral relationships.⁹

Public Diplomacy

China also undertook public diplomacy at various levels to create a positive image in Africa. These included: a media conference in Nairobi convened jointly by the Communication University of China and Kenya’s Daystar University and Multimedia University; a seminar involving Africa and China organised by the World Wide Fund for Nature; and the Second Sino-African Young Leaders Forum

conducted by the SWAPO Party of Namibia and the Communist Party of China.¹⁰

Business as Usual

Despite the volatile situation in several parts of Africa, the two-way trade touched the US\$166.3 billion mark in 2011, a year-on-year increase of 31 per cent and an 8.4 per cent higher than overall growth rate of China’s foreign trade. China’s exports to Africa reached US\$73.1 billion, increasing by 22 per cent, while imports from Africa touched US\$93.2 billion, a year-on-year increase of 39 per cent.¹¹ By 2011, Chinese investment in Africa amounted to 92.8 billion yuan (US\$14.7 billion). At present, there are at least 2,000 Chinese companies operating in the continent.¹²

In 2012 global media reported many instances of China’s economic and other involvement across Africa. Among these are: a bridge project in Mozambique; the setting up of a shoe company in Ethiopia; a loan for Cameroon’s e-post project; a toll-road project in Uganda; building a healthcare facility in Sudan; and running health services in Namibia and Nigeria. Agriculture appeared to be emerging as a new area of cooperation between Sudan and China. Chinese assistance to build a communication satellite for Congo was another important project. Africa also appeared to be learning from the Chinese experience of preventing desertification. President Robert Mugabe was reported as being appreciative of China’s technology transfers to Zimbabwe and other African countries. However, the Chinese precondition of a Chinese contractor for the toll-road project in Uganda invited criticism and necessitated a critical investigation of Chinese economic activities in Africa.

Human Stories

On a human note, many ordinary Chinese died violent deaths while struggling for livelihood throughout Africa 2012¹³ However, large-scale violence at a Chinese owned coal mine in Zambia involving local labours was also reported. In another major incident, more than 100 Chinese citizens were detained on charges of gold smuggling in Ghana. A young Chinese also died in police firing during this incident. This was followed by hectic diplomatic activity.

China and Australia

The year 2012 also marked 40 years of diplomatic relations between China and Australia. During these years Australia has walked a tightrope between its traditional security alliance with the US and its market interests in China. Both the US as well as China continued to reassure Australia 2012 as well. There were enough indications available throughout the year that China's importance in Australian international relations will keep growing. The media noted some voices of dissent in Australia over its foreign policy tilt towards the US as well as over Chinese investments. The media also took note of complaints regarding the perceived discrimination against Chinese investors in Australia. However, the two governments appear to be handling all these glitches deftly.

A Meeting of the Minds?

In the backdrop of the increased military presence of the US in Australia as part of its larger "Pivot to Asia" policy, the then Secretary of State Hillary Clinton at an annual security summit in Australia

said that zero-sum thinking in international relations always led to negative-sum results. She declared US support for Australia's foreign policy objectives in Asia-Pacific and Australia's ties with every country of the region. Incidentally, former Labour Party Prime Minister, Paul Keating, had accused the Australian Government of not pursuing an independent foreign policy and that Australia's sphere of influence had shrunk.¹⁴ On China's part, the then Premier Wen Jiabao conveyed to the then Australian Prime Minister Julia Gillard, during the 7th East Asia Summit in Phnom Penh, in November, China's desire for enhancing security and strategic trust levels with Australia in the Asia-Pacific. His message was important because Australia had repeatedly sought to increase its economic cooperation with China and also simultaneously deepen its security ties with the US. Gillard too expressed Australia's willingness for enhanced communication and cooperation.¹⁵ In an important development, Australia issued a White Paper "Australia in the Asian Century" in 2012, which acknowledged and emphasised China's central role in Australia's Asian century and for making Australia more "Asia-literate" and "Asia-capable". J.W. Neville Fellow and former Australian trade Commission (Austrade) chief economist Tim Harcourt stated that China remained at the heart of Australia's economic evolution as the country entered the fourth phase of its engagement with Asia.¹⁶ The Australian leadership expected that under Xi Jinping personal relations would lead to a further strengthening of the bilateral relationship.¹⁷

Dialogue Unabated

The 20th China-Australia political consultation and the 14th round of the China-Australia Human Rights Dialogue were held in Canberra from July

9 to 10, 2012. the then Chinese Vice Foreign Minister Cui Tiankai and Deputy Secretary Heather Smith of the Department of Foreign Affairs and Trade (DFAT) of Australia co-chaired the events. The Human Rights Dialogue saw a more straightforward Chinese side as they reminded Australia of its own poor human rights record in view of which they wanted Australia to respect China's sovereignty, territorial integrity and legal system.¹⁸ The 15th China and Australia Strategic Defence Consultation discussed bilateral military relations in December. Fang Fenghui, Chief of the General Staff of the People's Liberation Army of China, and David Hurley, Chief of the Defence Force of Australia, co-chaired the consultation. During his official visit, David Hurley met with various Chinese Military leaders. The Chinese side showed interest in cooperating in "equipment management, maintenance and support ... equipment construction and management structure ... weaponry and equipment construction".¹⁹

Business Takes Its Own Course

A section of the Australian media made a hue and cry when a Chinese property company "won a land development tender at (Australian) taxpayer expense". The company in question was Shanghai Zhongfu, and the deal in question was the bid for farming land in Western Australia. However, Duncan Calder, vice president of the influential Australian China Business Council (ACBC), took on the Australian media for its "hysterical reporting of foreign investment, particularly from China".²⁰ In fact, the bilateral trade between the two countries reached US\$121 billion registering a 13 per cent growth from 2011, making Australia China's 8th biggest trade partner and China Australia's number one trade partner.

In the last four years, Australia has approved 380 Chinese investment proposals worth over US\$80 billion without rejecting even a single proposal, as the Australian ambassador to China claimed. Presently 90,000 Chinese students are studying in Australia. Education and tourism are the two sectors in which cooperation and business are touching new heights.²¹ PetroChina's acquisition of BHP Billiton shares in a liquefied natural gas project in Australia at a price of US\$1.63 billion was its biggest 2012 overseas acquisition. All this suggests that media criticism does not reflect or impact economic relations between the two countries.²²

Advantage China

The year 2012 also witnessed many high-level visits between the two countries. It might be a coincidence, or could well be a reflection of China having an upper hand in the relationship, that the visitors were generally from Australia to China.²³ China appeared to be reaching out to New Zealand and Polynesian countries in the region too.²⁴ In fact, the South Pacific was a major subject of discussion in many bilateral dialogue forums. China-New Zealand relations registered a positive growth. Chinese tourists have also given a boost to New Zealand's tourism industry over the last two years.²⁵ New Zealand acknowledged the valuable help rendered by Chinese custom authorities in checking methamphetamine smuggling into New Zealand.²⁶ New Zealand also joined the China-Australia joint military exercise for the first time.²⁷

China and Europe

Sino-Europe relations in 2012 continued to display maturity and cordiality. The old concerns like

human rights in China or the Tibet issue did not hit the media headlines. The relationship developed in the light of Europe's economic troubles and China's "importance" for its recovery. Cooperation was the dominant theme in the various dialogue forums throughout the year. China appeared to be concerned about Europe's economic instability and assured Europe of its continuous support.²⁸ The Chinese media was took pride in saying that "in recent years, the Chinese leaders' European tours have become a 'Trip of Confidence' for Europe".²⁹ Apart from economics and commerce, Europe and China also exchanged views on international politics and security.

Economy in Command

The then Premier Wen Jiabao participated in the 9th Asia-Europe Meeting (ASEM)—themed "Friends for Peace, Partners for Prosperity"—in Vientiane, Laos, where he put forward four points for the economic well being of the world that is facing an economic recession. He proposed "free, open and fair international trade", "macroeconomic policy coordination", "innovations in science and technology" and "sound global economic governance" to end the present economic problems.³⁰ The Chinese representative Wan Gang too underscored cooperation at the biennial Hamburg Summit—especially in the field of science and technology.³¹ According to media reports China's investments in Europe surpassed those of Europe in China in the first quarter of 2012 for the first time. China made 32 investments agreements in Europe, while Europe made 26 during the said period.³² The media reported some frictions too. China appeared concerned about the rising "protectionism" in Europe. The then Vice Premier Li Keqiang urged the European Union "to properly handle trade disputes" involving Chinese

companies that were accused of "dumping" remarking that "protectionism" will create complications in bilateral business activities.³³

A Little Note of Thanks from EU

The year 2012 witnessed a range of China-EU activities. The then Vice Premier Li Keqiang during his visit to European Commission in May 2012 discussed "the current economic woes in Europe" with the Commission officials and expressed his faith in the economic and political wisdom, and scientific and technological innovation of the EU countries "to chart a way out of the debt crisis".³⁴ The EU Foreign Affairs and Security Policy High Representative and Vice President of European Commission Catherine Ashton acknowledged "China's consistent and firm support of the European integration" and "precious support and help" for Europe in its "difficult times". She conveyed this to the then Premier Wen Jiabao during her China visit in July 2012.³⁵

Idea Exchange

Ashton, and in a separate visit, Helga Maria Schmid, Deputy Secretary General for the European External Action Service, discussed international security concerns like Iranian nuclear issue, the Syrian crisis and the Korean Peninsular nuclear issue in their meetings with Chinese leaders.³⁶ The annual 15th EU-China Summit held in Brussels reviewed the progress in their relations and expressed its satisfaction over the state of cooperation between the two sides. The two sides held discussions on a host of themes like economy, climate, science and technology, disaster management, human rights, ocean affairs and global security concerns. They also held their 3rd strategic dialogue in 2012.³⁷

Vignette of Cooperation

The EU Commissioner for Education, Culture, Multilingualism and Youth Androulla Vassiliou underscored the importance of mobility and adaptability in “skill development and cultural dialogue”. She spoke about the formalisation of two initiatives to ensure “compatibility in the education programmes offered in the EU and China” so as to encourage student mobility.³⁸ China and the European Commission celebrated 2012 as the EU-China Year of Intercultural Dialogue. The two sides “presented about 300 programmes” covering “all the 27 member states of the European Union” and the entire China during the year. The 3rd EU-China High Level Cultural Forum was held at the closing ceremony of the Year of Intercultural Dialogue.³⁹

A New Beginning

The year 2012 was also noteworthy for China’s focus on Central and Eastern European countries. China gave US\$10 billion in credit to Central and Eastern European countries.⁴⁰ During the Warsaw meeting held in April 2012, the then Premier Wen Jiabao and the leaders of 16 different central and eastern European countries decided to create a new forum, the “China-Central and Eastern Europe Cooperation Secretariat”. The secretariat held its 1st annual meeting in Beijing on December 19, 2012.⁴¹ The intervening period also saw hectic activity. The secretariat organised “a forum on localities and businesses” in Beijing, which was attended by Chinese business representatives, envoys and diplomats of member countries.⁴² The Chinese Premier Wen Jiabao met with “foreign representatives” at “the Inaugural Conference and the First National Coordinators’ Meeting of the Secretariat”.⁴³ A delegation of the tourism

departments of the secretariat countries too visited China before the annual meet.⁴⁴

Bilateral Glimpses

On the bilateral level, German Chancellor Angela Merkel’s visit to China was followed by a joint statement on economic and trade cooperation, and investment.⁴⁵ Likewise, during the Danish Prime Minister’s visit, the two countries explored opportunities in wind-turbine manufacture, food products and temperature-control systems.⁴⁶ The media reported some other high-level official visits to China too. However, these visits were more customary in which the two sides pledged “to boost cooperation” and promote each other’s core interests.⁴⁷

Public Diplomacy

Public diplomacy too got its due attention. Vice Foreign Minister Song Tao asked a visiting delegation of young politicians of the Party of European Socialists to further their understanding of China by visiting it more often;⁴⁸ the foreign ministry organised the 7th workshop, themed “A Robust China”, for European Diplomats⁴⁹ and Song Tao also wrote articles in the foreign media.⁵⁰

China and Latin America

China’s engagement with Latin America is relatively recent. In fact, its policy paper on Latin America and the Caribbean came out as late as 2008. China’s relationship with Latin America is in the “reaching out” phase, and the two sides are in still in the process of consolidating their relations and setting up dialogue forums. Some have been set up very recently and some others are in the offing. The slight media coverage accorded to this

relationship—compared to others mentioned in this section—underscores this point. The overall focus of the relationship is economic, although it also has some political and defence elements. The relationship seems to be growing at a considerable pace.

