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CHINA YEAR BOOK 2011

Edited by

BRIGADIER MANDIP SINGH, VSM



Cover map not to scale.

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FOREWORD

The China story is an important part of any discussion in geopolitics and international relations today. International attention has been for some time now on China's rapid growth, the military modernisation and its somewhat assertive foreign policy. China's sustained 9-10 per cent growth, \$7 trillion economy, aspirations of a blue water navy, huge investments in energy and infrastructure worldwide, soft power and growing clout in the comity of nations, on the one side, and its internal contradictions, inequalities and vulnerabilities, on the other, make it an exciting and challenging subject of study. What happens in China impacts the world.

The year 2011 commemorated the 90th year of the Communist Party of China (CPC). The CPC has come a long way from its hardened communist ideology to a unique communist-capitalist form of economy. As China undergoes a once-in-a-decade political transition in 2012, there is an active debate on power equations in the political arena with the new dispensation. China's global engagement to safeguard her energy needs, management of stresses with the West, especially the US, and a mature and responsible global image has been the hallmarks of its foreign policy in 2011. However, a looming economic slowdown, burgeoning internal unrest, and tensions in the South China Sea have, equally, been

the burning issues in the same year. During 2011, China emerged as a major player in Africa, Latin America, South Asia, and the Indian Ocean region, even as the Iran and Eurozone crises loom large over the fate of world energy and economy. In its quest to change from a brown water navy to a blue water navy, China launched its first aircraft carrier to sea for trials. Also important were landmark achievements in space and stealth technologies, presence of a flotilla conducting anti-piracy missions in the Gulf of Aden, and quests for bases in the Indian Ocean.

It goes to the credit of both India and China that the process on engagement and cooperation continued, despite occasional hitches. The stated policy on both sides is that cooperation must prevail over confrontation. However, it would be counter-productive to ignore security issues. They must be addressed taking care that no single issue overshadows the entire relationship. The entire gamut of security issues was addressed during the 15th round of talks between the Special Representatives, which though due in December, were held in January 2012.

The China Centre at the IDSA felt the need for a compact overview of the wide spectrum of political, economic, and military dimensions of the China story as

it unfolded in 2011. The present volume brings together information and analysis of developments in China in the year 2011. We hope that this publication will be a useful source of information to China watchers.

New Delhi
May, 2012

It gives me immense pleasure to present the first edition of the *China Year Book 2011*. We hope it will be received well by the wider strategic community.

I compliment the China Centre of the IDSA for this initiative.

Arvind Gupta
Director General
IDSA

INTRODUCTION

Defeating the invasion of Iraq by 400 per cent, and leaving other catastrophic events such as 9/11, Hurricane Katrina, the war in Afghanistan, and the global economic crisis way behind, the story of China's rise is the world's most read news story in the past decade, according to *The Global Language Monitor*, which tracks the top 50,000 media sources throughout the world. And rightly so. India's China watchers have been assiduously studying China's growth story and could not but agree more with the findings of *The Global Language Monitor*. The China story covers the entire spectrum of relations—political, economic, diplomatic, and military. China figures in all major debates in international relations simply because it impacts every part of the globe and every aspect of international relations. The 'peaceful rise' theory, attributed to Zheng Bijian in 2003, was a hurried and somewhat reassuring slogan for the world which was convinced that China could do no better than deviate from history. After all, Germany, Great Britain, and the United States (US) embarked on an aggressive and expansionist policy to feed its domestic industrial hunger on the way to becoming superpowers: Britain in the industrial revolution; Germany in the early twentieth century; and the US post the Cold war. Could China be any different? China, till recently, has been true to its word, but now

there are signs of impatience, belligerence, and aggression. Its strategic orientation is undergoing change.

What makes the world turn and look at China? An economy booming at a steady 9–10 per cent over two decades; a gross domestic product (GDP) of \$7 trillion, second only to the US, having overtaken Japan in 2009; forex reserves at \$3.2 trillion; \$90 billion defence budget; and an even greater internal security budget, just to name a few indicators of the China story. With these come the aspirations for superpower status and a change in the world order that China hopes to achieve—a new world order with 'Chinese characteristics'! China is now a key player in most multilateral forums worldwide, a responsible member of the United Nations 'big five' club, and a major contributor to the cause of peace and prosperity in the comity of nations. All this is not without a dark side: the huge issues of inequalities that are internal to the capitalist–communist model; the disparities in social issues; the fear of failure of the Party; the restrictions and control of basic freedoms; absence of institutions of democracy; and the quest for the assimilation of the 'lost territories'. When put together, China is a scholar's delight.

China is at a critical juncture of its growth curve. The Hu–Wen team will be bowing

out of office in end 2012 amidst speculations about the succession. Battle lines are drawn between the elitist princelings led by Xi Jinping, against the populists led by Chinese President Hu Jintao's protégé, Li Keqiang. The Eighteenth Party Congress will meet this year end to elect the new General Secretary of the Communist Party, an event that will ultimately decide the future President and Premier of China. Also concurrent is the change in the Central Military Commission (CMC), in which all but three members are due to retire this year. There is lack of clarity on the continued hold of Hu Jintao on the CMC till the embedding of the new Party president, a procedure that was followed when Hu was elected in 2002. Also noteworthy is the aggressive streak in Chinese foreign policy, which, in recent times, has been attributed to the growing power of the People's Liberation Army (PLA) in policy formulation in China.

In so far as China's foreign policy is concerned, there is this debate for discarding the policy of 'non-interference' and the realization of the cost of being 'inward looking' which has served the purpose of the peaceful rise in the past. Now, Chinese expect a larger say in world affairs—China is increasingly drawn into Africa, West Asia, and Iran—and foreign policy may need a sharper edge for the future. China is seen as a major contributor to the Shanghai Cooperation Organization (SCO), the mainstay in the China–

Association of Southeast Asian Nations (ASEAN) partnership, and a key member of the East Asia Summit (EAS) amongst the major regional initiatives. Globally, China is a responsible member of the 'big five' at the United Nations, but has not been particularly assertive, having used its veto power only eight times in the past four decades as compared to, say, Russia, which has exercised it 120 times. China's contribution to fighting piracy off the Gulf of Aden and its evacuation of its citizens and others from Libya have been this year's success stories.

The nationalities policy applicable to the minorities, particularly in the Tibetan Autonomous Region (TAR) and the Xinjiang Uyghur Autonomous Region (XUAR) continues to be turbulent, with violent incidents challenging the Communist Party's writ at regular intervals. The Tibet Work Forums have pumped large sums of money into development projects in the TAR. Yet, these work forums have failed to achieve the aim of assimilation because they do not meet the political aspirations of the Tibetan people. Almost sixteen Tibetan monks and nuns have self-immolated themselves in protest in 2011 alone, resulting in the deployment of additional paramilitaries in TAR and Sichuan to quell disturbances.¹ In Xinjiang, Chinese policy shift from 'stability' to 'development' has shown some positive signs. But restrictive religious policies continue to sharpen ethnic divide. The new

¹ See Firstpost.world, 6 February 2012, available at <http://www.firstpost.com/world/china-faces-more-trouble-in-tibet-as-protests-increase-204306.html>, accessed on 7 February 2012.

policy unveiled in Xinjiang seeks to convert the region into a moderately prosperous society, with higher per capita income, new tax regime, and establishment of special economic zones (SEZs). The success of this economic therapy needs to be closely watched.

Chinese military added a fresh chapter to its history with the launch of its first-ever aircraft carrier, *Shi Lang*, for sea trials in August 2011. The naval flotilla operating in the Indian Ocean, combating piracy, and the search for a 'refit' base in the Seychelles, demonstrates the PLA Navy's aspirations for a blue water navy and a permanent presence in the Indian Ocean. China's space programme saw a quantum leap with the launch of the space station, Tiengong I, and the docking with the space craft, *Shenzhou 8*. Pursuit of hi-tech programmes like the fifth-generation stealth fighter aircraft J 20, the nuclear-powered submarine, and the anti-ship cruise missile (ASCM) have lent credibility to China's doctrine of fighting wars under conditions of informationalization. It has also challenged the supremacy of the US in the Asia Pacific.

Chinese economy has seen a marginal dip from 10.3 per cent to 9.6 per cent, discarding projections of a hard landing. Inflation at 5.1 per cent continues to be the biggest threat and it remains to be seen how the Chinese pull through the Eurozone crisis. Meanwhile, internally, the issues of shadow banking, the housing bubble, and the rising value of the Yuan and its impact on exports need scrutiny. Economists debate whether the 'investor-led growth' economic model, which has created huge over-capacities and bad loans, needs

revisiting. This model has reduced domestic consumption and affected middle class businesses. As a result, China has been unable to build a robust middle class.

At the Institute for Defence Studies and Analyses (IDSA), the China Centre scholars look at every aspect of China closely. The need to compile all the work into a one concise publication spurred the thought of the China Year Book. This annual publication aims to provide the avid China watcher with the entire gamut of China in the past year. The first edition of the China Year Book is a compilation of 12 chapters covering China's relations with the US, South Asia, ASEAN, Japan and East Asia, Central Asia, and the Shanghai Cooperation Organisation (SCO). There is a separate chapter on India–China relations underlining its significance, and one each on Chinese media, the economy, the PLA, and the political landscape inside China. All together, the Year Book is a 'one-stop shop' for China scholars in its entirety. Of course, being the first edition, there is a tie in to 2010 on some issues and a spill over to first quarter of 2012, which is only natural. With subsequent issues the process will get refined.