“Reaching Out” to the Latinos

The then Premier Wen Jiabao attended the conference of the Economic Commission for Latin America and the Caribbean of the United Nations in San Diego in June 2012. In his address at the commission, he proposed that China and Latin America and the Caribbean should aim to increase their bilateral trade to over US\$400 billion over the next five years. He announced that China would contribute a first instalment of US\$5 billion to the cooperation fund soon to be set up by the two sides. He also announced that the China Development Bank would give a special loan of US\$10 billion for infrastructure projects in the region. He proposed that the two sides should keep 500,000 tons of food grain ready to deal with exigencies of natural disasters. He also declared that his government would contribute US\$50 million “to set up a special fund for agricultural cooperation and development”. He revealed that the two sides would set up “five to eight agricultural research and development centres, agricultural processing demonstration parks and agricultural investment zones”. He also declared that the two sides would “exchange 500 agricultural experts and technicians in the next five years” and increase “trade in agricultural products to over” US\$40 billion. He proposed the setting up of China-Latin America and the Caribbean Agricultural Ministers Forum. He also proposed that this forum could hold its first meeting in China in 2013. Moreover, 5,000 scholarships would also be provided for

Latin American countries over next five years. He also said that since 2001 bilateral “trade has been growing at an average annual rate of over 30%”, and amounted to US\$241.5 billion in 2011. China is now Latin America’s second largest trading partner. He assured his counterparts at the commission that China did not want to import raw material only. It wanted to import manufactured goods as well.⁵¹ During this visit, he toured Brazil, Uruguay, Argentina and Chile, and discussed the ways and means of increasing trade.⁵² Incidentally, at 46th Annual Meeting of the Latin American Federation of Banks, the Chinese representative underscored the complementary aspects of Chinese and Latin American economies. The Chinese representative informed the conference that China had investments totalling US\$12 billion in Latin America in 2011 and its domestic needs and the economic slowdown in the US and the UK are boosting cooperation between the two sides.⁵³

Beginning to Know Each Other

The media reported that the Ministry of National Defence hosted the 1st China-Latin America High-level Forum on Defence organised by the College of Defence Studies of the National Defence University in November. Six Latin American countries reportedly attended this forum. The Chinese Assistant Foreign Minister Zhang Kunsheng delivered a lecture on “China’s Foreign Policy and Peaceful Development Road” at the forum.⁵⁴ The forum is operating at the level of senior officers and aims to build trust at the military level. The then Chinese Defence Minister Liang Guanglie also met with the delegates of the 1st China-Latin America high-level defence forum. During the meeting, he underscored the need for increasing cooperation between China and Latin American countries,

and that frequent “high level visits”, deepened “mutual political trust”, “strengthened communication” and “enhanced cooperation” and “effective coordination” on issues of international concern. Pedro Siqueira, the Uruguayan commander-in-chief, said that the forum was giving an opportunity to Latin American countries to know more about China.⁵⁵

Separately, the 6th China-Latin America Business Summit was organised in China’s Hangzhou in October which was attended by more than 1,000 Latin American and Asian representatives.⁵⁶ Foreign Minister Yang Jiechi met with the visiting delegation of the Community of Latin American and Caribbean States (CELAC) in August 2012. They discussed “China’s relations with CELAC, China-Latin America cooperation as well as other international and regional issues of common concern”.⁵⁷

Bilateral Instances

Various bilateral activities continued throughout the year. For example, China and Brazil held the Second Round of Consultations on Latin American Affairs in November.⁵⁸ The 25th Session of the China-Cuba Intergovernmental Commission was held in Havana.⁵⁹ Other routine activities and exchanges also took place.

A Note of Friction

Finally, Mexico which is not strictly a South American country, but is part of the larger Latin American world moved the WTO against China arguing that various Chinese measures like “income tax exemptions, low-cost loans, extended loan repayment periods, and debt waivers by the government bank and cash

payments from Chinese government agencies at all levels to enterprises active in designated industries or undertaking activities” for its textile and apparel exporters went against China’s WTO obligations. The Chinese Government said that it would respond as per due procedure.⁶⁰

Conclusion

In 2012, the shadow of the Sino-US geopolitical context loomed over Sino-African relations. Its reverberations were also felt in China’s relations with Australia, which is a NATO member. The perceived Sino-US strategic competition was still a matter for speculation in the Latin American context, considering the still-evolving nature of the Sino-Latin American relationship. Europe was clearly outside the ambit of China’s, supposedly, increasing strategic influence. Nevertheless, economics has dominated China’s relationship with these regions, which is moving forward briskly without showing any signs of strain.

Notes

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Liu Guijin argued that the Western powers misunderstood China-Africa relationship, and the misperceptions created by them were obstacles in smooth conduct of Sino-African relations. He underscored that China followed a non-interventionist approach vis-à-vis Africa; prefers bilateral relations over multilateral ones, and at best can provide mediation and give advice. “Sino-African Relationship Misunderstood in West”, *China Daily*, August 18, 2012, at http://www.chinadaily.com.cn/world/2012-07/18/content_15592562.htm.

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- 4 "Beijing's Mediation Praised in Sudan, S. Sudan Issues", *China Daily*, May 29, 2012, at http://www.chinadaily.com.cn/world/2012-05/29/content_15416575.htm; "China Welcomes Oil Deal Between Sudan, S. Sudan", *China Daily*, August 26, 2012, at http://www.chinadaily.com.cn/china/2012-08/06/content_15648175.htm.
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Section III: Global Hotspots and China

10

South China Sea in 2012: From Anniversaries to Anxieties

Bijoy Das

If 2011 was a year of anniversaries in South-east and East Asia, 2012 was definitely a year of anxieties for the very same countries.¹ Particularly, as territorial disputes, aggravation and stalemate in the South China Sea (SCS) as well as the East China Sea regions garnered considerable media attention.

The SCS is a 3,500,000 sq km area stretching from Singapore and spanning the Malacca Straits to the Strait of Taiwan. Of this, about 70 per cent is disputed between six parties: Brunei, China, Malaysia, Philippines, Taiwan and Vietnam. At the core are the main five groups of islands, atolls, cays, shoals, reefs and sandbars identified as the Spratlys, Paracels, Scarborough Shoal, Pratas and Maccelsfield Bank.² Since sovereignty over any territory, even an island, further produces the surrounding 12 nm as Territorial waters, another 12 nm as Contiguous zone, and finally, a total of 200 nm of Exclusive Economic Zone;

possession of an island, howsoever measly it may be, becomes lucrative for any country, especially in such an environment.

Thus, it is this disputed area which has emerged as a security hotspot in contemporary times. This chapter tracks the chain of events which occurred during 2012 in these disputed waters. Of particular focus are the roles of China and the ASEAN in this dispute keeping the 2011 volume of trade in picture, which reveals China to be the biggest trading partner of ASEAN (see Table 1):

Crux of the Problem

The crux of the territorial disputes in SCS comprises of three factors: First, the competition for natural resources; second, the rivalry between regional and big powers and, third, the freedom

Table 1: ASEAN's trade with China in 2011³

	VALUE (IN MILLION USD)			SHARE (%) TO TOTAL ASEAN TRADE		
	Exports	Imports	Total Trade	Exports	Imports	Total Trade
Intra ASEAN	327531.8	270710.4	598242.2	26.4	23.6	25.0
With CHINA	127908.5	152497.1	280405.5	10.3	13.3	11.7

of navigation through the vital Sea Lanes of Communication there.

The natural resources of SCS are hydrocarbons, fishes/seafood and other marine minerals and material like coral. Their stocks have been variously estimated. The US Energy Information Administration cites a Chinese study to suggest 213 billion barrels of oil and 900 trillion cubic feet of gas reserves in the SCS.⁴ Besides, China claims rich deposits of minerals like Ilmenite, Monazite, Zircon, Cassiterite, Arenaceous quartz, etc.⁵ Similarly, in fishery, about “1.5 billion people live there and rely heavily on fisheries for food and jobs”.⁶ A 2010 study commissioned by the Asia-Pacific Fishery Commission states that the total marine capture fishery production in South-east Asia was one of the highest in the world at 16.1 million tonnes, the majority of which was contributed by the SCS. However, the study also concludes that the SCS has seen an irreversible trend of “fishing down the food web”, and that majority of the fish stocks and species are overfished or fully fished, meaning fishery yield is depleting in the area.⁷

Actually, SCS’s resources have not been conclusively surveyed as yet. In fact, it is often surveys that spark troubles among the claiming countries. Surveys have invariably been considered as attempts to intrude and encroach in the territories. However, apart from surveys, countries have been prospecting and exploring hydrocarbons in their self-claimed areas for long. The Philippines and Vietnam have awarded exploration contracts in the area to four companies, Exxon Mobil, Talisman Energy, Forum Energy and ONGC Videsh Limited. At stake is the desire of the parties to attain self-sufficiency in energy resources amidst rising domestic demands. What is also at stake are the

traditional livelihood and food security of societies attained mainly from fishery. As is true elsewhere, fishermen who stray into contested waters often pay the price for inter-state disputes by their lives, property or incarceration.

As regards to freedom of navigation through the Sea Lines of Communication (SLOC) is concerned, suffice to say is more than half of the world’s biggest maritime ports are located around the SCS, and about 50 per cent of world tanker shipments also pass through it.⁸

Developments in 2012

The year 2012 started with the leftover heat from the December 2011 sighting of three Chinese vessels, including a military vessel, in the vicinity of Escoda Shoal by the Philippine authorities. The very first week of 2012, thus, saw the Philippines’ Department of Foreign Affairs conveying to the Chinese chargé d’affaires its serious concern over the incident.⁹ Escoda Shoal (also known as Sabina Shoal: 9:45:00N/116:29:00E) is in the Spratly Islands, which both Philippines and China claim as their territory and is part of South China Sea’s Dangerous Ground because of navigational difficulties (see Fig. 1).

Jousting over Nature

Competition for natural resources as one of the three crux factors in the disputes was demonstrated amply in early February 2012. The Philippines in June 2011 had floated tenders for leasing out oil and gas blocks in 15 areas in SCS for which it received bids from a number of foreign partners in February 2012.¹¹ Two of these areas fall in disputed waters: North-west of Palawan in SCS. China eventually protested calling the

Fig. 1 Escoda Shoal¹⁰

tendering activity illegal. A former Chinese ambassador also suggested joint exploration and urged the Philippines to engage with China bilaterally without involving the US.¹²

On Feb 20, 2012, the Philippines and Vietnam conducted the first meeting of the Joint Commission on Maritime and Ocean Cooperation (JCMOC). Among issues that were discussed were cooperation in the disputed waters and a Code of Conduct (COC) in Spratly Islands.¹³ As this chapter will show, apart from China, the two other most assertive nations in this dispute are the Philippines and Vietnam. It's evident that JCMOC has been established by these two countries as a bulwark against China.

Soon after the Philippines and the US declared a plan to carry out a joint military exercise “to protect offshore energy platforms”.¹⁴ This was a first of its

kind exercise between the two countries, and was pointedly held near the Malampaya gas project in the SCS. Thereafter, both the countries went ahead with further talks on increasing US military presence in the region in the form of naval vessels, troops, surveillance aircraft and more frequent military exercises.¹⁵ Expectedly, China reacted negatively to such news.

India Takes a Stand

It was expected that India states its position on the SCS situation and it was consequently articulated by Nirupama Rao, the Indian Ambassador to the US on Jan 25, 2012. The ambassador underlined the importance of the SLOC in the international waters of SCS, India's neutrality and the need for peaceful resolution of the disputes through an inclusive security architecture. She also

underscored the indispensability of involving China and including it into a process of more transparency, dialogues and communication.¹⁶

Hoi Polloi—the Sufferers

As is true for anywhere else, it's the common people, in the case of SCS, the fishermen, who are among the worst sufferers in state-to-state conflicts. On 22 Feb 2012, an incident occurred between Vietnamese fishermen and Chinese authorities in the Paracel Islands, where the Chinese were accused of inhumanly treating the Vietnamese fishermen. Vietnamese authorities said that 11 of its fishermen approached the Paracel Islands to avoid strong winds. Instead of providing them with temporary shelter, the Chinese allegedly beat them up and took away their property. The Chinese Foreign Ministry denied the charge and accused Vietnamese fishermen of generally indulging in illegal fishing in Chinese waters.¹⁷

For some time now there have been charges that China routinely arrests and imprisons fishermen from other countries, but mostly Vietnamese, in the Woody Island (Yongxing/Phú Lam) for illegal fishing in waters claimed by China. Incidentally, China has established the new city of Sansha and has posted a PLA garrison in the same Woody Island to exercise more effective administration of its SCS territories. There have also been instances where Philippine or Chinese fishermen have been arrested and detained. None of this is unnatural given the intricately enmeshed nature of holding of landforms by various countries in these disputed waters.¹⁸

The Competition for Territory— Possession Gives Ownership

One incident highlights how attempts of claiming “sovereignty by possession” can escalate into a situation in the SCS dispute. On a day in late March 2012 two unlikely parties to the dispute created a situation near the Taiping Island (Itu Aba). Incidentally, this is the biggest island in the entire SCS, and is occupied by Taiwan. According to reports, Taiwanese coast guard vessels reportedly spotted two Vietnamese patrol boats near the island and gave them a chase.¹⁹ Ever Since Taiwan is suspicious that Vietnam may have a plan to occupy the island by force. Taiwan consequently increased the security in the island, and even carried out live firing exercises later in September.

Apart from occupying new islands, most disputing parties have also had the natural inclination to develop the ones already occupied. So, on April 2, 2012, the Philippines disclosed one such plan to develop the disputed Thitu (Pag-Asa) island in the Spratly Islands into a tourism centre. According to some reports, just three days before, China had protested a planned construction of a beaching ramp by the Philippines.²⁰

The April Tiff

From April 8, 2012, however, tensions began to rise in Scarborough Shoal (Huangyan Islands in Chinese). It so happened that a group of Chinese fishing vessels (8 to 12) had approached the lagoon of Scarborough Shoal reportedly to avoid harsh weather conditions. A Philippine naval vessel blocked access to the lagoon and sent armed soldiers instead for the Chinese vessels. On Apr 10, 2012 a team from the Philippines

naval patrol boat BRP Gregorio del Pilar (PF-15) boarded the Chinese vessels. On inspection, the Philippine team reportedly found and photographed catches of corals, giant clams and live sharks. China subsequently sent two maritime surveillance vessels (Haijian 75 and Haijian 84) to prevent arrest of the Chinese fishermen.