The publication is a tribute to the commitment and talent of the China Centre at IDSA. An idea was transformed into reality by their diligence and dedication. We also owe a lot to Mr Arvind Gupta, Director General IDSA, who gave all the encouragement and guidance to every scholar to see the fructification of the project. I am also grateful to Neha Kohli, Jyoti Sahni, Vivek Kaushik and the publication division at IDSA for their

invaluable support in pushing this through despite the short timelines. I also wish to thank my wife Pawan, who had to bear with my odd hours despite being on study leave and my children Ishana and Gur Sartaj, who have been both supporting and amused at my transformation from soldier to strategist.

New Delhi
May, 2012

Finally, I thank the IDSA for giving me a unique opportunity as a career soldier to edit this book in the course of my pursuit in strategic thought on China. It was an idea whose time had come – and I am thankful to my colleagues for making it happen.

Brigadier Mandip Singh, VSM
Senior Fellow, IDSA

SECTION I

EXTERNAL RELATIONS

SINO-INDIAN RELATIONS IN 2011

TWO STEPS FORWARD, ONE STEP BACKWARD

RUP NARAYAN DAS

The year 2011 began on a positive note with the spillover effects of Chinese Premier Wen Jiabao's visit to India in December 2010. That visit was primarily heavy on economic content and there was no significant breakthrough except that Premier Wen Jiabao reiterated China's stated position on India's aspiration to play an important role in the United Nations Security Council.¹ There was no pronouncement on the vexing issue of stapled visa issued to Indian citizens of Jammu and Kashmir and Arunachal Pradesh, which had cast a shadow on the bilateral relationship between the two countries.

The spillover effects of the previous year, however, started yielding results in 2011, when Prime Minister Dr Manmohan Singh visited Sanya in April to participate in the Brazil, Russia, India, China, and South Africa (BRICS) summit, where South Africa was admitted as the fifth

member of the grouping. As a clear indication of its softening attitude towards Jammu and Kashmir, Beijing issued normal visas to journalists from Jammu and Kashmir accompanying the Prime Minister, Dr Manmohan Singh, to Sanya. At their first meeting in the year, both Prime Minister Dr Manmohan Singh and Chinese President Hu Jintao agreed to: set up a mechanism on coordination and consultation on border affairs; resume senior-level defence exchanges; initiate a high-level economic dialogue mechanism to address investment and market access grievances; and step up high-level contacts. After the meeting on the margins of the BRICS summit, there were indications that China was amenable to resolve the issue of issuing stapled visas to Indians domiciled in Jammu and Kashmir. Thus, it was a positive change of attitude so far as China's position with regard to Jammu and Kashmir was concerned. It also indicated a softening

¹ For details, please see Joint Communique of the Republic of India and the People's Republic of China (PRC), 16 December 2010, available at <http://www.mea.gov.in/mystart.php?id=530516879>, accessed on 14 February 2012.

of China's stand after India put a freeze on defence diplomacy post the denial of visa to the then Northern Army Commander in June 2010.

EXCHANGE OF DEFENCE DELEGATIONS

Subsequently, an eight-member delegation led by Major General Gurmeet Singh, General Officer Commanding of the Delta Force, paid a visit to China in June 2011. The Delta Force is part of Rashtriya Rifles counter-insurgency unit of the army, battling rebels in Doda and adjoining areas of Kashmir, and is a part of the Northern Command. China's refusal to interact with the Northern Command chief was just one of the irritants that had buffeted ties between the two countries. The delegation visited Beijing, Urumqi, the capital of Muslim-majority Xinjiang 'autonomous' region, and Shanghai. Welcoming the visit of Indian military delegation, the Foreign Ministry spokesman of China said, 'The military exchange is an important part of China-India relations'. 'The significance is that any hiccups in any field should not derail our bilateral relations,' he said, adding that defence exchanges needed to become 'the most powerful stabiliser of our bilateral relationship'.²

Chinese analysts welcomed the resumption of defence ties as a sign that the two

countries had put problems such as the visa issue behind them, but cautioned against high expectations amid persisting mistrust on a range of issues. This visit was more about symbolism, taking forward confidence-building measures and addressing ground concerns rather than a platform to resolve larger pending issues. Hu Shisheng, a South Asia scholar at the China Institutes of Contemporary International Relations (CICIR), told the Beijing-based correspondent of an Indian English daily that it was better 'not to burden such military-to-military exchanges with too much expectations' and 'a political agenda'. The scope of such exchanges, he said, was not to solve problems, but 'to enrich each other's understanding on each other's positions on different issues in a correct way'.³

Be that as it may, in spite of hiccups, exchange of defence delegations between the two countries continued. After the visit of Major General Gurmeet Singh to China in June last year, New Delhi received an eight-member People's Liberation Army (PLA) delegation led by Lt General Lang Youliang from Tibet Military Command of Chengdu Military Region in the first week of November. The Chinese military delegation, during their stay in India, visited defence installations in New Delhi, Kolkata, and Mumbai. The visit of this delegation was followed by yet another

² Ananth Krishnan, 'Military Delegation's Visit Marks Thaw in India-China Ties', *The Hindu*, 22 June 2011, available at <http://www.thehindu.com/news/international/article2134870.ece>, accessed on 14 February 2012.

³ Ibid.

delegation of mid-career officers of PLA, led by Major General Jin Lechang in December.⁴ Among other places, the delegations visited Institute for Defence Studies and Analyses (IDSA) and interacted with scholars.

INDIA'S FORAY INTO SOUTH CHINA SEA

If the resumption of defense exchange between the two countries bought about some semblance of cordiality, India's foray into South China sea created fresh bouts of tension between the two countries. A new twist was given to India's 'Look East Policy' in the year during the visit of Minister for External Affairs, S M Krishna, to Hanoi in September 2011, to participate in the Fourteenth India–Vietnam Joint Commission Meeting, when it was declared that the two countries were to sign an agreement to explore oil in the South China Sea. New Delhi and Beijing however, handled the issue deftly at the governmental level. On 15 September, alluding to the media report, the Chinese

Foreign Ministry spokesperson, Jiang Yu, said that China enjoys indisputable sovereignty over the South China Sea, and that China's stand was based on historical facts and international law. It was further stated that China was opposed to any project in the South China Sea, without directly referring to India.⁵ The same day, while answering a question raised by a correspondent as to the Chinese objection to the Oil and Natural Gas Corporation (ONGC) Videsh venture, the spokesperson of the Ministry of External Affairs of Government of India in New Delhi said that ONGC Videsh had been present in Vietnam for quite some time, including in a major oil venture for offshore oil and natural gas exploration, and that they were in the process of further expanding their cooperation and operation in Vietnam.⁶

The issue was, however, played out in the media, both in China and India. The ultra-nationalist *Global Times* observed that 'reasoning may be used first, but if India is persistent in this, China should try every possible means to stop this cooperation from happening'.⁷ An editorial in the same

⁴ 'Boost for Military to Military Interaction between India and China', *The Pioneer*, available at <http://www.dailypioneer.com/nation/19543-boost-for-military-to-military-interaction-between-india-china.html>, accessed on 14 February 2012.

⁵ 'India Supports "Freedom of Navigation" in South China Sea', *The Pioneer*, New Delhi, 16 September 2011, available at <http://www.dailypioneer.com/nation/6761-india-supports-freedom-of-navigation-in-south-china-sea.html>, accessed on 14 February 2012.

⁶ Media briefing by official spokesperson on the Minister for External Affairs visit to Hanoi, 15 September 2011, available at <http://maritimesecurity.asia/free-2/maritime-security-asia/media-briefing-by-official-spokesperson-on-eam%E2%80%99s-visit-to-hanoi/>, accessed on 14 February 2012.

⁷ Ananth Krishnan, 'South China Sea Project A Serious Political Provocation', *The Hindu*, 16 September 2011, available at <http://www.thehindu.com/news/international/article2459736.ece?homepage=true>, accessed on 14 February 2012.

newspaper criticized the proposal of the ONGC Videsh as reflecting India's rising ambition, and a likely Indian move to counter China's behaviour in the Indian Ocean.

In an article *Global Times* quoted Chinese Foreign Ministry spokesperson, Jiang Yu, as saying that the United Nations Convention did not give any country the right to expand their own exclusive economic zones and continental shelf into other countries territories.⁸ Jiang also warned countries outside the region to support the resolution of this dispute through bilateral channels. The article also quoted her saying, 'As for oil and gas exploration activities, our consistent position is that we are opposed to any country engaged in oil and gas exploration and development activities in waters under China's jurisdiction. We hope foreign countries do not get involved in the South China Sea dispute'.⁹ The article further quoted Wu Xinbo, Professor at the Centre for American Studies, saying, 'As a South Asian country, India actively takes part in East Asian issues through the support of

the US, which has been advocating for Asian countries to counter China. The US takes every opportunity to counter China, and its joint military manoeuvres with Japan and other regional countries have been more frequent in recent years'.¹⁰ Wu added that this project helps India kill two birds with one stone. It will bring economic benefits to India while also balancing out China politically. The article quoted yet another Chinese scholar, Shen Dingli, Director of the Centre for American Studies of Institute of International Studies at Fudan University, who said, 'In recent years, China has also been building up relations with countries like Myanmar that neighbour India, not to mention that Pakistan invited China to provide safety protection, and offered China a naval port on the Indian Ocean. All these moves made India feel nervous'.¹¹

Yet another report by *Xinhua News Agency* said that India's oil exploration cooperation with Vietnam in South China Sea was a blunt trampling up on China's sovereignty.¹² In one more article carried in the *Global Times*, it was commented that

⁸ Liu Sheng, 'India Makes Waves with South China Sea Oil and Gas Exploration', *Global Times*, 17 September 2011, available at <http://www.globaltimes.cn/NEWS/tabid/99/ID/675647/India-makes-waves-with-South-China-Sea-oil-and-gas-exploration.aspx>, accessed on 14 February 2012.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Li Hongmei, "'Bundling Strategy" over South China Sea will be Disillusioned', *Xinhua*, 27 September 2011, available at http://news.xinhuanet.com/english2010/indepth/2011-09/26/c_131160220.htm, accessed on 14 February 2012.

'we (Beijing) shouldn't waste the opportunity to leave some tiny scale battles that could deter provocations from going further'.¹³

India, however, did not buckle under pressure and in spite of warning from China, concluded the agreement with Vietnam during the visit of the Vietnamese President, Truong Tan Sang, to India on 12 October. The state-owned ONGC Videsh Limited (OVL) and its Vietnamese counterpart, Petro-Vietnam, inked a three-year agreement for long-term cooperation in the oil and gas sector. The agreement is intended for developing long-term cooperation in oil and gas industry and shall be in force and effect for three years. Some of key areas in which both the companies are desirous to cooperate are related to: the exchange of information on the petroleum industry; exchange of working visits of authorities and specialists in various fields of the petroleum industry; new investments; expansion and operations of oil and gas exploration; and production, including refining, transportation, and supply in Vietnam, India, and third countries according to the laws and regulations of their countries. The visiting President of Vietnam, Truong Tan Sang,

said that all the disputes with China, including claims over South China Sea, would be solved peacefully through negotiations and code of conduct for good relations in the region.¹⁴ The cooperation between ONGC Videsh and Petro-Vietnam goes back to the 1980s, which led to the signing of the production sharing contract between Hydrocarbon India Ltd, renamed later as ONGC Videsh, and Petro-Vietnam in Phu Kan basin in Vietnam through regular bidding process.

India's defiance of Beijing's warning and signing of the agreement with Hanoi further annoyed Beijing. The official news agency, *Xinhua*, reported that both China and Vietnam will not allow any third hostile forces to destroy their relations. Both New Delhi and Beijing, however, did not allow the relationship between the two countries to drift further. Prime Minister Dr Manmohan Singh, in his meeting with his Chinese counterpart Wen Jiabao on the sidelines of East Asia Summit meeting in Bali, reiterated that Indian exploration of oil and gas deposits in the South China Sea were purely commercial, and the issue of sovereignty over South China Sea should be resolved according to international law and practice.¹⁵ Beijing also reiterated its

¹³ Long Tao, 'Time to Teach Those around South China Sea a lesson', *Global Times*, 29 September 2011, available at <http://www.globaltimes.cn/NEWS/tabid/99/ID/677717/Time-to-teach-those-around-South-China-Sea-a-lesson.aspx>, accessed on 14 February 2012.

¹⁴ Agreement of Cooperation between ONGC Videsh Limited and Vietnam Oil and Gas Group (PetroVietnam), *ONGC Videsh News*, 13th September, 2011, available at <http://www.ongcvidesh.com/NewsContent.aspx?ID=893>, accessed on 14 February 2012.

¹⁵ See 'India Tells China Its Interest in Disputed Sea "Purely Commercial"', *The Hindu*, 18 November 2011, available at <http://www.thehindu.com/news/national/article2638645.ece>, accessed on 14 February 2012.

stated position that it didn't hope to see outside forces involved in the South China Sea dispute. The two sides, however, in spite of the spat, struck a friendly note and Beijing extended a charm offensive saying that 'there is no power in the world that can prevent the development of bilateral relations between the two countries'.¹⁶ Beijing appeared to suggest that differences with India were driven by third parties and blamed the United States (US) for sowing discord between China and its neighbours and attempting to contain China.

Although India treats the issue of ONGC Videsh's foray into the South China Sea primarily as a commercial venture, its strategic and security implications for the region, though remote and distant, cannot be ruled out. India's strategic position with regard to its engagement in the Asia-Pacific can be discerned from a statement made the National Security Advisor, Shivshankar Menon, recently in the US when he said, '... China has a presence in South Asia. It has been there for a long time... We have a presence in East Asia for a long time...'. Emphasizing on peaceful cooperation, he is further reported to have said:

...we have global interest. China has global interest, all of us do... All the major powers... are not only inter dependent on each other, but also

are dealing with each other across a whole range of issues. None of which recognizes some artificial constructs like South Asia or East Asia, these are interlocking circles about security or prosperity, whichever way you look at it.¹⁷

This succinctly reflects India's strategic thinking with regard to the Asia-Pacific.

If the year witnessed foray into the South China Sea, albeit for hydrocarbon exploration, on 19 July, the International Seabed Authority (ISA) cleared China's application for exploration and mining licences in Southwest Indian Ridge in the Indian Ocean. The state-run China Ocean Mineral Resources Research and Development Association had applied for the licence in May 2010 to explore for polymetallic sulphides in the Southwest Indian Ridge. Beijing would now be required to sign a contract with the ISA, allowing it to explore up to 10,000 sq km over the next fifteen years in line with the rules on polymetallic sulphides adopted by the ISA in 2010. Though China claims that it is only trying to meet a growing demand for minerals, the note attributed to the Directorate of Naval Intelligence (DNI) further observed, 'The military implications of the move are evident and would need to be monitored by the Indian

¹⁶ See 'India's China Anxiety An Inferiority Complex, Says Xinhua', *The Hindu*, 25 November 2011, available at <http://www.thehindu.com/news/international/article2657220.ece>, accessed on 14 February 2012.

¹⁷ 'China Powerful in S Asia, India in S-E Asia', *Zee News*, 1 October 2010, available at http://zeenews.india.com/news/nation/china-powerful-in-s-asia-india-in-s-e-asia_658789.html, accessed on 14 February 2012.

Navy'.¹⁸ A news report claimed that the DNI had warned that this could have critical implications for India as the 'Chinese would have reasons to maintain a continuous presence in the region'. 'It would provide them an opportunity to collect oceanographic and hydrological data in a legitimate manner. Further, it would also provide an excuse to operate their warships in this area', said the DNI note.¹⁹

While India's bid to explore hydrocarbon in the South China Sea and China's move to explore polymetallic sulphides in the Indian Ocean region creates anxiety in Beijing and New Delhi respectively, the year 2011 also witnessed naval cooperation between the two countries in fighting the menace of sea piracy. The incident took place on 6 May, when a Chinese vessel, *MV Fu Cheng*, registered in Panama, faced a pirate attack 450 nautical miles off the Karwar coast of Karnataka while it was on its way from Jeddah to Tuticorin port. The Indian Navy swung into action after receiving an emergency call from the Chinese authorities and thwarted the attack. 'Soon after the Indian Navy received a distress call, it diverted an Indian Navy aircraft and a Coast Guard ship towards the

merchant vessel. In less than 30 minutes, the TU-142 aircraft of the Indian Navy for maritime reconnaissance reached the spot,' said Captain Manohar Nambiar, Chief Public Relations Officer of the Ministry of Defence.²⁰ The aircraft observed a pirate mother ship next to the merchant vessel and an empty skiff alongside the ship. It was only after the aircraft made a number of low sorties over the ship and warned the Somali pirates of surface action by warships that the pirates started fleeing from the ship and boarded their skiff. Later, the pirates sailed towards their mother vessel. As there were no surface forces in the immediate vicinity to board and sanitize *MV Full City*, the maritime reconnaissance aircraft maintained an overhead position for over three hours and coordinated with the North Atlantic Treaty Organization (NATO) task force. 'It was thus the navies of other countries, Turkey's and India's among them, that helped to drive away the pirates and escorted the ship to safety,' Xu Zuyuan, Chinese Vice-minister of Transport, stated.²¹ The acknowledgement of India's role in rescuing the ship from the clutches of the pirates augurs well for the prospect of future naval cooperation between the navies of the two countries.

¹⁸ Amitav Ranjan, 'China Set to Mine Central Indian Ocean, Delhi Worried', *Indian Express*, 31 July 2011, available at <http://www.indianexpress.com/news/china-set-to-mine-central-indian-ocean-delh/824900/>, accessed on 14 February 2012.

¹⁹ Ibid.

²⁰ Ateeq Shaikh, 'Navy Saves Chinese Vessel from Pirates', *Asian Age*, 7 May 2011, available at <http://www.asianage.com/india/indian-navy-saves-chinese-ship-pirates-354>, accessed on 14 February 2012..

²¹ See 'China Admits Indian Help in Ship Rescue', *Times of India*, 10 May 2011, available at http://articles.timesofindia.indiatimes.com/2011-05-10/india/29527522_1_somali-pirates-pirate-attack-chinese-sailors, accessed on 14 February 2012.

SINO-INDIAN ECONOMIC RELATIONS

The year was also significant for the first-ever India–China Strategic Economic Dialogue (SED), which was mooted during Premier Wen Jiabao’s visit to India in December 2010, and took place in Beijing from 26 to 28 of September 2011. The Indian side was led by Montek Singh Ahluwalia, Deputy Chairman Planning Commission, and the Chinese side was led by Zhang Ping, Chairman National Development and Reform Commission of China. The Indian team consisted of representatives from Ministries of Railways, Water Resources, External Affairs, Power, New and Renewable Energy, Department of Commerce, Information Technology, Industrial Policy and Promotion, besides the Planning Commission.