The tactical advantage of the Philippine naval vessel was lost as the Chinese surveillance vessels placed themselves between the Philippine patrol boat and the Chinese fishing vessels to prevent arrest of the latter. Another large Chinese fishing patrol vessel Yuzheng 310 also joined the fray on Apr 20, 2012. The Chinese government protested against Philippine actions and reiterated China's claim over the area.²¹ The Chinese official media issued a veiled threat to "countries like Vietnam and the Philippines" that by seizing benefits from Chinese territories such as in the SCS could force China to act "more boldly".²² This stalemate between the Philippine and Chinese vessels continued till June 5, 2012 when both the sides ultimately pulled them out.

The Safety Valves—Multilateral Forums

The dispute would have turned seriously awry, but for the presence of certain multilateral forums. So, an opportunity eventually came along in the form of ASEAN Summit Meet held in the Cambodian capital Phnom Penh during April 3–4, 2012. It was expected that statesmen from the disputing countries would come forward to put aside differences and work towards a mutually acceptable solution. Unfortunately, that did not happen. While Philippines pushed for a discussion on the dispute, host and chair Cambodia omitted it from the agenda.

Thereafter, the Philippine Foreign Secretary sought to draw it out from the constraints of ASEAN. Mr. Albert del Rosario, Foreign Secretary of the Philippines reiterated an offer to host a summit of the claimant countries which did not find takers. Besides the Chinese President Hu Jintao's statement that China does not want talks on a binding COC over disputed areas to move too quickly made any forward movement impossible at that juncture.²³

Against this backdrop, the Philippine Foreign Secretary urged all others in the SCS territorial dispute to take a stand against unilateral Chinese behaviour. In a text message sent through a Philippine daily, he said on April 21, 2012: "All, not just the Philippines, will ultimately be negatively affected if we do not take a stand".²⁴

Trade—the Collateral Damage

The standoff between China and Philippines continued. Though it did not escalate militarily, it had an ominous effect on the economic relations between the two countries. Amid widespread anti-China demonstrations in Philippines on the Scarborough Shoal affair, on May 9, 2012, Chinese authorities issued a travel advisory to its tourists against visiting the Philippines.²⁵ Further, China impounded Philippine fruit exports like bananas and papayas at some Chinese ports on quarantine grounds.²⁶ To put it in perspective, in the first quarter of 2012, China was the fourth largest source of foreign tourists accounting for 8.40 per cent of the inbound Philippine tourism market and had registered a year-on-year growth of a whopping 77.53 per cent.²⁷ China was also the second biggest export market for Philippine bananas, which is one of the Philippines' major farm exports.

Needless to say, both these trade restrictions hurt Philippine economy badly in the short term. The episode was reminiscent of China cutting off rare earth mineral exports to Japan in 2010 over a similar territorial dispute on Senakaku/Diaoyutai Islands. To save its banana plantations, the Philippines had to look for diverse markets like the US and Russia within the shortest possible time span.²⁸

This brings the region to the real possibility of decline in intra-regional trade. Countries relying heavily on China for trade but having bilateral political problems are increasingly opting for diversification of their trade baskets. This is to hedge against the possibility of China causing them economic loss in order to gain an upper hand in those bilateral political scores. This is already evident with Japan and South Korea, who are gradually reducing their dependence on Chinese rare earth minerals.²⁹

Getting Physical – Military Exercise

In the meanwhile, the Philippines and the US conducted the annual Balikatan military exercise during April 16–27, 2012. The purpose of the exercise was to show the commitment of both the militaries for a “more stable and secure Asia-Pacific region”, as stated by the Chief of Philippine Armed Forces.³⁰ The exercise was conducted at the Malampaya natural gas platform by a joint force of 6,800 troops from the Philippines and the US. It involved securing offshore oil and gas platforms from terrorist attacks. However, the unstated objective of defending against a possible Chinese forcible occupation of such platforms was not lost on China, and the Chinese media roundly criticised the event.³¹

China’s e-Passports

There was a twist in the tale when China started issuing a new series of microchip enabled e-passports from May 15, 2012 onwards. The microchip contained a map which showed the entire disputed SCS as Chinese territory. It was only from the end of November 2012 that countries started taking notice when such passports were deposited with their authorities for visa applications. Although a map was printed in older Chinese passports as well, the current ones attracted more attention because of the introduction of the nine-dash Chinese claim line, as also the discernible inclusion of large disputed areas of Arunachal Pradesh and Aksai Chin. These watermark maps served as background to the passport pages, and were also included in the microchip. Gradually, many concerned countries protested and started taking counter measures. India started issuing visas on these passports with stamped maps showing Arunachal Pradesh and Aksai Chin as Indian territories. Vietnam after requesting China to remove the map started issuing visas on separate sheets of paper. Even Indonesia, which is not a party to the territorial dispute, and Taiwan had reservations and registered protests with China.³² The Chinese response to these reactions ranged from allaying fears to dismissing objections of the neighbours.

Legislature, Sovereignty and Natural Resources

From mid-2012 onwards China and Vietnam started sparring with new legislative measures to bolster their administrative claims over some disputed territory. Sometime in mid-June 2012 the Chinese government announced the setting up of a prefecture level city named Sansha in the Woody

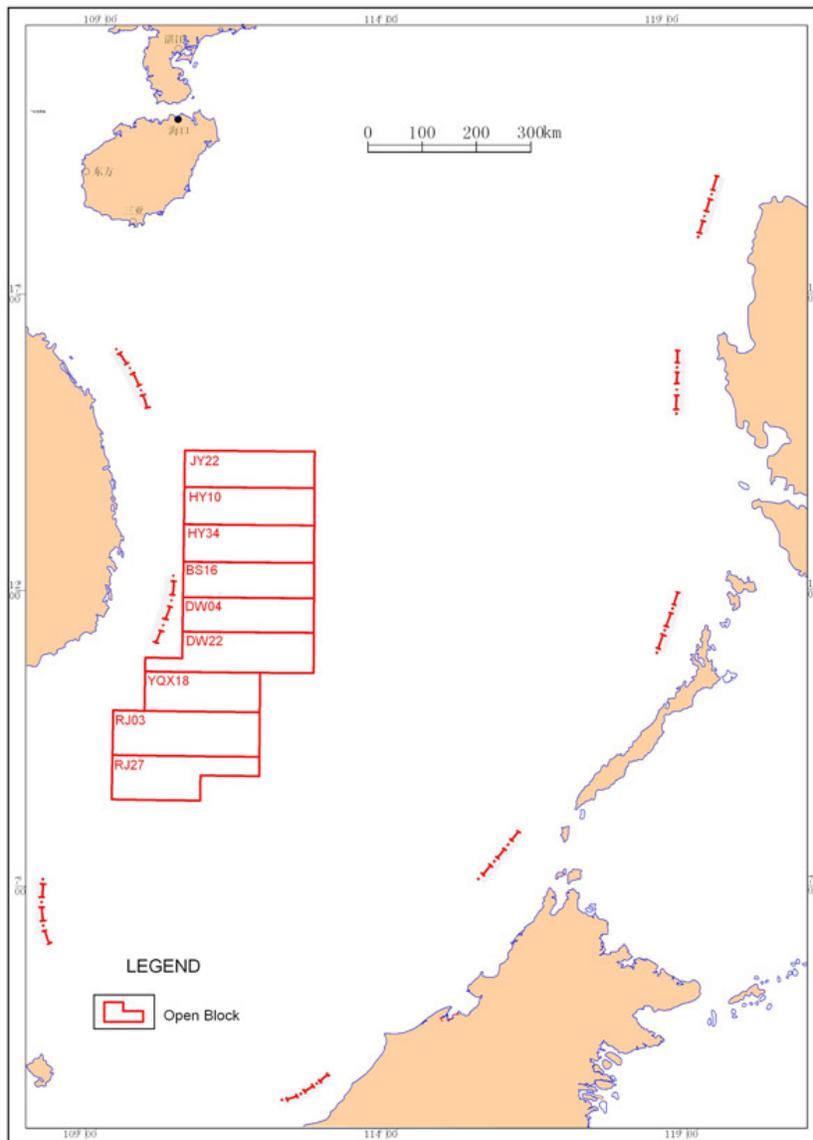
(Yongxing) Is. of Paracels. A People's Liberation Army (PLA) garrison was also established there by China. The Chinese objective was to better govern islands under its jurisdiction, namely Paracels (Xisha), Spratlys (Nansha) and Macclesfield Bank (Zhongsha).³³ The Vietnamese populace roundly criticised this Chinese step and asked China to leave the island all together.³⁴

Soon enough, on June 21, 2012, the Vietnamese National Assembly passed a new maritime law

asserting its sovereignty over the disputed islands of Spratlys and Paracels. The Chinese Government took serious exception and summoned the Vietnamese ambassador to lodge a protest.³⁵

Almost simultaneously the Chinese state-owned China National Offshore Oil Company (CNOOC) floated an international tender to explore for oil and gas in 9 blocks in the SCS (see Fig. 2).³⁶

Fig. 2 The 9 oil and gas blocks in disputed waters of South China Sea released by CNOOC of China in June 2012³⁷



Since the blocks fell squarely within the Vietnamese claim of 200 nm exclusive economic zone, Vietnam was quick to protest followed by the Philippines. PetroVietnam, Vietnam's state-run oil explorer warned China against developing disputed areas which Vietnam had already awarded to companies like the American Exxon Mobil Corp. and the Russian OAO Gazprom.³⁸

Limitations of ASEAN

During July 9–13, 2012, the 45th ASEAN Ministerial Meeting, ASEAN Regional Forum (ARF), ASEAN+3 Foreign Ministers' Meeting and East Asia Summit Foreign Ministers Meeting were held in Phnom Penh, Cambodia. During these events, the EU acceded to the ASEAN Treaty of Amity and Cooperation in Southeast Asia; thus, increasing the mandate for peace in the region. However, for the first time in its 45-year history, the Ministerial Meeting closed without a joint communiqué. This happened due to chair Cambodia's disagreement to the Philippine demand for mentioning the April to June Sino-Philippine naval clashes in Scarborough Shoal (Panatag Shoal/Huangyan Is.) in the text of the proposed communiqué. Cambodia's rationale was that the SCS dispute was a bilateral matter between the concerned states and ASEAN should not be used to "internationalise" these disputes, which is exactly what China also maintains.³⁹

Such a turn of events actually brought into question the relevance of ASEAN in resolving the SCS territorial disputes. For damage control, the Indonesian Foreign Minister Marty Natalegawa engaged in some intense shuttle diplomacy, and ASEAN members did agree to issue a statement on Six-point Principles on the SCS on July 20, 2012.⁴⁰ This new statement reiterated the

ASEAN commitment towards implementing the 2002 Declaration of Conduct (DOC) on the SCS, for an early conclusion of a COC for the same, abide by international law, exercise self-restraint and renounce force for the peaceful resolution of the disputes.

China Steps up the Ante

China, on 23 July 2012, announced about its intention to establish the Sansha prefectural city in the Woody (Yongxing) Is. in Paracel Islands. The new city would remain under the Hainan administration, and would include a military airport and garrison. China's stated purpose behind this was to monitor and control the three groups of islands better: Paracels (Xisha), Spratlys (Nansha) and Macclesfield Bank (Zhongsha).⁴¹ The Philippines and Vietnam got further alarmed by this Chinese move and its future implications, and registered strong protests.⁴²

In mid-August 2012, CNOOC floated a second international tender to explore oil and gas in 26 more offshore blocks in various seas. Of these, 22 blocks lay in SCS: of which 18 blocks were in the eastern part and 04 in the western part of the SCS.⁴³ Vietnam protested on Aug 31, 2012 against Block 65/12 which lay 3 miles off the Cay Island in the Paracel Is.⁴⁴

The US Breaks Silence...

After watching these developments from the sidelines for some time, the US finally broke its silence on the issue with some unusual fervour. The then US Secretary of State Hillary Clinton while visiting Indonesia stated on September 3, 2012 that the US believes that "the nations of the region should work collaboratively together

to resolve disputes without coercion, without intimidation, without threats and certainly without use of force". She also voiced support for laying out the COC and reiterated that the US "believes very strongly that no party should take any steps that would increase tensions or do anything that would increase tensions or do anything that could be viewed as coercive or intimidating to advance their territorial claims." The US leader also underscored the need for "a mechanism for resolving the potential for the outbreak of conflict or miscalculation by any party", thereby stressing the need for a security mechanism and architecture for the region. She also stated that she would take up these issues with the Chinese leaders while visiting China in the coming days.⁴⁵ It seems that the US position did make a limited impact on China when Hillary Clinton met top Chinese leaders in Beijing on September 05, 2012. The visiting US Secretary of State Hillary Clinton while addressing a joint press conference with the Chinese Foreign Minister Yang Jiechi pressed China again for concluding a COC in the SCS dispute. Though the Chinese Minister for Foreign Affairs Yang Jiechi reiterated the Chinese territorial claim on historical grounds, he did agree for a COC in the disputed South China Sea.⁴⁶ This was how these two world powers as well as the involved or interested parties in the SCS dispute succeeded in narrowing down their differences, scaled down the unhealthy rhetoric and displayed mutual interest towards promoting regional security.