The issue of trade imbalance between the two countries was also discussed between Prime Minister Dr Manmohan Singh and his Chinese counterpart during the visit of the latter to New Delhi in December 2010. The joint communiqué issued during the visit mentioned that the two sides agreed to take measures to promote greater Indian exports to China with a view to reduce India’s trade deficit. The growing trade deficit also found its echo in the Parliament recently, when Commerce Minister, Anand

Sharma, told Rajya Sabha, ‘at the time of the 8th India–China Joint Economic Group, We had discussed the issue of IT [information technology] and ITeS [IT-enabled services] exports as also pharma with China. Unfortunately, that is yet to be done. We will take up the issue once again.’ He further said, ‘we are exporting primary raw materials to China, while it is exporting semi-finished products to us. Fifty percent of India’s exports comprises iron ore. The trade with China is definitely skewed.’²²

Thus the trade deficit continues to persist, which, if not addressed earnestly and thoughtfully, will affect the bilateral relationship between the two countries. It is against this background that New Delhi has been mulling over the issue. It was reported that India has prepared a draft ‘action plan for China’ to strategically counter the increasing economic clout of China. The five-point strategy seeks to get China to: invest and produce in India, not just trade; raise duties on products where India is not dependent on it; create non-tariff barriers where dependence is high; ensure Chinese state-owned procurement agencies buy in bulk from Indian companies; and leverage the huge domestic market to gain access to Chinese markets, at least in areas where India has significant strength.²³

²² ‘Trade Imbalance: China hasn’t Kept Promise on IT’, *The Indian Express*, 25 August 2011, available at <http://www.indianexpress.com/news/trade-imbalance-china-hasnt-kept-promise/836775/> accessed on 14 February 2012.

²³ P. Vaidyanathan Iyer, ‘China Rising: Ministries Work on Action Plan’, *The Indian Express*, 1 September 2011, available at <http://www.indianexpress.com/news/china-rising-ministries-work-on-action-plan/839956/>, accessed on 14 February 2012.

On trade related issues the major positive development was that the Industrial and Commercial Bank of China Ltd (ICBC), the world's largest lender by market value, opened its first-ever branch in India's commercial capital, Mumbai, to cater to the growing bilateral trade between India and China and to help Chinese infrastructure companies to raise funds. India allowed local companies to borrow up to \$1 billion in Chinese currencies within the \$30 billion ceiling on foreign borrowing for the fiscal year. The setting up of India–China CEO forum in India to enhance the economic engagement between the two countries and provide platform for sustained dialogue on trade and investment issues was the other major development. As the private sector in India plays a very important role in the bilateral trade between the two countries, the India–China CEO forum is poised to play a very important role in promoting trade and commercial intercourse between the two countries and the corporate houses.

CHINA'S CHARM OFFENSIVE

As part of its charm offensive, China celebrated the 150th birth anniversary of Nobel Laureate Rabindranath Tagore, whose visit to China in 1914 had created positive vibes in Sino-Indian relations. The other goodwill gesture by China was the honour bestowed upon the octogenarian and renowned Indian yoga exponent, B.K.S. Iyenger, held in high esteem by the Chinese for sensitizing spiritual pursuit in China, by releasing four commemorative stamps in June.

Enhancing cooperation in the field of culture, the two sides declared 2011 as the

'Year of Exchange'. In the field of educational cooperation, China welcomed the introduction of Chinese as an optional language in school curriculum from 2011, and agreed to offer support for training Chinese language teachers and providing Chinese language training materials. The two sides also declared the establishment of the India–China Outstanding College Students Exchange Programme.

In pursuance of the 'Year of Exchange' programme, and as agreed upon in the joint communiqué signed between Prime Minister Dr Manmohan Singh and Chinese Premier Wen Jiabao on 16 December 2010, China invited 500 Indian youth to visit China, who met Premier Wen Jiabao in the Great Hall of the People on 23 September. The youth delegation was led by India's Sports and Youth Affairs Minister, Ajay Maken. Premier Wen Jiabao not only mingled with the Indian youth but also charmed them when he put on a Rajasthani turban and reached out to Mr Maken to convey his personal regards to Prime Minister Dr Manmohan Singh.

Beijing also played host to a number of important political leaders from India, cutting across party lines, including Bharatiya Janata Party (BJP) leader, Nitin Gadkari; Bihar Chief Minister, Nitish Kumar; Communist Party of India (Marxist) (CPM) leader, Sitaram Yechury; and the Gujarat Chief Minister, Narendra Modi. In his meeting with Chinese leaders like Ai Ping, the Chinese Vice Minister in the International Department of the Communist Party of China (CPC), and senior Communist Party leader, Li Changchun, Gadkari reportedly discussed

all important issues, including China's infrastructural development in Pakistan-occupied Kashmir and construction of a dam on the Brahmaputra. After his visit to China, Bihar Chief Minister, Nitish Kumar, remarked that in China, he saw a new model of development and a friend, and advocated closer bilateral ties between the two Asian giants. Sitaram Yechury, who visited China on the occasion of the ninetieth anniversary of the CPC, held talks with senior CPC leaders, including China's top diplomat and State Councillor, Dai Bingguo; Dai remarked that China wanted to increase mutual trust with India and take bilateral ties forward from a long-term strategic standpoint. Narendra Modi was similarly impressed with his visit to China and he invited Chinese businessmen to invest in Gujarat. Madhya Pradesh Chief Minister, Shivraj Singh Chauhan, also led a twenty-eight member delegation to the World Economic Forum held in Dalian in September.

Two trade-related developments which took place towards the end of the year and which had some resonance on the bilateral relationship between the two countries need to be mentioned. On the positive side, China freed thirteen of the twenty-two Indian diamond merchants, who were detained in January 2010 on the charges of

smuggling diamonds worth \$7.3 million from Hong Kong to China. A local court in south China's Shenzhen, bordering Hong Kong, deported eleven of the detained diamond traders after it absolved them of smuggling; one was fined 10 million Yuan (Rs 80 lakh). Another person had to undergo an additional month in jail because he had served one year 11 months of his two-year sentence. Beijing's lenient dispensation of justice was well received by New Delhi.²⁴ In another incident in Yiwu in China's Zhejiang province, which took place on the last day of December, an Indian diplomat, S Balachandran, was reportedly manhandled by local traders and authorities. Balachandran had gone to extend consular assistance to two Indian businessmen who were held hostage by local traders as the Yemeni owner of the company, who owed \$1.58 million to the local traders, was absconding without clearing the dues. The unsavoury incident impelled Indian Embassy in Beijing to put out a strongly worded advisory 'not to do business with Yiwu'.²⁵ The situation was, however, salvaged when Beijing took swift action and the Indians were rescued from the local traders.

Thus in 2011, like other preceding years, the relationship between India and China was characterized by the dynamics of

²⁴ Ananth Krishnan, 'Chinese Court Hands Down Lighter-than-expected Sentences to 22 Detained Indian Traders', *The Hindu*, 8 December 2010, available at <http://www.thehindu.com/news/national/article2695928.ece>, accessed on 14 February 2012.

²⁵ Saibal Dasgupta, 'Indian Bizmen Advised to Shun China's Yiwu city', *Times of India*, 4 January 2012, available at <http://epaper.timesofindia.com/Archive/skins/pastissues2/navigator.asp?AW=1329300149108>, accessed on 14 February 2012.

conflict and cooperation. The down side was the absence of other major exchange of visits between the two countries. Although it had been agreed that there would be annual meeting between the two foreign ministers in spite of External Affairs Minister S M Krishna's two visits to China in 2010, the gesture was not returned by his Chinese counterpart Tan Jeichi. Similarly the much speculated visit of India's Vice President Hamid Ansari to China did not fructify during the year. Also the visit of the Chinese Vice President Xi Jinping who is to succeed President Hu Jintao did not take place suggesting the low

priority China accorded to India during the year.

The best part was that the relationship was not choked in spite of hiccups and irritants. In that sense, the relationship grew stronger and the year witnessed better understanding, adjustment, and accommodation. China reckoned India as an equal partner. Some may say that India became more assertive during the year, but undoubtedly, 2011 witnessed a churning of relationship between India and China, in spite of the persistent trust deficit and security dilemma.

CHINA'S CURRENT CENTRAL ASIA POLICY REVISITING PRIORITIES

JAGANNATH P PANDA

THE YEAR 2011–12

Central Asia, known for its energy resources, and intersected by the predominant presence of Russia, has always been a core region in the People's Republic of China's (PRC) foreign policy. Beijing capped its diplomacy in the region with the Shanghai Cooperation Organization (SCO) as the intermediary: ten years ago, it had pursued the establishment of the SCO to have a greater command over the region both at the bilateral and multilateral levels. During the Astana summit, China took over the Presidency of the SCO for 2011–12, at a time when new elements and issues were emerging in Sino-Russian and Sino-Central Asian relations. While the Chinese experts and policymakers acknowledge that the SCO now 'enjoys rising international status', the Chinese leadership has been urging to make 'all-out efforts to build the SCO into a regional cooperation organization' that will have a comprehensive

global weight attached to it.¹ While there is considerable optimism about the SCO's rise among its member states, Beijing is exploring if it could push the SCO as a credible comprehensive and regional organization that will be useful for its greater Central Asia–South Asian strategy. An assessment of China's policy behaviour in 2011–12 suggests that Beijing has crafted a mix of bilateral and multilateral diplomatic measures that has helped to consolidate not only its economic reach but also its strategic foothold in the region.

POLITICAL REACH

Establishing good political rapport with the Russian and Central Asian leaders has for some time been one of Beijing's top priorities. The leadership in Beijing understands that China is a 'local power' in the region. Coinciding with his attendance at the Astana summit, President Hu Jintao visited Kazakhstan, Russia, and

¹ 'Hu charts Priorities for SCO's Development', *People's Daily*, 16 June 2011, available at <http://english.people.com.cn/90001/90776/90883/7411322.html>, accessed on 2 January 2012.

Ukraine. With Ukraine, much emphasis was given to forging a 'strategic partnership'; and with Russia, the emphasis was on establishing a 'comprehensive strategic cooperative partnership'.² On the eve of the summit on 15 June 2011, the Chinese President met the leaders of Tajikistan, Kyrgyzstan, and Iran. With President Emomali Rahmon of Tajikistan, Hu Jintao discussed enlarging bilateral cooperation in the field of trade, economy, infrastructure development, mining, telecommunications, and agricultural cooperation. 'Consolidating political trust' and deepening collaboration, mainly in security issues, to combat terrorism, extremism, and separatism was the major highlight of the meeting between the Chinese and Kyrgyzstan Presidents.³ With the Iranian President, Mahmoud Ahmadinejad, President Hu Jintao discussed bilateral trade and economic cooperation, emphasizing a 'comprehensive resolution of the Iranian nuclear issue through negotiation'.⁴ Early in 2012, the Vice-Chairman of the Standing Committee of the National People's Congress (NPC),

Chen Zhili, visited Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan to commemorate the twentieth anniversary of the establishment of diplomatic ties between China and the Central Asian Republics (CARs).⁵ Among other notable visits, Chairman Wu Bangguo of the Standing Committee of the NPC visited Kazakhstan and met President Nursultan Nazarbayev to discuss a series of bilateral and regional issues.

Strengthening Sino-Russian Relations

Developments in 2011 also suggest that the Chinese were eager to consolidate their relationship with Russia. Having healthy relations with Russia will always permit the Chinese to prevent the Western powers from gaining importance in the Central Asian region. It will also help Beijing in gaining clout and bonding within the SCO. Hu Jintao was reported to have said that China and Russia should aim at attaining US\$ 100 billion trade figure by 2015 and \$200 billion by 2020.⁶ The year 2011 marked the tenth anniversary of the 'Sino-

² 'Chinese President Winds up Eurasia Tour', *People's Daily*, 21 June 2011, available at <http://english.people.com.cn/90001/90776/90883/7415324.html>, accessed on 6 January 2012.

³ Deng Shasha, 'Chinese President Hu Jintao meets Central Asian Leaders', *Xinhuanet*, 15 June 2011, available at http://news.xinhuanet.com/english2010/video/2011-06/15/c_13931291.htm, accessed on 8 January 2012.

⁴ Ibid.

⁵ Ministry of Foreign Affairs of the People's Republic of China, 'Special Envoy of President Hu Jintao Chen Zhili to Visit Five Central Asian Countries and Attend Activities Celebrating the 20th Anniversary of the Establishment of Diplomatic Ties between China and the Five Central Asian Countries', 30 December 2011, available at <http://www.fmprc.gov.cn/eng/zxxx/t892707.htm>, accessed on 11 January 2012.

⁶ 'Chinese President Winds up Eurasia Tour (2)', *People's Daily*, 21 June 2011, available at <http://english.people.com.cn/90001/90776/90883/7415325.html>, accessed on 6 January 2012.

Russian Good-Neighbourly Treaty of Friendship and Cooperation'; both sides also acknowledged the vitality of their bilateral relations on the occasion of the fifteenth anniversary of the establishment of Sino-Russian strategic relationship.⁷ Both countries have also shown remarkable mutual understanding within the framework of Brazil, Russia, India, China, and South Africa (BRICS), Russia–China–India (RIC), and the SCO.⁸ For example, the Chinese were quite categorical in their support of Russia's case for entry into the World Trade Organization (WTO);⁹ Russia finally became a member of the WTO in December 2011. In reciprocating the Chinese initiatives, a number of top leaders and officials from Russia and the CARs visited China in 2011.

The Chinese leaders are always conscious of Russia's closer cultural and historical proximity to Central Asia. China's rising political reach in the region is a double-

edged sword for most of the CARs. Increasing political exchanges and visits permits them to forge agreement and understanding over energy deals, thus reducing their dependency on Russia.¹⁰ However, they are also concerned that rising Chinese economic supremacy may overwhelm the region at a broader political level.¹¹ The CARs leaders are somewhat intimidated by the Chinese supremacy in comparison to their dealings with the Russian leaders, with whom they share traditional cultural and societal bonding.¹²

In order to dispel these fears or concerns, the Chinese leaders have constantly pursued a 'soft' diplomacy through various cultural parameters. The Chinese have, for example, established and promoted Confucius Institutes to teach Mandarin and increase the influence of Chinese culture and language in most of the CARs. The latest Confucius Institute to be established was in Aktobe in Kazakhstan,¹³ the third

⁷ '2011: Milestone in China–Russia Relations', *China.org.cn*, 23 April 2011, available at http://www.china.org.cn/opinion/2011-04/23/content_22421781.htm, accessed on 3 January 2012.

⁸ Ibid.

⁹ 'Russian WTO Entry gains Support', *China Daily*, 14 April 2011, available at http://www.china.org.cn/business/2011-04/14/content_22356289.htm, accessed on 4 January 2012.

¹⁰ Ben Judah, 'Dragon meets Bear: Reshaping Central Asia', *Prospect*, 3 February 2011, available at <http://www.prospectmagazine.co.uk/2011/02/russia-china-central-asia-tajikistan/>, accessed on 6 January 2012.

¹¹ Martha Brill Olcott, 'Central Asia: Carving an Independent Identity among Peripheral Powers', in David Shambaugh and Michael Yahuda (eds), *International Relations of Asia*, UK: Rowman & Littlefield, 2008, p. 242.

¹² Ibid.

¹³ '3rd Confucius Institute Opens in Kazakhstan', *cntv*, 4 July 2011, available at <http://english.cntv.cn/program/cultureexpress/20110704/103606.shtml>; also see Zhao Shengnan, 'Sino-Kazakh Ties bring Two Peoples Closer', *China Daily*, 3 January 2012, available at http://www.chinadaily.com.cn/china/2012-01/03/content_14371748.htm, accessed on 6 January, 2012.

in a series in that country. In April 2011, a Confucius Institute was also opened in Azerbaijan, at the Baku State University (BSU). The Anhui University of China will send highly qualified teachers of the Chinese language and literature every year to BSU, as well as supply cultural teaching materials to generate understanding about Chinese culture and society.¹⁴

MILITARY DIPLOMACY

In terms of military diplomacy in Central Asia, the People's Liberation Army (PLA) of China has been a traditional player and carefully crafts its policy by taking into consideration the strategic interests of the Central Asian region and the factor of Russia as a potential competitor and neighbour. The contours of Chinese military diplomacy rest on joint exercises and military exchanges. In 2011, the PLA's Chief of the General Staff, Chen Bingde, met the military counterparts of Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan under the auspices of the

SCO,¹⁵ the first such meeting since the formation of the SCO in 2001. During these meetings, the emphasis was on review of SCO cooperation in the field of 'security and defence' matters.¹⁶ The term 'security' has frequently been used within the SCO, but it was a rare instance of the term 'defence' being mentioned exclusively,¹⁷ leading to speculation whether the Chinese have any plans of bringing hardcore defence issues within the ambit of the SCO. General Chen Bingde also visited Russia during 3–8 August 2011.¹⁸ A hallmark of this visit was to strengthen bilateral 'military exchanges' at various levels and enhance their 'strategic communication'. It has also been reported that in July 2011, the Russian federal state unitary enterprise, Rosoboronekспорт, signed a contract with China to deliver aircraft engines worth \$500 million.¹⁹

Apart from the conventional joint exercises and military exchanges under the SCO, 2011 also witnessed the Chinese officials stressing on carrying out 'joint warning'

¹⁴ 'Confucius Institute opens in Azerbaijan', *Xinhua*, 22 April 2011, available at http://news.xinhuanet.com/english2010/china/2011-04/23/c_13842000.htm, accessed on 6 January 2012.

¹⁵ Deng Shasha, 'Military Chiefs of SCO Nations vow Closer Cooperation', *Xinhua*, 24 April 2011, available at http://news.xinhuanet.com/english2010/china/2011-04/24/c_13843909.htm, accessed on 6 January 2012.

¹⁶ Ibid.

¹⁷ Yu Bin, 'China–Russia Relations: Politics of Two Anniversaries', *Comparative Connections*, vol.13, no.2, September 2011, at http://csis.org/files/publication/1102qchina_russia.pdf, accessed on 6 February 2012.

¹⁸ Chen Xuehui, 'China to Deepen Military Cooperation with Russia', *People's Daily*, 15 August 2011, available at <http://english.peopledaily.com.cn/90780/7569662.html>, accessed on 12 January 2012.

¹⁹ Yu Bin, 'China and Russia Tussle over SCO's Future', *Asia Times*, 27 September 2011, available at <http://www.atimes.com/atimes/China/MI27Ad03.html>, accessed on 12 January 2012.

and 'joint law enforcement' mechanisms to tackle possible security threats.²⁰

Most of the Chinese concerns hint at the possible security threat that the region of Xinjiang in China and Central Asia face after the United States troops are withdrawn from Afghanistan. Most notably, the Chinese officials were worried about the violence that took place in Kyrgyzstan: they are of the view that this type of violence may affect not only China's internal security in Xinjiang but also China's relationship with the CARs. There is considerable emphasis on enhancing the counter-narcotics strategy planned for 2011–16 under the SCO. According to Ji Zhiye, a senior Ministry of State Security-affiliated scholar, the Islamic Movement of Uzbekistan and the East Turkestan Islamic Movement (ETIM) still remain the prime concerns in the Chinese security estimation.²¹

Thrust on Security

To infuse more substance into its security measures under the SCO, China, Kyrgyzstan, and Tajikistan conducted a joint anti-terror drill named Tianshan-II in Kashi (Kashgar) region of Xinjiang; it was mainly organized by the Ministry of Public Security of the PRC.²² The main intention

of this exercise was to train the law enforcement agencies of the three countries to counter terrorism in the border regions. The Chinese are keen to ensure that the Uyghurs do not create any further protests in Xinjiang and do not tie up with the extremist forces in the neighbouring or adjacent regions, mainly in Afghanistan and Turkmenistan. The leadership in Beijing has been dependent on Pakistan and Afghanistan for bringing stability to the greater Central and Southwest region of Asia, which are adjacent to Xinjiang. Adequate importance was given towards having and maintaining good relations with Afghanistan in 2011; and the Chinese support observer membership in the SCO for Afghanistan, which will facilitate them to have a greater say and control over security issues in this region.