...and Backs it up with Military Posturing

The US, however, didn't stop at diplomacy alone. In mid-October 2012, a US carrier group led by the USS George Washington sailed through the disputed waters of the SCS. This was the third

visit in three years by the US carrier, which is the flagship of the George Washington Carrier Strike Group operating out of Yokosuka, Japan. The stated objective was to "protect and defend the collective maritime interest of the US and its allies and partners in the Asia-Pacific region ... to preserve peace, protect commerce, and deter aggression through forward presence."⁴⁷

This was one rare occasion of direct US military posturing in the regional dispute to allay fears of some countries about China's possible military ventures, which could potentially rout them from any of their current positions in the disputed waters. In fact, during this activity, some Vietnamese security and government officials were flown on to the US nuclear powered carrier for the second time after 2011; also, two F/A-18E fighter aircraft of the US flew in formation with two Su-30 fighters of the Malaysian Air Force during the event.

Fig. 3 Malaysian and US fighter aircraft flying in formation over USS George Washington of the US Navy in South China Sea in October 2012. ⁴⁸



These joint activities between the US Navy, Vietnamese officials and Malaysian fighters were pointedly witnessed by a number of journalists. This was evidently done to show the US military supremacy and its commitment that it would not accept any military action to change the status quo. Noteworthy was that this was done just a day after China conducted a military exercise near the Senkaku/Diaoyutai Islands which it claims from Japan.⁴⁹ This is an element of a classic security dilemma for China. While China is not in a position to negotiate on the sovereignty of the SCS islands, such US military assurances to other regional allies and partners makes it necessary for Chinese military strategists to embark on major military strategies like Anti Access Area Denial (A2AD), which in turn ups the ante for all others.

This fact thus has to be appreciated that military power continues to play a decisive role in the SCS territorial dispute. So, it is no surprise that while most of the disputing countries, especially China, are embarking on major augmentation and modernisation of their naval forces, the US has announced its plan of rebalancing its global military forces more towards the Asia-Pacific. Therefore, it is imperative to understand the existing military balance in the SCS on the basis of the current principal surface combatants (PSC) and submarines (see Table 2):

However, shortly after the manoeuvre by the US carrier group, the US Navy Secretary Ray Mabus met the Chinese Defence Minister Gen. Liang Guanglie in Beijing on Nov 27, 2012 and discussed security at sea and managing disparities.⁵¹

China's Quest for Maritime Supremacy

On Nov 7, 2012, anxieties rose again when the Chinese President Hu Jintao declared that China should become a maritime power so that it can strongly protect its maritime rights and interests. He made these remarks while addressing the opening session of the 18th Congress of the Communist Party of China which saw a new generation of leaders take over the reins of power. The address along with other reports were duly taken on record and passed by the Party Congress.⁵²

Regional Forums and the US

As Chair of ASEAN Phnom Penh once again hosted two important regional meets:

The first event was the 4th ASEAN-US Leaders' Meeting which ended with some notable developments. The US President Barack Obama attended the meet and issued a joint statement on Nov 19, 2012.⁵³ This lengthy document itself describes the lengths to which both the sides went to forge closer relations in various fields; particularly, in security. It specifically mentioned US support for the implementation of the DOC and also for the early conclusion of a COC.

The second event was the East Asia Summit (EAS), which ended on Nov 20, 2012. This EAS was in a sense July 2012 redux. Vietnam and the Philippines raised the SCS disputes again while chair Cambodia disallowed discussion on it, resulting in a diplomatic tiff. Chinese state media supported Cambodian action. The same report also revealed that till date China has held two rounds of talks with "relevant" countries on concluding the COC of parties in the SCS.⁵⁴ The

Table 2: The military balance in the South China Sea ⁵⁰

Brunei	Philippines	Vietnam	Malaysia	Taiwan	PSCs & Submarines	China	US
-	-	-	-	-	Aircraft Carriers	1	4
-	-	-	-	4	Cruisers	-	12
-	-	-	-	-	Destroyers	5	31
-	1	2	10	22	Frigates	24	11
-	-	2	2	4	Submarines	21	40

Chinese Premier Wen Jiabao reiterated in the EAS that China would not be negotiating on the sovereignty of SCS and that it is also against “internationalising” the disputes as agreed in the DOC of parties on the SCS. However, he also assured that “free navigation and security would be fully guaranteed in the sea”.⁵⁵

China’s Undertaking to the ASEAN

On Nov 20, 2012 itself and in Phnom Penh, the ASEAN-China Joint Statement on the 10th anniversary of the DOC of Parties in the SCS was also issued. This two-page document was noteworthy on various counts. Firstly, the need for proper implementation of the DOC was upheld. Secondly, although both the sides reaffirmed their commitment towards several international and bilateral laws and agreements, the document did not mention the need to implement them to resolve the SCS disputes. There was no mention of the COC whatsoever. On the positive side, it stated that parties would refrain from further occupying the presently uninhabited landforms in the SCS. Although efforts to enhance maritime security, freedom of commerce, safety of navigation, resolution of disputes through peaceful means and not by force, etc. were also

mentioned, the language fell short of a binding commitment. This was also important because of ASEAN’s failure to issue a joint statement at the conclusion of its July 2012 meet stating much of the same things originally intended by all the parties. Most importantly, by stating to conduct “friendly consultations and negotiations by sovereign states directly concerned”, it tried to rule out the involvement of any country not party to the disputes which would include the good offices of ASEAN as well as other countries.⁵⁶

Chinese law for applying force

It has already been mentioned earlier that both China and Vietnam did enact laws in June asserting their sovereignty over the Spratlys and Paracels. On Nov 27, 2012 Chinese authorities of the Hainan Provincial People’s Congress (the Chinese island province in SCS) issued another law empowering its coastal defence police to apply force and prosecute almost any vessel and individual found to engage in activities other than “innocent passage” in its waters and islands.⁵⁷ Vietnam and Philippines registered protests; the Secretary General of ASEAN too described it as “a very serious turn of events”.⁵⁸

India attains bigger role

One major event which infused affirmative positive change was the ASEAN-India Commemorative Summit held in New Delhi during Dec 20–21, 2012 to mark the 20th anniversary of ASEAN-India dialogue partnership. This summit ended with a number of new endeavours, and upgraded India's relations with ASEAN from a full dialogue partner to that of a strategic partner. The event included Ministerial Meetings, people to people as well as business-to-business (B2B) initiatives.

One of the high points was the Vision Statement of the ASEAN-India Commemorative Meet. The document made a strong case for the need for cooperative security, in accordance with international laws to attain the common aspirations of peace, growth and prosperity for the realisation of Asia's resurgence.⁵⁹

Role of some major countries— the US, India, Japan and Russia

The US

The US has made it known that it would not take sides in the territorial disputes. However, it has also stated that it would protect freedom of navigation in the SCS; thus, it considers the SCS as international waters. It has urged peaceful resolution of the disputes without any party resorting to intimidation or force, and an early conclusion of a COC for all the parties in the SCS. To that effect, it has also stated that it would protect the interests of its allies and partners in the region.⁶⁰ So the US not only declared its intentions and wish list, especially its policy of Rebalancing towards Asia, it also interpreted China's naval rise as a "challenge", all of which China reacted to adversely.⁶¹

India

During 2012, India continued to engage proactively with many of the South-east Asian countries both to the benefit of bilateral relations and India's own national interests. The year also took India's multilateral relations with ASEAN to a new high.

On February 1, 2012 India conducted a 15-nation naval exercise named 'MILAN-2012' at Port Blair in the Andaman and Nicobar islands in the Bay of Bengal. Many of the participating navies were from ASEAN countries including Brunei, Indonesia, Malaysia, Myanmar, the Philippines, Singapore and Thailand, while some others included dialogue partners and extended community members like Australia, Bangladesh, New Zealand and Sri Lanka.

In another exercise of military goodwill, INS Sudarshini, an Indian Navy sailing ship set sail on a six-month 12000 nm ASEAN Sailing Expedition with effect from 13 September 2012. The vessel visited 13 ports in nine South-east Asian countries commemorating 20 years of India's dialogue partnerships with ASEAN countries. This initiative on sea along with the year-end ASEAN-India Commemorative Summit may both be interpreted as India's assurance to the ASEAN of its commitment towards the goals of the group.⁶²

The Summit also flagged down an ASEAN-India Car Rally which highlighted the potential of seamless road connectivity between most of the South-east and South Asian countries with India being a crucial corridor.

These goodwill statements apart, India has also not shied from clarifying its stand on the SCS territorial dispute. After the Ambassador

Nirupama Rao's statement in January, the then Indian External Affairs Minister SM Krishna stated that "India supports freedom of navigation and access to resources in accordance with principles of international law, ... that outstanding issues be resolved peacefully through dialogue and discussions ... without intimidation or pressure tactics ... acceptable to all the parties concerned."⁶³ Thereafter, the Chief of the Indian Navy Admiral DK Joshi clarified a step ahead that the Indian Navy is ready to protect Indian interests in the SCS if necessary.⁶⁴

In the arena of multilateral diplomacy, the text of Vision Statement of the ASEAN-India Commemorative Meet and the elevation of India's engagement with ASEAN to a strategic level deserve special mention as it clearly demonstrates ASEAN's eagerness to engage with India.

Again, on the sensitive issue of offshore oil drilling in the disputed Block 128 in SCS, ONGC Videsh Limited (OVL) decided to retain it along with the other two till June 2014 under contract from PetroVietnam.⁶⁵ It may be noted that companies from other countries like the US, the UK and Russia as mentioned earlier are also operating in hydrocarbon ventures in the SCS.

Japan

Japan too appears to be in favour of a multilateral approach to resolve the SCS disputes. ASEAN, which is mostly in favour of this approach, cannot afford to ignore the opinion of Japan which happens to be its second largest trading partner after China.⁶⁶ In a recent article, the newly elected conservative Japanese Prime Minister Shinzo Abe opined that the SCS increasingly seems to have become "Lake Beijing" — that is, a

marine area for free movement of Chinese naval warships and submarines. Aware that Japan is also straightjacketed with China over Senakaku Islands' dispute, he went so far to suggest a strategy of an Asian Democratic Security Diamond involving Japan, Australia, India and the US state of Hawaii to safeguard the maritime commons stretching from the Indian Ocean region to the western Pacific.⁶⁷ However possibility of any such quadrilateral is remote in the prevailing situation.

Russia

The Russian stand on SCS is more nuanced. Russia is aware of its limitations as an outsider in the region, its interests in the region's hydrocarbon assets, and also of its other pressing security commitments elsewhere.⁶⁸ For instance, the Russian Ambassador to the Philippines stated that Russia is friendly to both China and the Philippines, and hence, would not intervene in their dispute.⁶⁹ However, the Russian President Vladimir Putin recently disclosed to the media that Russia and Vietnam were discussing establishment of a material and technical support station in Cam Ranh Bay of Vietnam.⁷⁰ Interestingly, the Chinese tabloid opined that although Vietnam's new ties with Russia as well the Philippines' closer cooperation with the US would add to China's cost of maintaining its interests in the SCS; yet, presence of both Russia and the US in the region would create more strategic room for China.⁷¹

Role Of Media

The mainstream media, which today play an important role in shaping foreign policies of countries, have deplorably often catered to the popular demand, rather than bringing sanity

within the various narratives of the SCS disputes. A rare exception to this was a Chinese column where the author (also a Chinese) warned the Chinese people against narrow nationalism keeping in mind that the Chinese today are the most frequently travelled people in the world.⁷² Besides nationalistic stands by governments, the media has further been egged on by so-called academic/Track Two forums like the Fourth Xiangshan Forum.⁷³

ASEAN

The ASEAN, despite its current lack of teeth on political and security matters involving the greater region, has continued to play a sterling balancing role all through 2012. Not only did it maintain its traditions of consensus and consultations under extreme stress, it also managed to further engage external powers to safeguard stability and growth when it felt the traditions were under threat, and to consolidate the goals of the ASEAN Political-Security Community. That it would continue to walk the same path was stated clearly by the Singaporean Defence Minister Dr. Ng Eng Hen in a speech delivered in India on Nov 20, 2012.⁷⁴

Hence, apart from ASEAN, it is the China-US dyad which shall prove instrumental for the future of the SCS dispute. The role of other major countries like India, Japan and Russia would also be important.

China on its part is confident that the US cannot afford to get involved in the dispute directly against it. Some also claim that there is a “tacit agreement” between China and the US over this issue, and that military conflict between the two countries over the area is impossible.⁷⁵ The November 2012 meeting between the US Navy Secretary and the Chinese Defence Minister can

indeed be cited in support of such a US-China agreement.

The Trend

Given that the SCS region is embroiled in a complex web of territorial disputes with no sign of a mutually acceptable resolution yet, the smaller countries seem to have aligned themselves with bigger powers for security. Countries like Cambodia and Laos, though don't have claims in the SCS, have aligned their diplomacy with their substantial economic ties with China.

Most other countries have already stepped up or are in the process of developing security cooperation with bigger countries outside the SCS region like the US, Russia, Japan and India who too are finding it increasingly difficult to resist the pull of this vortex. These new set of relations based on security instruments mostly fall outside the ambit of existing and envisioned security platforms of the region.

The future indeed looks like a stretched web between a few far-flung powers of doubtful will or capacity and some very unsure residents caught in a security dilemma.

For the moment, it indeed seems that the political will and situation is not yet ripe in the region. This is what is preventing the actors to rise from nationalistic claims and work towards an acceptable resolution of the dispute.

Some of the short-term trends visible in the horizon are as follows:

Increased skirmishes over rights to surveying/exploring/exploiting hydrocarbons, fishing and

passage of military/espionage vessels may impair freedom of navigation for vessels not on “innocent passage”.

Escalation of skirmishes may expose the helplessness of ASEAN to contain the dispute and increase the involvement of “outside powers”, one of which would be to the dislike of China.

Maritime trade and foreign direct investment may diminish between those countries most at loggerheads, like China-Vietnam and China-Philippines.

Increase in defence expenditure and commencement of a limited arms race in South-east Asia. Malaysia and the Philippines are set for more than 20 per cent increase in their planned defence expenditure.⁷⁶

Nonetheless, given the huge differential of naval capabilities between China and other disputing countries of the SCS, as shown earlier in the *Military Balance*, there appears to be enough room for China to have its way in conflict situations by virtue of the mere presence of its naval assets on the scene. China’s continuous strides towards naval superiority on one hand and the lack of meaningful progress towards a multi-nation consultative resolution on the other indicate that such a possibility is indeed not away from the horizon.

Strategic and security tie-ups between South-east Asian countries and regional and global powers from outside may be on the rise.

Continued posturing, media rhetoric and diplomatic rivalry between the disputing countries and their supporters may have a negative impact upon the overall political relations within the region.

Cases of litigation and arbitration between the disputing countries may increase (on the lines of the Philippines taking its complaint against China on Scarborough Shoal to the UN).

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11

China and Pakistan-occupied Kashmir (PoK) in 2012: A Review

Priyanka Singh

Pakistan-occupied Kashmir (PoK) refers to parts of the erstwhile princely state of Jammu and Kashmir (J&K) which have been under Pakistan's control since 1947. It comprises the so-called 'Azad' J&K (AJK) and Gilgit Baltistan, which until 2009 was referred to as the Northern Areas by the Government of Pakistan. In a fast moving geopolitical landscape, the otherwise lesser known, PoK is ascending towards some kind of strategic prominence. The shift is primarily due to the flooding reportage which indicates a growing Chinese role in the region, its present implications and prospects for the future.

China has advertently and consistently maintained a role in Kashmir through the years—starting with Aksai Chin, being handed over the Trans-Karakoram Tract by Pakistan in 1963, building of the Karakoram Highway as a friendship bridge between the two countries (and subsequent transfer of arms and nuclear material via it) and, presently, an aggressive campaign in infrastructure building across PoK. It all adds up to reveal a comprehensive and well-conceived Chinese agenda in the strategically located PoK region. Therefore, even as the focus of this article is to capture the trajectory of China's role in PoK during 2012, most of the developments discussed therein have historical underpinnings which may be of varying degrees.

Developments in 2012

Chinese involvement in PoK is wide ranging and complex. The more important developments in this regard during the year 2012 are discussed below.

Conjectures over setting up of a Chinese consulate in Gilgit Baltistan

In July 2012, there were widespread conjectures on whether China would set up a consulate in the strategically important Gilgit Baltistan,¹ especially since it has invested heavily in the region and also the region is crucial to its security interests vis-à-vis the restive Xinjiang province. Such reports came in the wake of the visit of a US Embassy delegation to the region in May-June 2012. A three member delegation visited Gilgit Baltistan, and apart from other things, held meetings with nationalist leaders there. In fact, a meeting between the then US Ambassador to Pakistan Cameron Munter and the President of the so called AJK also triggered the hope that China might want to establish a diplomatic mission in the region to safeguard its interests there. Subsequently, however, these reports were rejected by China.

China's expanding proclivities towards harnessing water resources in PoK

China's unprecedented economic rise has made it a resource-hungry nation. PoK is rich in natural resources, most important being water and minerals. Moreover, most of these resources have in the past been either unutilized or underutilized. It is thus to be expected that China would want to harness PoK's natural resources. In May 2012, the Pak-China Joint Energy Working Group held a two day meeting in Islamabad to work upon two major hydropower projects in PoK: Kohala Power Project (KHP) and Neelum Jhelum Hydropower Project (NJHP).² The cost of these projects is slated to be US\$2.2 billion and US\$3.6 billion, respectively.³ Other projects were also tabled alongside costing a total of US\$12 billion, significant among them being the multibillion-dollar Diamer Bhasha Dam, which since its inception has been embroiled in multiple controversies. There is a plan to establish an Energy Infrastructure Fund worth US\$10 billion with Chinese aid for funding several projects in the region and beyond.

For the NJHP, China has already pledged a whopping sum of US\$448 million. This deal was alleged to be a case of quid pro quo, wherein the Chinese were hoping to be awarded the contract of a multibillion-rupee safe city project in Islamabad. As charges of corruption were hurled on the Pakistan Government, the Supreme Court of Pakistan intervened and subsequently ordered to quash the deal. The Chinese side was infuriated at the annulment and decided to hold back signing the loan agreement for NJHP. The delay in finalizing the agreement, as Pakistani Government officials' stated, spiralled up the cost of the dam to the tune of Rs 274.8 billion. Wary of the delay, Pakistan decided to make a renewed approach

as the new leadership took over in Beijing towards the end of 2012.⁴ Notably, China in 2009 funded the Bunji Dam in PoK after a MoU to this effect was signed between Pakistan's Ministry of Water and Power and the Three Gorges Project Corporation from China.

A significant hydropower project in PoK is the Diamer Bhasha Dam located in the Diamer district of Gilgit Baltistan. It's a huge project with the slated capacity of generating 4, 500 Mw and involving a total construction cost of almost US\$14 billion. In view of the volume of the building cost, Pakistan over the past few years has been lobbying for funds from all directions. It has approached international funding bodies such as the World Bank, the Asian Development Bank and, its close ally, the United States hoping to garner requisite financial support for the project. The year 2012 added to Pakistan financial woes as it failed to get any firm commitment from these bodies on the Diamer Bhasha Dam project.

The World Bank had earlier put aside Pakistan's loan request citing that the site of the project lay in a region which is claimed by India and that it cannot go ahead without attaining a No Objection Certificate from India. Similarly, the ADB put forth a set of preconditions, which Pakistan is finding difficult to fulfil. In addition, there were reports that the World Bank has raised serious objections on Pakistan seeking funds from China for the dam without competitive bidding.⁵ The bank is reluctant to invest in a project unless there is transparency in the funding procedures.

As no breakthrough could be reached, a struggling Pakistan, once again, turned towards China, its all-weather ally, to seek funds for the project.⁶ It is believed that China might be providing funds worth US\$4 billion for the Diamer Bhasha Dam project.⁷

Shut down of the Hong Kong based mining company

At the outset of 2012, the controversial Hong Kong-based mining firm, Mohsin Industries was forced to shut down operations in Gilgit Baltistan.⁸ The mining firm owned by Wang Zunyu, a resident of Hong Kong, applied influence to procure licence from the Gilgit Baltistan Government, more specifically, the Chief Minister of the region, Syed Mehndi Shah. The issuance of mining licence, which falls beyond the purview/jurisdiction of the Chief Minister and the legislative assembly, led to a furore over possibility of conflict of interest and lack of transparency.

However, Wang Zunyu's marriage to a native of Gilgit elicited confidence of the locals in the company. Moreover, in the initial phase, the firm caught the attention of the unemployed young men with lucrative job offers: most of them being offered without any preconditions attached.

As the issue was vociferously debated in the media, the Gilgit Baltistan assembly passed a resolution against the award of licence to a foreign firm. The Gilgit Baltistan Council stated that since it has the sole authority in issuing such rights, the licence be revoked immediately.⁹ Under mounting pressure, the Chief Minister of Gilgit Baltistan was forced to withdraw the permit, and eventually Mohsin Industries closed down its operations in Gilgit Baltistan.

Potential rail network linking China and Pakistan via PoK

In addition to the Karakoram Highway, which runs through PoK and is the vital trade and transport link between China and Pakistan, there is a

possibility of rail network being drawn between Kashgar in Xinjiang via the Khunjerab Pass in PoK which would connect with Pakistan's rail network at Havelian in Abbottabad in Khyber Pakhtunkhwa.¹⁰ The issue of constructing a rail network was on the agenda of the then Pakistani Prime Minister Raja Pervez Ashraf on his visit to Beijing in September 2012.¹¹ A part of the proposed railway line is already operating between Kashgar and Hotan since 2011. The same line is expected to be extended to cut across PoK before reaching Pakistan, and thus, establishing a direct rail link between the two countries.

The Jaglot-Skardu road

A road connecting Jaglot in Gilgit district to Skardu in Baltistan was planned to be built, the contract being arbitrarily awarded to a Chinese company, China Gezhouba Group Corporation (CGGC), without any transparent bidding practice. According to reports, the Chinese firm agreed to fund 94 per cent of the cost of the project in the form of soft loans. In October 2012, the contract was questioned by the Federal Communications Ministry of Pakistan and a probe committee was set up to look into the matter.¹² The committee in its findings noted that the contract was awarded to the Chinese firm without seeking approval of the executive board of National Highway Authority (NHA), or adhering to the Prime Minister's advice or that of the finance division and the Ministry of Law.¹³ Apart from the lack of transparency measure, it was found that the estimated cost of the project was inflated from Rs 22 billion to Rs 32 billion.¹⁴

Subsequently, the Jaglot-Skardu contract was scrapped, and this enraged the Chinese

once again, who are by now used to getting contracts by Pakistan without tendering, bidding or transparent procedures. In a letter to the chairman of NHA, the vice president of the CGGC expressed displeasure noting “conditionality of approval of the government of Pakistan is not a carte blanche for arbitrary decision” and the “project is in Pakistan’s interest and should not be derailed”.¹⁵

The Chinese are also noted to be engaged in the Attabad Lake road diversion project. In January 2010, a massive landslide led to the formation of an artificial lake named after the village, Attabad, which was completely submerged due to the ecological calamity.

Endangered species smuggled across to China

In October 2012, the forest department of Gilgit Baltistan arrested a Chinese national at the Sost port, who was allegedly ferrying 34 turtles of endangered species across the border to China.¹⁶ The turtles were recovered from cardboard boxes and other luggage belonging to the Chinese. The man was produced before a court in Hunza and later released after paying a minor fine of Rs 2000 under the Wildlife Act. Interestingly, the turtles are sold at a high price of about Rs 150,000 in China. They are in high demand there for consumption in restaurants and some medicinal purposes. This is not a stray incident of smuggling of goods from across Gilgit Baltistan to China, and vice versa. In this case, the weak wildlife regulations practised in Pakistan allowed the Chinese to be set free against a petty fine.

Growing concerns about Chinese presence in PoK among diaspora

China’s footprints in the PoK have added to the concerns among people in PoK and those who have been forced to flee their homeland and reside elsewhere. There are rampant fears that the pace at which Chinese are engaging in PoK, they will soon take over the entire PoK and Pakistan would most willingly agree to it. There have been reports that Pakistan is considering to lease out the region to China for a long period, and hence, handing over de facto control of the region to the Chinese. In February 2012, the disgruntled representatives from the PoK diaspora (representing two prominent PoK diasporic movements based in the US and Canada) urged India to adopt a proactive approach on PoK and think about concrete steps to contain Chinese designs in PoK.¹⁷ It is worth mentioning that these diasporic movements have lately got traction in western countries especially in the United States. This shift could be further analysed in the overall framework of the Sino-US rivalry and the changing equations.

India’s reservations on increasing Chinese presence in PoK

India has a legal claim on PoK, it being a part of the original undivided J&K. In view of the growing presence of China in the region, which since 1947 has been under Pakistan’s control, India has raised serious objections on this kind of intervention. In 2012 (as has been in past), the Defence Minister A K Antony while replying to a Lok Sabha question (in writing) noted that “the government is aware of the infrastructure development by China at the border and their (Chinese) undertaking infrastructure projects in PoK. The government

has conveyed its concerns to China about its activities in PoK and asked to them to cease such activities.”¹⁸ Defence Minister’s comments came in the wake of a Military Intelligence report which indicated there were at least 834 Chinese workers in PoK.¹⁹ In September 2012, Army Chief General Bikram Singh hinted at the presence of Peoples’ Liberation Army (PLA) soldiers in PoK stating, “Chinese soldiers are present in PoK to provide security to its ongoing railways and road projects.”²⁰ General Singh’s contention was rejected as “groundless” by the Chinese Foreign Ministry spokesperson.²¹

On the possibility of the rail network connecting China with Pakistan via PoK (in sync with Chinese argument that involvement of third party in infrastructure development in a disputed territory is uncalled and unjustified), India expressed its opposition to the project calling it unwarranted.

Piecing together broader trends of Chinese interests in PoK

As noted in the beginning of the article, most of what the Chinese are doing in PoK today is rooted in history. Chinese involvement in PoK unfolded with the Sino-Pak agreement of 1963, which ceded a huge chunk of territory of the Trans-Karakoram Tract to China. The bonhomie between the two countries was further cemented with the building of the Karakoram Highway during the 1970s. In this regard, PoK lies at the heart of Pakistan’s relationship with China both due to its geographical location and its requirements for infrastructure and development. PoK has remained underdeveloped: it being a disputed territory between India and Pakistan. In today’s context, PoK fits well in the larger Chinese development agenda: a steep rise in economic

profile has fed Chinese penchant to invest heavily in the countries of the South Asian region and create dependencies. Such dependencies would guarantee that China has stakes in the future political and economic processes within these countries.