XINJIANG AS GATEWAY FOR ENERGY DIPLOMACY

The year 2011 witnessed China focusing a great deal on Xinjiang, which shares borders with several CARs. In addition, Xinjiang is one of the top unexplored oil basins of the world. It also has a large nuclear ballistic missile arsenal, with twelve army divisions and six air force bases located in the region. Towards the end of 2011, an 89.2 billion

²⁰ Cheng Guangjin and Wu Jiao, 'China Vows to Boost Security Ties with SCO Members', *China Daily*, 9 June 2011, available at http://www.chinadaily.com.cn/china/2011-06/09/content_12661961.htm, accessed on 16 January 2012.

²¹ Ibid.

²² 'SCO Counterterrorism Exercise "Tianshan-2-2011" held in China', *The Shanghai Cooperation Organization*, 8 May 2011, available at <http://www.sectSCO.org/EN/show.asp?id=283>, accessed on 14 January 2012.

tonne coal reserve has been discovered at Sha-er Lake in northwest Xinjiang.²³ This is supposed to be one of Asia's largest reserves and the world's deepest heavy oil reserve. China National Petroleum Corporation (CNPC) plans to drill around seventy new wells in Xinjiang in 2012.²⁴ Xinjiang is also a buffer between China and the CARs. Its geographic location is vital to China's worldwide energy security calculations, because Central Asian energy is one of the best options of diversification of energy sources for Beijing. In the recent past, China has taken steps to build the first-ever west-east gas pipeline, which will help in supplying gas directly from Xinjiang to Shanghai and other parts of China. China has meanwhile completed the first Kazakhstan-Xinjiang oil pipeline.

As regards Afghanistan, while attending the Bonn conference pertaining to that country, the Chinese Foreign Minister, Yang Jiechi, expressed the view that China wants the SCO to play a stronger and constructive role in reconstructing Afghanistan.²⁵ The 2011 Astana summit also indicated that the SCO is looking for deeper engagement in the region. The SCO's five year counter-narcotics strategy requires Afghanistan's

support and involvement to tackle the problem. Another issue that the Chinese have focused on in the recent past is establishing the SCO-Afghanistan contact group which is supposed to look after the key security and non-security issues between Afghanistan and Central Asian region, enabling the Chinese to have a greater say in these issues.

Pipeline Linkages

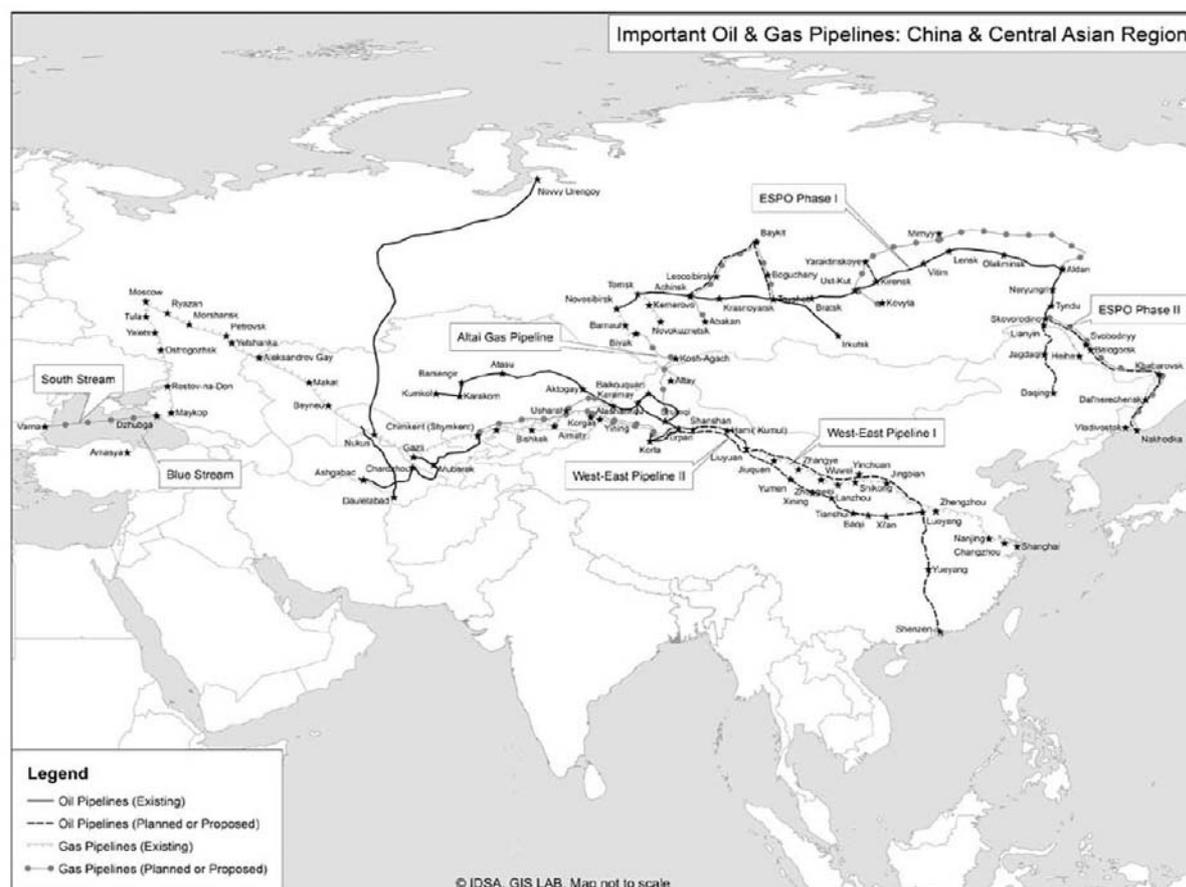
Through bilateral agreements and multilateral chains, the Chinese state enterprises have pushed their reach deep into Central Asia over the years through pipeline projects (see Map 2.1) and infrastructure linkages like road and highway networks. The year 2011 saw China not only signing new energy deals with the CARs but also reviewing and renewing some of the old pipeline projects and oil exploration deals. Under the terms of an agreement China signed with Uzbekistan, the latter will supply natural gas to China beginning in April 2012 through the Central Asia-China pipeline, which begins in Turkmenistan and transits Uzbekistan and the Kazakh-Chinese border, where it connects to China's second

²³ 'Asia's Largest Coal Reserve Discovered in China's Xinjiang', *People's Daily*, 23 December 2011, available at <http://english.people.com.cn/90778/7685778.html>, accessed on 15 January, 2012.

²⁴ 'CNPC Starts Exploration of Oil Field in Xinjiang', *China Daily*, 27 December 2011, available at http://www.chinadaily.com.cn/bizchina/2011-12/27/content_14335856.htm, accessed on 16 January, 2012.

²⁵ Zhang Haizhou, 'SCO Can Play "Bigger Role" in Afghanistan', *China Daily*, December 6, 2011, available at http://www.chinadaily.com.cn/cndy/2011-12/06/content_14217254.htm, accessed on 17 January, 2012.

Map 2.1- Important Oil and Gas Pipelines: China and Central Asian Region



Source: IDSA

west-east domestic gas pipeline.²⁶ The pipeline is approximately 8600 km long.²⁷ According to a report in *The New York Times*, China has also signed a contract with Turkmenistan, under which the latter will

supply gas to China for the next thirty years.²⁸

With Russia also, China inked an oil pipeline project at the beginning of 2011.

²⁶ 'Uzbekistan to Export Gas to China in April following 2011 Deal', *Central Asia Energy Newswire*, 13 January 2012, available at <http://www.universalnewswires.com/centralasia/energy/viewstory.aspx?id=11151>, accessed on 18 January 2012.

²⁷ Ibid.

²⁸ Edward Wong, 'China Quietly Extends Footprints into Central Asia', *The New York Times*, 2 January 2011, available at http://www.nytimes.com/2011/01/03/world/asia/03china.html?_r=2&pagewanted=all, accessed on 11 January 2012.

Under the deal, Russia will supply 300 million tons of crude oil over the next twenty years and some 15 million tons of crude oil to China by the end of 2012.²⁹ In December 2011, the Afghanistan cabinet passed a deal with CNPC for the development of oil blocks in the Amu Darya basin, which is worth \$700 million. The two sides will explore for oil in three fields in the basin of Kashkari, Bazarkhami, and Zamarudsay.³⁰ All these energy and oil deals have maximized China's trade contacts with the CARs. Official figures indicate that China's trade with Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and Russia reached around \$86.8 billion by 2010. Russia has emerged as China's biggest trading partner, with massive increase in trade from \$8 billion in 2000 to nearly \$56 billion in 2010.³¹ The trade volume between China and the SCO members has risen from \$12 billion to \$90 billion in the last decade. A recent report from China suggests that Beijing has promised \$12 billion preferential loans and has also organized investment trips to the other SCO members, after signing a deal of \$8 billion.³²

VITALITY OF SCO

The year 2011 witnessed the Chinese stressing more on the future of the SCO. There are, however, substantial differences between the two main SCO members—China and Russia—over the function and future of this body. The Tashkent (June 2010) and Astana (June 2011) SCO summits discussed at some length the SCO's expansion process, both in terms of its membership and its mandate in addressing various regional security and non-security issues. Unlike the Russians, the Chinese approach to SCO expansion has been cautious. While the Russians have seen the SCO mostly from the security perspective, the Chinese have tried to use the SCO mainly from the economic perspective, by signing and pushing trade and economic contacts with various countries. Russia does see the SCO as a 'transnational' organization that will be central in tackling not only the transnational security threats but also in checking the Western inroads into the region. China's approach has been somewhat different.³³ While Russia's

²⁹ Zhao Shengnan, 'China to Boost Central Asia Energy Ties', *China Daily*, 13 January 2012, available at http://www.chinadaily.com.cn/usa/china/2012-01/13/content_14435202.htm, accessed on 18 January 2012.