While overviewing 2012, it becomes quite apparent that China’s role in PoK has become a reality, an ongoing process which will not cease unless some drastic change takes place at some level. Chinese have been there in PoK for some time: the presence and role has caught attention with consistent reporting both locally and internationally over the last of couple of years. Similar to this trend in 2012, there were reports of how the Chinese are developing stakes in PoK at an alarming rate, and how this could potentially alter the geopolitical orientation of the adjoining region and beyond.

As long as PoK continues to remain under Pakistan’s control, there isn’t much that can be done to contain Chinese influence there. India has occasionally raised objections to the Chinese forays there. Broadly, however, there is little that India and the rest of the world have either done or are willing, or should we say, can do about the Chinese ingress there.

To sum up, the salient features of Chinese presence in PoK in 2012 and beyond are as follows:

- China’s predilection for resources: at the pace China is growing, it feels there is need to create reserves in its proximity which could be accessed as and when required. Indeed, “all-weather friendship” with Pakistan spanning over several decades gives China a sense of confidence and the leeway to invest in PoK

while it remains under Pakistan's control. Further, undertaking huge infrastructure projects in PoK and giving easy soft loans will eventually make Pakistan more dependent on China. Once completed, maintenance of such massive projects will also require substantial capital, and henceforth, make Pakistan further dependent on China.

- Under the garb of infrastructure building, Chinese companies in connivance with Pakistani authorities are indulging in all kinds of false practices. As described in the preceding section, there is no transparency in the financial procedures in the Chinese-assisted projects in PoK. The applicable rules and regulations have been flouted by Pakistan Government often to give preference to Chinese firms in most of the projects, especially in PoK. The positive sign in 2012 is that compelling issues such as cases of quid pro quo and conflicts of interest have been raked up within Pakistan by a seemingly vigilant section of the establishment and media in Pakistan.
- Unrest in Xinjiang, the eastern Chinese province which borders PoK is a crucial factor to Chinese developing stakes there. The Chinese intention appears to be able to maintain significant presence in PoK in some form in order to keep a tab on the possible percolation of fundamentalists from Pakistan to Xinjiang via PoK.
- Looking at the larger India-Pakistan-China relations and Chinese ventures in PoK, it could be understood that the Chinese would never wish peace and stabilisation between India and Pakistan. Maintaining an extensive presence in PoK and an aggressive agenda

in infrastructure building is a lever that China intends to apply to irk India with which it shares an insecure relationship. At the same time, Pakistan supports China's ingress in PoK to deter India from claiming its legal right over the territory.

The onus on arresting Chinese presence in PoK lies on India, which has a long standing, legal claim on PoK. India needs to decide whether it wants to sit on the fence and watch the Chinese taking over virtual control on a region, which India claims to be its own, or whether it wants to take the issue head on both with Pakistan and China. India could initiate by putting across its position on the issue to the two neighbours. It should weigh options, and think over taking up and discussing upfront the issue of Chinese forays in PoK. It is prudent for India to ensure the issue features on the agenda during the bilateral level exchanges.

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12

China and West Asia in 2012

Mandip Singh

China-Iran Relations

Background

China and Iran established diplomatic relations in 1971; nevertheless, they were practically non-existent until the overthrow of the Pahlavi dynasty in 1979. When the Revolutionary Council took control of Iran, it suspected China's intent: placing China among countries that were disposed towards exploiting Iran. China mended fences with Iran by recognising the Revolutionary Council within three days and over a period of time empathising with the "sanctions regime" that made Iran a pariah in world affairs. Iran supported the Chinese crackdown at Tiananmen amid growing relations between the two countries in the energy sector and an increase in the supply of arms from China to Iran.¹ In the 1990s, China's boom forced it to turn to Iran for its growing oil and energy security. In return, China began supplying arms and missiles to Iran through third country route and provided assistance in building its military industrial complex. In fact, a wide range of Iran's armoury of missiles such as the Nasr, Shahab-3 and the short range Oghab and Nazeat have a distinct Chinese signature.²

Both Iran and China have authoritarian regimes, which despise democracy and distrust the US.

Iran has increasingly turned to China for support in the international affairs amidst growing isolation on its nuclear weapons programme. Besides, it faces growing competition from the Gulf Cooperation Council (GCC) and other Arab countries for supply of oil to subsist. China, and to some extent Russia, have bailed out Iran and continue to extend support to the regime. However, there are areas of divergence too. China's record in suppressing Uighur Muslims in Xinjiang has not gone down well with a section of Iran's clerics. In a scathing attack on China, *Tehran Times* said, "Instead of meeting the needs of Muslims, who form a considerable segment of the Chinese population, Beijing has tried to blame foreign powers for the protests and it is suppressing popular protests under a news blackout."³ The Green movement, a non-violent movement comprising all sections of Iranian society, which protested the election of President Ahmedinijad in 2009, roundly blames China for supporting the regime and providing assistance in tracking its leaders. It also blames China for infusion of cheap goods into Iran resulting in closure of its manufacturing industry and growing unemployment.

China-Iran Economic Ties

Chinese policy to Iran centres around two issues: oil and trade. Iran's oil and gas reserves are huge.

Although Iran has only 1 per cent of the world's population (70 million), the country owns 7 per cent of the world's natural reserves including 11 per cent of proven global oil reserves and 16 per cent of the world's natural gas resources which translates into 133 billion barrels of oil (17 billion tons) and 27 trillion cubic meters of gas, totalling to US\$ 4,000 billion by the 2012 price of oil and gas.⁴ Iran supplies almost 11 per cent of China's oil. China has huge interests in oil exploration and extraction in Iran. In March 2004, the Zhuhai Zhenrong Corporation, a Chinese state-run company, signed a 25-year contract to import 110 million metric tons of liquefied natural gas (LNG) from Iran.⁵ By 2007, China replaced the EU as the largest petroleum trade partner with Iran. China is currently slated to develop the giant Azadegan and Yadavaran oil and natural gas fields in a US\$ 1.7 billion contract signed in 2009. It has shown interest in developing Iran's heavy oil fields, which have 'heavy crude' reserves and are difficult to refine. Chinese companies are likely to construct a US\$ 5 billion methanol plant in the Iranian city of

Mahshahr and assist Iran in increasing its refining capacity to enable it to export fuel. All these deals would be jeopardised if China were to support the US-led sanctions against Iran. (See Table 1 below) Minxai Pei says China has chosen a "middle course" and believes "China probably would have gone along had the proposed oil embargo been approved by the United Nations Security Council. Since it is led by the US and Western European nations, China views this initiative as lacking international legitimacy".⁶ Nevertheless, Tehran-Beijing economic relations have grown at an annual average rate of 40 per cent over the past few years, the level of trade between the two countries increased from US\$ 400 million in 1994 to US\$ 29 billion in 2008.⁷ In 2011, it was almost US\$ 45 billion with the Iranian Ambassador to China quoted as saying that it would rise to US\$ 70 billion in next five years. China's investments in Iran have also increased by a magnitude over the past two years, from US\$ 120 million to US\$ 650 million.⁸

Table 1: Projects by China National Petroleum Corporation in Iran, from 2009⁹

Contractor	Project Name	Amount (Current Dollar Value)	Last Action
China National Petroleum Corporation	CNPC Upstream Activities - Kuhdasht Block	US\$ 18 million	12/31/2009
China National Petroleum Corporation	CNPC - NIOC South Azadegan Field Development	US\$ 2.5 billion	09/28/2009
China National Petroleum Corporation	CNPC to Develop North Azadegan Oilfield	US\$ 2 billion	01/16/2009
China National Petroleum Corporation	NIOC - CNPC, South Pars Phase 11	US\$ 4.7 billion	02/10/2010
China National Petroleum Corporation	Sinopec, CNPC, Crude Oil Imports		11/11/2009

Relations in 2012

China has extended full diplomatic support to Iran in various international forums. On the nuclear weapons programme issue at the UN in June 2012, Chinese permanent representative Li Baodong said, “In addressing Iran’s nuclear issue, resolutions should be implemented, but sanctions were not an end in itself”. On the P5+1 discussions with Iran, he said that China underlined its hope for flexibility and respect as well as a firm push forward in the diplomatic process and settlement of differences through dialogue.¹⁰ Earlier, in March, during a UN Security Council briefing by the Iran Sanctions Committee, Li Baodong defended Iran, “As a party to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), Iran had the right to pursue nuclear energy for peaceful purposes. At the same time, it must adhere to its international obligations. China hoped it would take initiatives to enhance confidence in the peaceful nature of its nuclear programme.”¹¹ Clearly China supports Iran’s right to peaceful use of nuclear energy, but wants Iran to place its programme under international safeguards. Besides other reasons, the key issue that drives China to support Iran is China’s scepticism about use of sanctions against Iran. According to John W Garver, “China views economic sanctions as a tool that strong, typically Western countries use against weak, typically non-Western countries.” Having been a victim of such sanctions through a large part of its modern history, China disapproves of such sanctions as “involving interference in the internal affairs of sovereign countries”, and rejects them as based on US law and not international agreements.¹² At the Shanghai Cooperation Organisation (SCO) meeting held in Beijing in June 2012, the heads of states adopted a resolution titled “Declaration on Building a Region with Lasting Peace and Common Prosperity” calling “use of

force as unacceptable” against Iran and calling on “all parties to exercise maximum restraint and avoid remarks or actions which might further escalate confrontation”.¹³ Even at the “P5+1” talks held at Moscow on June 18–19, 2012, China urged the world community to talk to Iran terming the deliberations at Moscow as “pragmatic and helpful, paving the way for further dialogue toward easing the existing divergences”.¹⁴ During the two-day intensive talks, the P5+1 group urged Iran to stop enriching uranium up to 20 per cent, close the nuke facility and take the already 20 per cent enriched uranium out of the country. Even at the 16th Summit of the Non-Aligned Movement held in Tehran in August, 2012, Iran hoped to break its isolation in the presence of 120 countries: represented by as many as 50 Heads of State and 80 ministerial delegations. Iran was elected as the Chair of the organisation for a period of three years.

Meanwhile, the US and its allies laid an embargo on purchase of oil from Iran, which came into force on July 1, 2012. China was given a six-month reprieve by the US in view of its attempts to reduce oil purchases from Iran. While this may have been true for the first four months of the year, from May 2012, oil imports from Iran actually shot up to 524,000 barrels per day, a 35 per cent jump from the previous month.¹⁵

Beijing was under pressure to cut its imports from Iran after the US threatened that firms dealing with Tehran’s energy sector will be cut off from the US financial system. China’s imports from Tehran had fallen significantly in the first four months of the year, but analysts said that was mainly due to the ongoing payment dispute and low seasonal demand. Hong Lei, the spokesman for the Chinese Ministry of Foreign Affairs said, “China’s importing of Iranian oil is based on its

own economic development needs, (which are) fully reasonable and legitimate".¹⁶

Washington has also imposed sanctions on banks and financial institutions doing business with Iran and Tehran's central bank. The sanctions and a diplomatic push have led to a reduction in Iranian oil imports by Japan, South Korea, India and China, which together buy more than 60 per cent of Iran's crude oil exports. To overcome sanctions, Iran is accepting Renminbi for some of the crude oil it supplies to China, and in a kind of barter arrangement, Tehran is spending the currency, which is not freely convertible, on goods and services imported from China.¹⁷ *Forbes* magazine reports that China may be using gold to pay Iran for its oil,¹⁸ and the *Tehran Times* reports that "Iran has already said it will accept gold as payment for its oil in an attempt to prevent countries from stopping their purchases of Iranian petroleum altogether".¹⁹

President Ahmedinijad met the then Chinese President Hu Jintao on the sidelines of the 12th SCO summit at Beijing on June 8, 2012. Both sides reaffirmed their commitment to develop close ties in the field of trade, energy, agriculture, as well as infrastructure, and boost people-to-people and cultural exchanges. As a reciprocal gesture, Wu Bangguo, Chairman of the Standing Committee of China's National People's Congress, paid a four day visit to Iran from September 9–12, 2012. In Iran, Wu emphasised that "China believes that a country's right for the peaceful use of nuclear power should be guaranteed according to relative regulations".²⁰

On September 27, Chinese Foreign Minister Yang Jiechi, while addressing the UN General assembly reiterated China's commitment to dialogue and an amicable diplomatic solution to Iran's nuclear energy issue, "... [T]he relevant

parties should remain committed to a diplomatic solution and begin a new round of dialogue as soon as possible." China continues to follow a policy of non-interference in the internal issues of Iran. Its interest is purely commercial and China has suitably "adjusted" its policy accordingly. It has reduced its oil imports from Iran in October, imports were down as much as 23 per cent from the previous month²¹ although Chinese have taken advantage of Iran's weakened international position to obtain favourable oil deals from Tehran. In fact, in November 2012, a BBC commentary states that "when convenient, Chinese companies have curtailed ties with Iran in order to ease US pressure. From Tehran's perspective, China could be pursuing its own narrow objectives rather than seeking to build an enduring and mutually beneficial relationship with Iran."²²

On November 16, 2012, the International Atomic Energy Agency (IAEA) released its report on the implementation of NPT safeguards by Iran, which did not rule out Iran's continuation of its military nuclear programme.²³ This is bound to exacerbate tensions in the region even as December 2012 figures for offloading crude fell from 1.06 million bpd to 834,000 bpd further fuelling the tension. China loaded only about 242,000 bpd in December, the lowest in 2012. This is well below the January–October 2012 average rate of 424,000 bpd.²⁴ Meanwhile, Iran's Majlis Speaker Ali Larijani and Vice-Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) Bai Li Chen met in Tehran on December 16, 2012. Although it was a low-level protocol meeting, Bai Li Chen conveyed a subtle message saying that while China accepted Iran's right to peaceful use of nuclear energy, it blamed Tehran's "independent policies" after the 1979 Islamic Revolution as the cause of the anti-Iranian sanctions imposed by

the West.²⁵ Clearly, China was advising Iran to climb down from its rigid stance on the nuclear issue in the larger interest of the region. It is becoming increasingly apparent that China is playing a delicate balance between the West and Iran: careful not to let the sanctions impact its own banking and commercial interests, while maintaining a working relationship with Iran and safeguarding China's interests in the region. China has been careful not to annoy the GCC and Saudi Arabia as the bulk of its energy and gas imports are from these countries. In 2013 too, China would continue to leverage its interests in Iran by the barter route while maintaining diplomatic support and military sales to Iran.

China-Syria Relations

Background

China-Syria relations go back to the Mao era when Syria was one of the first few nations to recognize the People's Republic of China in 1949. Damascus was a major destination on the famed Silk route, which saw goods transported from China to Europe. Although China and Syria had signed a few trade agreements in the 1950s and 1960s, they were inconsequential. Economic relations saw an upswing in 2000, with total trade rising by 28 per cent—from US\$ 174 million in 2000 to US\$ 223 million in 2001—according to figures from China's Economic and Commercial Counselors' Office in Syria. The signing of Agreement of Trade and Agreement of Economic Technology Cooperation in 2001 saw total trade jump by 66 per cent to US\$ 371 million by the end of 2002. The exemption of double tariffs on trade between the two countries in 2003 provided further momentum, with total trade increasing an additional 37 per cent to US\$ 507 million.²⁶

It was President Bashar al-Assad's visit to Beijing in 2004 that set the groundwork for a major fillip in relations. China has since made massive investments in Syria.

China-Syria Economic Ties

China has large stakes in Syria's oil industry. The state-owned China National Petroleum Corporation (CNPC) holds shares in two of Syria's largest oil firms and has signed multibillion-dollar deals to assist in exploration and development activities. CNPC has also constructed the 70,000 barrels a day US\$ 1 billion refinery in Syria at the cost of US\$ 1 billion. Sinochem, another Chinese state-owned company has a 50 per cent stake in one of Syria's largest oil fields, the other partner being ONGC India. China has also stepped in as a buyer of Syrian crude in the aftermath of a European Union embargo in 2011. In 2011, China ranked as Syria's top trading partner, ahead of Russia. Exports totalling more than US\$ 2.4 billion included communications and electronic equipment, heavy machinery and other important goods. The trade imbalance is stark and totally in favour of China, which gives it leverage in this one-sided trade relation.

Relations in 2012

The present unrest in Syria started in 2011 as a collateral effect of the Arab Spring which resulted in regime changes in Tunisia and Egypt. Assad belongs to the Alawite Muslim community which represents just 12 per cent of the Syrian population. His Baath party has a poor Human Rights record and is known to use force and impose harsh measures on the people to contain revolt. It supports Iran and extremist groups operating in Turkey, Palestine

and Lebanon, like the Hizbollah and the PKK. As people came out on to the streets and protested against Assad, he responded with force. The situation worsened and gained international attention with the West supporting the opposition under the banner of the Free Syrian Army (FSA), while Russia and China came to Assad's assistance. Both parties are being funded and provided weapons by their benefactors. However, the real cause of concern is that the Assad regime possesses a large, sophisticated arsenal of Chemical, Biological, Radiological, Nuclear and High Explosive (CBRNE) weapons, also termed as Weapons of Mass Destruction (WMD), and has threatened to use them against foreign forces.²⁷

As the final curtain on the Syrian issue is still to be drawn, the role of China in this entire episode has great ramifications in understanding the monumental shift in China's international relations. Having been a quiet spectator for most of the half century of its tenure as a P5 nation, China had only exercised its veto seven times, but in the Syrian case, already thrice in just over six months! The Chinese opposition to the West sponsored resolutions hinge on three contentions: no repeat of Libya, no UN sponsored "regime change" and no military intervention and arming of rebels, but a peaceful solution according to the will of the Syrian people without external manipulation or force. "We are opposed to intervention in domestic affairs, imposition of regime change and support for military interference," said Long Zhou, a counsellor in the Foreign Ministry's division for international conventions and organisations. Long further added, "The countries with such acts and remarks should rethink what role they have played and who has been the obstacle in resolving the Syrian crisis."²⁸

China Uses Its Veto

- On February 4, 2012, the UN Security Council voted on a resolution that "demanded that all parties in Syria — both Government forces and armed opposition groups — stop all violence and reprisals, ending days of intense negotiations in New York as diplomats laboured to bring a halt to the deadly 10-month crackdown on anti-Government protests in the Middle Eastern country."²⁹ The resolution was vetoed by a 13-2 vote with China and Russia exercising their veto to defeat the resolution. Li Baodong, China's permanent representative at the UN, said "China maintains that, under the current circumstances, to put undue emphasis on pressuring the Syrian government, prejudice the result of the dialogue or impose any solution will not help resolve the Syrian issue, but instead may further complicate the situation ... To push through a vote when parties are still seriously divided over the issue will not help maintain the unity and authority of the Security Council, or help properly resolve the issue. In this context, China voted against the draft resolution."³⁰
- On February 16, 2012, the UN General Assembly overwhelmingly voted for an Arab League-sponsored resolution calling on "Syria to abide by its obligations under international law, and demanded that the Government, in line with the 2 November 2011 [sic] Action Plan of the League of Arab States, and its decisions of 22 January [sic] and 12 February 2012 [sic], without delay, stop all violence and protect its people, release all those detained during the unrest, withdraw all armed forces from cities and towns,

guarantee peaceful demonstrations and allow unhindered access for Arab League monitors and international media.”³¹ The resolution was adopted in the 193-member body with 137 votes in favour, 12 against and 17 absentations. China voted against the resolution.

- On July 19, 2012, the UN Security Council voted on a resolution that “would have extended the mandate of the United Nations Supervision Mission in Syria (UNSMIS) and which would have threatened sanctions on the country if demands to end the spiralling violence were not met”.³² The resolution was vetoed 11 votes to 2 with Pakistan and South Africa abstaining. China and Russia used their veto to defeat the resolution.

China, however, voted in favour of a Security Council resolution on April 21, 2012 supporting the deployment of a supervision mission by the UN in Syria to oversee and implement Kofi Annan’s six-point plan. Kofi Annan was appointed Joint Special Envoy of the UN and Arab League to Syria but his plan failed when violence escalated into a full-blown civil war and a split Security Council failed to bring about a consensus on ceasefire. China had placed full confidence in Kofi Annan’s plan.

On August 17, 2012, Lakhdar Brahmini was appointed joint special representative of UN and Arab League envoy in place of Kofi Annan. China took the lead in proposing a four-point plan for Syria during Brahmini’s visit to China in end-October. The four-point plan called for a halt to fighting and violence; Syria to appoint empowered interlocutors to formulate, through consultations with Brahmini, a roadmap of political transition; international community to cooperate

in supporting Brahmini’s mediation efforts, the Geneva communiqué, Annan’s six-point plan, Security Council resolutions and concrete steps to ease humanitarian crisis in Syria.³³ This was a major shift in China’s policy from backing Assad to acknowledging the possibility of a “political transition”, and replacing Assad in keeping with the will of the Syrian people.

China’s Interests in Syria

China’s interests in Syria are largely economic. China would like to safeguard its commercial assets and interests in Syria. China is talking to both the ruling regime and the opposition to hedge its bets in case of a regime change. Representatives of Syria’s National Coordination Committee for Democratic Change visited China from September 16–20, 2012. This was their second visit: the last being in February 2012.³⁴ Chinese Foreign Ministry Spokesman Hong Lei is quoted, “China had always made proactive and constructive efforts to bring about a ceasefire in Syria and start a transition initiated by the Syrian people”³⁵, indicating that China does not want to be seen taking sides, and it supports the formation of a Transition Government in Syria. Nevertheless, in recent months, China seems to have taken a larger role for itself in the Syrian conflict by suggesting a four-point plan and even extending a large amount of aid to Syrian refugees who have crossed into Jordan. When the Syrian National Coalition for Opposition and Revolutionary Forces was formed on November 11, 2012 in Doha, Qatar, Chinese Foreign Affairs Spokesman Hong Lei said, “A political interim process led by the Syrian people should start soon, to realize *[sic]* a fair, peaceful and appropriate solution of the Syrian issue.”³⁶

Meanwhile, Chinese authorities have been concerned about reports that members from “East Turkestan” terror organisations have joined or linked up with Al-Qaeda to fight the Syrian Government. The organisations include the East Turkestan Islamic Movement (ETIM) and the East Turkestan Education and Solidarity Association (ETESA) that push for “independence” for China’s Xinjiang Uyghur Autonomous Region.³⁷ China would not like ETIM or ETESA militants to be trained in the battlefields of Syria, and subsequently, create trouble in Xinjiang.

Changing dynamics in the Syrian conflict with increasing concerns of likely ethnic conflicts and use of chemical weapons has forced Russia to soften its stand on support to the Assad Regime. While China has been less vociferous, there are reasons to believe that China has recalibrated its own stand on Syria in line with Russia, pressing for greater reform and power sharing. On December 14, 2012 as violence escalated between rebels and the Syrian forces, Chinese Foreign Ministry Spokesperson Hong Lei said that Syria should start a “political transition process led by the Syrian people”. Lei underlined that China called for ceasefire in Syria, and it should start a political transition process led by the Syrian people on the “basis of the Geneva Conventions to rebuild security and stability in the country”. This statement hinted that China was ready to support any political process, not necessarily including Assad, as long as it was driven by the Syrian people and not influenced or dictated by the West.³⁸ During the Friends of Syria meet held in Morocco on December 12, 2012 which recognized the National Coalition for Opposition Forces formed by Syrian opposition groups, China said it was willing to “maintain contact and communication with all relevant parties in Syria”.³⁹ This reinforced

the view that China had obliquely shifted away from supporting Assad’s regime to any regime acceptable to the Syrian people.

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Chronology of Important Events in the Year 2012

January 2012

1: Chinese statistics bureau reports that for the first time Chinese urban population is greater than the rural. 691 million Chinese people now live in cities, amounting to more than 51% of the population.

3: China and Bangladesh sign a deal for the construction of the Seventh Bangladesh-China Friendship Bridge

5: Controversial Hong Kong based mining firm, Mohsin industry forced to shut down operations in Gilgit Baltistan.

9: South Korean President Lee Myung-bak begins official visit to China. Meets Hu Jintao, renews desire to deepen relations with China.

14: China's Premier Wen Jiabao visits Nepal and meets his counterpart Baburam Bhattarai in Kathmandu.

15: Japan identifies some 39 un-named smaller island around Senkaku Islands and announces to give them Japanese name.

15-17: Special Representatives Talks between India and China take place in New Delhi

18: China orders the real name registration of microbloggers to be expanded.

25: Clashes in Ganzi prefecture, known in Tibetan as Kandze, claims many lives as the self-immolations by Tibetans continue.

February 2012

1: India conducts MILAN-2012, a 15-nation naval exercise in Port Blair, Andaman & Nicobar Islands. Participating countries were full members, dialogue partners or members of the extended community of ASEAN. Notable by absence were China, Laos and Cambodia.

4: China and Russia exercise their veto to defeat the UN Security Council on Syria

6: Wang Lijun, Vice Mayor of Chongqing seeks asylum at the American Consulate in Chengdu.

6-9: Representatives of Syria's National Coordination Committee for Democratic Change visit China

8: Indian External Affairs Minister, S.M. Krishna raises India's concerns over presence of People's

Liberation Army (PLA) in Pakistan occupied Kashmir (PoK) in meetings with Chinese leaders in Beijing.

10: China registers its largest drop in trade since 2008.

14: Vice President Xi Jinping meets US President Obama during an official visit to the US.

20: According to World Gold Council figures, gold sales in China surge by 20 per cent as China look to overtake India as the largest market for gold.

20: Nagayo Mayor denies that Japanese Imperial Army was responsible for Nanjing massacre while meeting a delegation from Nanjing. Anti-Japanese Protest breaks out in Nanjing. Nanjing suspends sister city ties with Nagoya.

20: Philippines and Vietnam conducted the first meeting of the Joint Commission on Maritime and Ocean Cooperation, discuss cooperation in the disputed waters and a Code of Conduct (COC) in Spratly Islands.

28–29: Violence erupts in Yecheng, Xinjiang, causing 20 deaths.

March 2012

5: 5th Session of the 11th National People's Congress of China begins. Focus on members' net worth highlights growing inequality.

5–6: Working Mechanism on Consultation and Cooperation on India-China border affairs meets in Beijing.