³⁰ 'CNPC gets OK for Afghan Project', *China Daily*, 28 December 2012, available at http://www.chinadaily.com.cn/usa/epaper/2011-12/28/content_14341986.htm, accessed on 19 January, 2012.

³¹ Zhao Shengnan, 'China to Boost Central Asia Energy Ties', n. 29.

³² 'SCO Enjoys rising International Status', *Xinhua*, 7 November 2011, available at http://www.china.org.cn/opinion/2011-11/07/content_23842295.htm, accessed on 22 January, 2012.

³³ Jagannath P. Panda, 'Narrow Interests limit SCO's Influence', *Global Times*, 13 June 2011, available at http://www.china.org.cn/opinion/2011-06/13/content_22771809.htm, accessed on 12 January, 2012.

proposition of combating the regional and transnational security threats through the SCO will certainly be helpful for China in tackling the unrest and extremist forces in the bordering region of Xinjiang and Central Asia, it is cautious not to project the SCO as a military unit and to push it as an 'anti-Western' grouping.³⁴ Currently, the execution of the SCO's non-security aspects has been delayed primarily because of the Chinese and Russian differences.

Over the membership expansion issue, time and again, the Chinese authorities have held that it has to be dealt on a 'consensual' basis, and the expansion process has to be carried out after the SCO's mission goal is clarified and made operational. China's official stance is that the 'SCO is engaged in a "pragmatic cooperation" now with its observers and partners'; and that 'enlargement is a complicated issue which bears on the further development of the SCO. An expert panel has been set up by the SCO to have an all-round study on a series of political and legal issues including the standards and procedures of enlargement...we believe SCO members will decide by consensus according to their

own development'.³⁵ On India's candidature for SCO observer membership, the Chinese have avoided giving any assurance by saying, in general, that China acknowledges India's greater interests in the SCO.

China sees the progress of the SCO as a regional organization as a reflection of the multipolar world order.³⁶ Yet, most of China's economic cooperation in SCO is limited currently to the bilateral level, except for some multilateral collaboration in the field of transportation. An idea has been mooted about for establishing a development bank to maximize intra-SCO financial cooperation. The main motive of Beijing here is to have a greater control over both the SCO and the Central Asian region in terms of voting rights equivalent to the amount of finance it puts as a contributory fund for the establishment of the bank. While delivering his speech at the Astana SCO summit, President Hu Jintao urged fellow SCO heads of state to 'make all-out efforts to build the SCO into a regional cooperation organization' that would enhance cooperation among its member states.³⁷ He highlighted four ambitious 'priorities' regarding the development of

³⁴ Ibid.

³⁵ Embassy of the People's Republic of China in the Republic of Azerbaijan, 'Foreign Ministry Spokesperson Jiang Yu's Regular Press Conference on June 3, 2010', 3 June 2010, available at <http://az.china-embassy.org/eng/fyrth/t706322.htm>, accessed on 12 January 2012.

³⁶ 'SCO's Decade of Consensus', *China Daily*, 16 June 2011, available at http://www.chinadaily.com.cn/cndy/2011-06/16/content_12708041.htm, accessed on 19 January 2012.

³⁷ 'Hu Charts Priorities for SCO's Development', *Xinhua*, 16 June 2011, available at <http://english.peopledaily.com.cn/90001/90776/90883/7411322.html>, accessed on 22 January 2012.

the SCO: first, the SCO members should follow the 2007 treaty on good neighbourliness, friendship, and cooperation; second, improving security cooperation mechanism and combating 'terrorism, separatism and extremism' – the 'three evil forces'; third, economic integration process should be enhanced through closer commercial trade and energy networks; and fourth, expanding people-to-people contacts among SCO members.³⁸

BEIJING'S BROADER DESIGN

More than anything else, the Astana SCO summit signalled that the regional security order is slowly moving into a new direction, with Afghanistan angling to become a new observer member of the SCO.³⁹ Similarly, looking at 2011 developments, objectively it can be said that China's bilateral approach towards the SCO seems to be setting new contours for an institutional linkage between the SCO and Afghanistan. Though Afghanistan is not a Central Asian country, its geopolitical importance makes it an important factor in Beijing's Central Asia policy. The prime Chinese target in Afghanistan is to not only exploit its energy and mineral resources, but to design a strategy that will cover China's security

interests in the greater Central Asia and South Asian region in the post-2014 period when there is a possible withdrawal of the Western troops from Afghanistan. Geographically, China shares only about 75 km long border with Afghanistan.

The SCO is one of the main channels of communication for Beijing in Central Asia, and remains a prime organization in Chinese construction in building a non-Western order. Therefore, China will take an adequate interest in pushing the SCO to the next level, either through expanding its mandate or membership. The political trends in 2011 suggest that China follows a bilateral approach in reaching out to the CARs and Russia, using the SCO as platform. The Chinese approach also suggests that it has a constructive approach in crafting a regional policy that gives equal consideration to both economics and security. Behind this policy posture, China wants to portray itself as a 'responsible power' in the region. While China wants to bring stability to the bordering region to maximize its trade and economic investment, it also plans to emerge as a pre-eminent power in the region. The current Chinese plan is to rely on the SCO as a forum to maximize its bilateral contacts and push it as a confidence-building forum to

³⁸ 'Afghanistan Seeks Observer Status in SCO', *People's Daily*, 16 June 2011, available at <http://english.peopledaily.com.cn/90001/90777/90856/7412073.html>, accessed on 23 January, 2012.

³⁹ 'Afghanistan Seeks Observer Status in SCO', *People's Daily*, 16 June 2011, available at <http://english.peopledaily.com.cn/90001/90777/90856/7412073.html>, accessed on 23 January, 2012; also, see Dmitry Kosyrev, 'Afghanistan will Join SCO—Eventually', *Ria Novosti*, 16 May 2011, available at <http://en.rian.ru/analysis/20110516/164058413.html>, accessed on 24 January, 2012.

facilitate China's security and commercial interests in the region. The SCO is also used to stabilize China's relations with non-bordering states like Iran and Uzbekistan.

The current Chinese strategy towards the region is more of a continuation of the previous policy rather than crafting anything entirely new. First, Beijing wants to continue to meet its energy quest in the region, employing a variety of bilateral and

multilateral initiatives. Second, China seems to be slowly overtaking the Russian prominence in the region through energy routes and infrastructure networks. Third, for Beijing, the SCO still remains one of the most important channels to cultivate its bilateral and multilateral relationship in the greater Eurasia region. On the whole, the region of Central Asia retains priority in China's foreign policy.

CHINA AND SOUTH ASIA DRAGON DISPLACING THE ELEPHANT?

*SOUTH ASIA CENTRE**

China's growing interest as well as presence in South Asia is an important facet of India–China relationship. There is one school of thought in India which looks at it as a benign extension of influence, driven inexorably by its growing economic prowess. It believes that the South Asian countries find it to their advantage to get engaged with a 'rising China', and in the days of globalization, it is inevitable for a growing economy like that of China to penetrate into peripheral states. However, there is another school of thought which believes that there is a larger strategic purpose behind such ingress. As Chinese power potential is growing, it is seeking to ensure that it exercises enough influence in the South Asian region to offset the advantages India has in its natural sphere of influence, to keep India busy

maintaining its regional influence and contain its global ambitions. China's continuing collusion with Pakistan since the 1960s, and its unfriendly postures towards India in recent years, especially since India–the United States (US) civilian nuclear agreement, would corroborate some of the arguments advanced by the latter school.

Interestingly, the Chinese Ministry of Foreign Affairs does not use the term South Asia in its major foreign policy pronouncements and limits it to discussions on Pakistan. It treats all countries around in its periphery (including India) as 'Asian Neighbours' and claims that it conducts its foreign policy towards them in 'the Asian spirit of coexistence in harmony, good-neighbourly friendship, consultations and

* This report is the result of a collaborative effort by the following members of the South Asia Centre at the Institute for Defence Studies and Analyses (IDSA): Dr Ashok Kumar Behuria, Dr Smruti Pattanaik, Dr Anand Kumar, Vishal Chandra, Dr Nihar Nayak, and Gulbin Sultana.

dialogue, respect for civilization diversity, solidarity and (mutually beneficial) cooperation'.¹ It lays emphasis on consolidating its relationship with its Asian neighbours through frequent high-level contacts, and believes in pushing forward regional cooperation and expanding 'exchanges and cooperation in the fields of trade, investment, infrastructure, finance, science and technology, culture and education to unprecedented width and depth'.² This, in a way, denotes China's aspirations as an emerging world power with bigger ambitions to make its mark on the world stage as the most pre-eminent power in Asia.

As far as India is concerned, the Chinese foreign office states diplomatically that 'China expects to make joint efforts with India to continue to implement the consensus reached between leaders of both countries, maintain high-level exchanges, step up strategic mutual trust, deepen mutually beneficial cooperation in various fields, properly handle problems of the bilateral relations, support and learn from each other and promote the development of China-India strategic partnership of

cooperation'.³ However, the fact remains that while China values its relationship with other important countries in Asia, like India and Japan, it treats them largely as regional powers. Chinese diplomatic posture vis-à-vis India—whether it is over the issue of stapled visa for people from Jammu and Kashmir or its renewed claim over the Indian province of Arunachal Pradesh, its continued nuclear engagement with Pakistan, and expansion of its footprints in South Asian states and the Indian Ocean—is indicative of a shift from its earlier position not to interfere in a region largely considered an Indian sphere of influence. Against this backdrop, it is necessary to take a close look at China's relationship with each of the South Asian countries as it evolves on an annual basis. The discussion in this chapter covers the year 2011.