15: Bo Xilai is removed from his official post of Chongqing Party Secretary.

22: Senior Indian army official states that Chinese engineers and technical advisors spotted across Line of Control (LOC) in Pakistan Occupied Kashmir (PoK)

22: Taiwanese coast guard speedboats try to intercept two Vietnamese patrol vessels for entering waters near Taiping (Itu Aba) Island

26: Britain asks China to reinvestigate the death of British businessman Neil Heywood.

29: Chinese President Hu Jintao meets Indian Prime Minister on the margins of the BRICS Summit meeting in New Delhi.

April 2012

3–4: ASEAN Summit Meet held in Phnom Penh; Philippines pushes for discussion on SCS dispute, Cambodia rejects.

4: China becomes the world's largest food market with spending on food outstripping that of the US.

10: Bo Xilai is suspended from the Politburo Central Committee, pending the investigation in disciplinary matters.

10: Gui Kailai, Bo Xilai's wife, is detained in connection with the Neil Heywood case.

10: Manila attempts to arrest Chinese fisherman for illegal fishing off the Scarborough Shoal. Chinese Maritime Vessels intervene and a stand-off between the two countries begins.

11: Thousands clash with police in Chongqing, some speculate this is a fall-out of Bo's ouster but other believe clashes are a result of economic grievances.

13: North Korea unsuccessfully test fires rocket. China regrets the development.

13: China's GDP growth falls to 8.1 per cent.

14: India's Defence ministry notes that Pakistan's army sought support from China's People's Liberation Army (PLA) for technical equipment to be used in rescue operations in avalanche-hit Siachen.

16: Philippines and the US begin Balikatan military exercise.

17: Tokyo Governor Shintaro Ishihara reveals that the Metropolitan government is negotiating with Saitama based private owner of the Senkaku Islands to purchase islands also claimed by China.

19: South Korean court sentences a Chinese fisherman to 30 years of imprisonment for stabbing a member of the South Korean coastguard in Yellow Sea in 2011.

22–27: Seventh Sino-Russian naval exercise held in the Yellow Sea off the naval base of Qingdao.

23: North Korean Worker's Party's delegation visits Beijing, interacts with Chinese President Hu Jintao. Hu pledges stronger ties with Pyongyang.

25: China reveals plans to send an expedition to the Baltoro glacier in the Karakoram mountain range, located in the disputed Pakistan-occupied Kashmir (PoK) region.

26: Vice Premier Li Keqiang embarks on a four nation official tour to Russia, Hungary, Belgium and EU.

27: Blind activist Chen Guangcheng is reportedly given refuge in the US Embassy in Beijing.

29: Three PLA Navy vessels crossing the Miyako waterway into the western Pacific are observed carrying UAVs on board Type 054A frigates.

29: US Assistant secretary of state Kurt M. Campbell arrives in Beijing to negotiate over Chen Guangcheng.

30: South Korea arrests nine Chinese fishermen in Yellow Sea for illegal fishing. Members of the South Korean coastguard are injured while apprehending the fisherman.

May 2012

2: Chen Guangcheng leaves the US Embassy in Beijing of his own volition.

3–4: The fourth round of the US-China Strategic and Economic Dialogue (SED) is held in Beijing.

7–8: The Pak-China Joint Energy Working Group holds a two-day meeting in Islamabad to work upon the terms of cooperation on two major hydro power projects in PoK – the Kohala Power Project (KHP) and the Neelum Jhelum Hydropower Project (NJHP).

9: Chang Song-taek, Kim Jong-un's uncle visits China. China announces its commitment to

develop two special economic zones in North Korea during Chang's visit.

10: China National Tourism Organization suspends all travel to the Philippines.

15: China starts issuing new series of passports printed with clearer maps of territorial claims.

15: Japan ignores Chinese request to cancel the World Uyghurs Congress in Tokyo. Hu cancels scheduled meeting with Noda for the Japan-South Korea-China trilateral meeting in Beijing.

28: For the first time two Tibetans self-immolate in Lhasa.

29: The PLAAF rehearses mobilisation by air of "airborne troops" and equipment and vehicles to the Tibetan Plateau in five civil aircraft.

30: Japanese opposition party, LDP, announces plan to nationalize the Senkakus if voted back to power.

June 2012

1: China-Japan signs pact for direct Yen-Yuan trade. The pact goes into effect the next day.

8: Iran's President Ahmedinijad meets Hu Jintao on the sidelines of the 12th SCO summit at Beijing.

13: China's growth figures are reported to be at the lowest since the first quarter of 2009. China posts a growth rate of 7.6 per cent.

15: Hong Kong based Chinese activists land on one of the Island of Senkakus, asserts Chinese sovereignty over them. Japan arrests and then deports 14.

16: Liu Yang becomes China's first female astronaut to enter space.

22: China and Brazil strike US\$30 billion bilateral swap deal to reinforce economies.

6-7: 12th Summit of the Council of Heads of Member States of Shanghai Cooperation Organization (SCO) is held in Beijing

7: Exercise "Peace Mission 2012" joint anti-terrorism military exercise of the member states of the Shanghai Cooperation Organization (SCO) commences in Khujand, Tajikistan.

7-14: The Shijiazhuang Army Command College of the Jinan Military Area Command conducts 'Joint Teaching 2012 Queshan', a joint training event at the Queshan Combined Tactics Training Base.

18: Stand-off at Scarborough Shoal eases as China and Philippines withdraw some of their vessels.

20: China's EXIM bank offered US\$ 448 million to finance 969 MW Neelum-Jhelum Hydropower project located in the so called Azad Jammu & Kashmir (AJK) in PoK.

21: Premier Wen Jiabao attends the Rio+20 Summit.

29: Bloomberg publishes reports on Xi Jinping's family's wealth and riches and their political patronage. Website banned in China for months.

July 2012

1: Embargo on purchase of oil from Iran comes into force.

6: Chinese officials announce plans to build a £3bn Tibetan culture theme park outside Lhasa in three to five years

9–10: The third EU-China strategic dialogue is held in Beijing.

9–13: ASEAN Ministerial Meeting, ASEAN Regional Forum (ARF), ASEAN+3 Foreign Ministers Meeting and East Asia Summit Foreign Ministers Meeting held in Phnom Penh, Cambodia. For the first time the ASEAN Ministerial Meeting closes without a joint communiqué.

11: 20th China-Australia political consultation and the 14th round of China-Australia Human Rights Dialogue held in Canberra, Australia.

13: Chinese GDP growth rates fall to 7.6 per cent in the second quarter.

19–20: Fifth Ministerial Conference of the Forum on China-Africa Cooperation held in Beijing

20: ASEAN issues Six Point Principles on the South China Sea upholding commitment to the DOC on South China Sea.

22: China approves the establishment of the Sansha Garrison Command on the Sansha islands.

24: China tests DF-41, a three stage solid propellant ICBM with MIRV (multiple independently targetable re-entry vehicle) capability, from Wuzhai test centre.

26: Gu Kailai is charged with the murder of Neil Heywood.

31: Philippines opens bidding by foreign partners for oil prospecting in 15 areas, two are in disputed waters of Palawan in South China Sea. China protests.

August 2012

1: China-Central Asia Gas Pipeline project is officially launched. It is a grand pipeline project, aimed at facilitating better gas transportation and supply between China and Central Asia.

2: China jails 20 on charges of terrorism in Xinjiang.

4: Mass-scale violence at a Chinese coal mine company in Zambia leaving a Chinese labour dead.

13: Pakistan's Minister for Water and Power, Ahmad Mukhtar indicates that Pakistan may seek Chinese funding for the Diamer Bhasha dam project.

15: Two anti-terrorism exercises held at Lhasa Railway Station and Gongkar Airport by Tibet Military District.

19: Japanese nationalists land on one of the Islands defying prohibitory order of stepping on the Island.

20: Gu Kailai awarded suspended death sentence in the Neil Heywood case.

22: China reportedly signs a deal to purchase 55 Mi-171 multi-purpose helicopters from Russia.

28: Egypt's President Mohamed Morsi makes an official visit to China

28: China National Offshore Oil Corporation (CNOOC) floats 2nd batch of tenders inviting bids for 26 hydrocarbon blocks in South and East China Seas; 22 are in South China Sea. Vietnam protests against Block 65/12.

29: China's Defence Minister, Liang Guanglie. Embarks on visits to Sri Lanka and India.

29: South Korea and China celebrate 20th anniversary of establishing diplomatic ties.

30: Pakistan's Ambassador to China, Masood Khan, in an interview to a Chinese website acknowledges the completion of pre-feasibility work for a rail network between Kashgar in Xinjiang, China via the Khunjerab pass in PoK that would connect with Pakistan's rail network.

31: President of Maldives Dr. Mohamed Waheed visits China.

September 2012

11: Japan nationalizes three of five disputed islands in the East China Sea.

4: Chinese participation in projects in PoK was discussed in a meeting between defence minister, A.K. Antony and visiting Chinese defence minister, General Liang Guanglie.

14: Six Chinese surveillance vessels enter water around Senkaku/Diaoyu islands in the East China Sea.

16–20: Representatives of Syria's National Coordination Committee for Democratic Change visit China.

18: Wide spread anti-Japan protests erupt in China.

20: The annual 15th EU-China Summit is held in Brussels.

24: Disgraced former Vice Mayor of Chongqing, Wang Lijun, is sentenced to 15 years of imprisonment.

25: China's launches its first aircraft carrier *Liaoning*.

28: CPC Politburo adopts a resolution to expel Bo Xilai from the Communist Party.

October 2012

2: Pakistan's Communications Ministry questions contract awarded to China Gezhouba Group Corporation (CGGC) for building a road Jaglot in Gilgit district to Skardu in Baltistan. The ministry directs the National Highway Authority (NHA) to scrap the deal.

4: Forest department officials of Gilgit Baltistan arrest a Chinese national at the Sost port, for allegedly ferrying 34 turtles of endangered species across the border to China.

17–18: The 6th China-Latin America Business Summit held in Hangzhou, China.

20: A carrier group cruises through disputed waters of the SCS.

26: The Standing Committee of the NPC expels Bo Xilai, setting the stage for his trial.

26: New York Times publishes a report on the riches of the Wen Jiabao family. NYT website is blocked following the publication.

30–31: “Cooperation Spirit 2012” a China-Australia-New Zealand joint exercise on humanitarian rescue and disaster relief held in Brisbane, Australia.

31: China’s J-31 the new stealth fighter prototype developed by AVIC Shenyang Aircraft Corporation (SAC) takes off on its maiden flight.

21: First China-Latin America High-level Forum on Defence is held in Beijing.

22: Premier Wen Jiabao meets with his Australian counterpart Julia Gillard in Phnom Penh.

27: Sri Lanka’s first satellite is launched into space from Western China.

27: Chinese Defense Minister Liang Guanglie meets with visiting US Secretary of the Navy, Ray Mabus, calling for deeper mutual trust between the two militaries.

28: Five warships of the East China Sea Fleet of the Chinese People’s Liberation Army Navy (PLAN) sail through the Miyako Strait into the Western Pacific and carry out blue water training.

28–29: US and PLA armed forces conduct joint HADR (Humanitarian Aid and Disaster Relief) exercise in Chengdu, Sichuan.

November 2012

4: Premier Wen Jiabao attends the Ninth Asia-Europe Meeting in Vientiane, Laos.

8: 18th Congress of the CPC begins in Beijing, stage is set for leadership transition.

15: Xi Jinping becomes the Secretary of the CPC.

19: The 4th ASEAN-US Leaders’ Meeting is held in Phnom Penh, Cambodia.

20: 7th East Asia Summit is held in Phnom Penh, Cambodia and US President Obama attends with a sizeable delegation.

December 2012

1: Pakistan requests China Investment Corporation (CIC) to provide funds for the controversial Diamer Bhasha dam project in PoK.

3: India’s National Security Advisor Mr. Shivshankar Menon visits China and interacts with his counterpart Dai Bingguo.

4–6: Premier Wen Jiabao embarks on official visit to Kyrgyzstan and Russia.

4: 11th Prime Ministers meeting of the SCO members held in Bishkek, Kyrgyzstan.

5: 17th regular meeting between Chinese and Russian prime ministers held at Moscow, Russia.

5: Manning the Senkakus becomes poll campaign issue in Japan. LDP pledges to station troops if it comes to power.

6-7: The PLAAF of Chengdu MAC conducts a large scale exercise involving '100 fighter jets of 10 types' on an airfield in south west China, to test the capability and feasibility of exploiting dual runways.

13: Chinese Oceanic Administration aircraft is intercepted by four Japanese Self Defence Force F-15 jets as it breaches airspace over the disputed Diaoyu/Senkaku.

14: The 15th China and Australia Strategic Defence Consultation is held in Beijing.

14: China calls for ceasefire in Syria and to start a political transition process led by the Syrian people on the "basis of the Geneva Conventions to rebuild security and stability in the country".

16: Iran's Majlis Speaker Ali Larijani and Vice-Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) Bai Li Chen meet in Tehran.

26: Newly elected Prime Minister Shinzo Abe states that Senkaku is an inherent territory of Japan and sovereignty over it is "not-negotiable.

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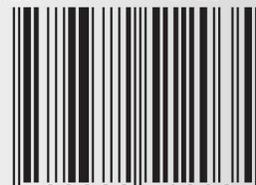
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