CHINA—AFGHANISTAN

Chinese foreign office looks at Afghanistan as a 'regional hotspot',⁴ with tremendous opportunity for mutually beneficial economic engagement. China does not hide its hunger for resources and has expressed its desire to take every possible risk to tap

¹ Assistant Foreign Minister Liu Zhenmin's statement to the media about Asian situation and China's diplomatic engagement with neighbouring countries on 9 January 2012, available at <http://www.fmprc.gov.cn/eng/wjb/zygy/gyhd/t894938.htm>, last accessed 15 February 2012.

² Ibid

³ Ibid.

⁴ Yang Jiechi, Minister of Foreign Affairs of the People's Republic of China, 'Serving the Nation with Vigorous Steps: China's Diplomacy in 2011', 2 January 2011, available at <http://www.fmprc.gov.cn/eng/wjb/wjbz/2461/t896194.htm>, last accessed on 16 February 2012.

into the mineral wealth of Afghanistan.⁵ Analysts in the US believe, on the contrary, that rather than taking risks, China is freeloading on American security efforts in Afghanistan. Notwithstanding such arguments, China has stuck to its plan of encouraging further Chinese investments in Afghanistan despite the grim scenarios being painted for the country post 2014. In fact, one of the top Chinese diplomats, Wu Gangcheng, went on record saying in October 2011 that ‘a gold mine in one person’s eyes may be a pile of dirt for another’, and stated further, ‘You have to take risks in running a business anywhere. Even if you are running a business selling French fries, you take the risk of being burned by the hot oil’.⁶ In addition to Aynak copper mines, the Chinese oil giant, China National Petroleum Corporation (CNPC), signed an agreement with the Afghan government in December 2011 to

work with the Watan group to explore and extract crude oil from the basin of the Amu Darya River—especially in Kashkari, Bazarkami, and Zamarudisai in Saripul and Faryab provinces in northern Afghanistan—with an estimated deposit of 87 million barrels of oil.⁷

China has provided Afghanistan with modest assistance for reconstruction since 2002. It has committed a total aid of \$200 million but, so far, disbursed about \$73 million. In 2009, at an international conference on Afghanistan in The Hague, China announced it would provide US \$ 75 million of aid to Afghanistan till 2014. Chinese assistance has targeted education, agriculture, and capacity building of the public sector in Afghanistan. It is currently involved in the Parvan water conservancy restoration project, earlier built with Chinese aid in the 1970s, and hopes to complete it by 2012.

⁵ Soon after the survey conducted by the US team of geologists which estimated the value of untapped minerals in Afghanistan at \$1 billion, Afghanistan government claimed that the actual worth was more than \$3 trillion. Apart from copper, iron, coal, marble, gemstones, and hydrocarbons, Afghanistan has a huge deposit of lithium, and it is being termed as the Saudi Arabia of lithium. In 2007–8, the Chinese Metallurgical Corporation (CMC) outbid others by about \$1 billion to mine copper at Aynak in Logar province of Afghanistan. This \$3.5 billion project, once it becomes fully operational, is likely to contribute heavily (about 40–50 per cent) to the Afghan revenue and create about 4,000 jobs. As part of the project, the Chinese have promised to build a 400 megawatt power plant, schools, mosques, hospitals, and a freight railway, which has reportedly inflated the cost by about another \$1 billion.

⁶ ‘China won’t discourage its investors from putting money into Afghanistan’s war-torn economy’, 31 October 2011, available at <http://af2.mofcom.gov.cn/aarticle/bilateralcooperation/inbrief/201110/20111007806637.html>, last accessed on 16 February 2012.

⁷ According to Chinese sources, northern Afghanistan region is estimated to contain more than 1.6 billion barrels of crude oil, 16 trillion cubic feet of natural gas, and 500 million barrels of natural liquid gas. See ‘China’s investment in Afghan oil field a step towards self-sufficiency: Afghan official’, english.news.cn. 11 January 2012, available at http://news.xinhuanet.com/english/indepth/2012-01/11/c_131355175.htm, last accessed 16 February 2012.

Diplomatic contacts between the two countries continued at highest levels throughout 2011. China and Afghanistan celebrated 55th anniversary of their diplomatic contacts in 2011. In January 2011, Afghan Vice Foreign Minister, Mohammad Kabir Farahi, visited China to celebrate the event. The Afghan President paid a state visit to China from 23 to 25 March and held talks with his Chinese counterpart, Hu Jintao, National People's Congress (NPC) Chairman, Wu Bangguo, and Premier Wen Jiabao. During this visit, a joint statement was issued expressing satisfaction with the development of bilateral relations. The two leaders agreed to follow the guidance of the Treaty of Good Neighbourly Friendship and Cooperation to consolidate and develop China–Afghanistan comprehensive and cooperative partnership featuring good neighbourliness, mutual trust, and lasting friendship. Apart from this, three other documents were signed, namely: (a) the Agreement on Economic and Technical Cooperation, whereby China would provide RMB 160 million to Afghanistan; (b) the Letter of Exchange on Training Programme; and (c) the Letter of Exchange on Granting Special Preferential Tariff Treatment to Certain Goods Originated in Afghanistan and Exported to China.

In April 2011, Afghan Vice President, Mohammad Karim Khalili, attended the Boao Forum for Asia and met with his Chinese counterpart, Xi Jinping. By August 2011, the multi-functional hall in the presidential building, built with Chinese assistance, was completed and handed over to the Afghan government. During the

year, China undertook to build the National Education Centre of Science and Technology, and a teaching building and a guest house at the Kabul University. The two countries also made steady progress on the bilateral economic front. The first bilateral meeting of the Joint Economic and Trade Committee was held in Kunming in June 2011. Afghanistan also participated successfully at the Shanghai Expo.

China actively participated in international and regional conferences on Afghanistan. Foreign Minister Yang Jiechi attended the London Conference (January 2011), the Istanbul Regional Conference (November 2011), the Kabul Conference, and the Bonn Conference in December 2011. Other Chinese representatives attended meetings such as the Fourth Regional Economic Cooperation Conference on Afghanistan and Afghanistan International Investment Conference.

On the whole, Afghanistan has welcomed Chinese investments and hopes that this may change the economic fundamentals of the country by creating jobs, boosting revenue-generation capacity of the government, and stimulating growth in other sectors.

CHINA–BANGLADESH

China and Bangladesh marked the thirty-fifth year of their diplomatic relations in October 2010. The relationship between the two countries is growing, with China substantially increasing its economic and trade relations with Bangladesh. China is Bangladesh's largest trading partner and

imports from China have increased over a period of time.⁸

China has invested in the Bangladeshi market in textiles, energy, and infrastructure sector. The Chinese President had visited Bangladesh in 2010. There is a tacit bipartisan consensus among the two leading political parties in Bangladesh to strengthen their relationship with China. China is also seen, by some people in Bangladesh, as a country which can balance Indian influence in Bangladesh. Agreement on 'Closer Comprehensive Partnership of Cooperation between China and Bangladesh' was signed during Hasina's visit to Beijing in March 2010.

During 2011, Nantong Tongfeng (BD) Co. Ltd, a garment manufacturing industry, agreed to invest US \$ 3 million in the Chittagong Export Processing Zone (EPZ). In March 2011, a high-powered business delegation from China, keen to invest in infrastructure and power, also visited Chittagong and held meeting with the local chamber of commerce and industry. In June 2011, Bangladesh signed a loan agreement worth US \$ 211 million with the Export-Import Bank of China (EXIM) to upgrade telecommunication network

which would be used by Teletalk to upgrade the facilities with the supervision of Post and Telegraph Ministry.⁹ Bangladesh may rope in Huawei Technologies of China, the second biggest investor in the telecom sector in the world. China has provided a soft loan to build the 900 km Chittagong-Kunming road. It has taken advantage of the Chittagong EPZ and has shifted some of its garment export factories to Bangladesh to benefit from its cheap labour.

According to the outgoing Ambassador of China to Bangladesh, 'The bilateral trade volume in the first 11 months of 2011 reached \$7.5 billion, with an increase of 21.3 percent compared with same period in 2010. Bangladeshi exports to China reached \$400 million, an increase of 79.5 percent'.¹⁰ Media reports quoting Chinese foreign ministry reports suggested that China responded positively to the request from Bangladesh side to help it in launching a communication satellite. During the 2010-11 academic year, China provided Bangladesh with seventy scholarships of various kinds.¹¹

China has also invested in Shahjalal Fertilizer Factory and in 3G and 2G projects

⁸ Kazi Azizul Islam, 'Trade with China is on Robust Rise Again', 19 April 2010, available at <http://bangladesheconomy.wordpress.com/2010/04/19/trade-with-china-on-a-robust-rise-again/>.

⁹ Syed Tashfin Chowdhury, 'Moni Wins China Pledges', *Asia Times*, 29 June 2011, available at http://www.atimes.com/atimes/South_Asia/MF29Df04.html, last accessed on 16 February 2012.

¹⁰ Zhang Xianyi, 'Interview: Leaving on a High Note', *Dhaka Courier*, 2 February 2012, <http://www.dhakacourier.com.bd/?p=4734>, last accessed on 16 February 2012.

¹¹ Chinese Foreign Ministry, 'Bilateral Relations', Last Update on 22 August 2011, available at: <http://www.fmprc.gov.cn/eng/wjbj/zjzg/yzs/gjlb/2681/>, last accessed on 16 February 2012.

in Bangladesh. China and Bangladesh have signed an agreement to construct the seventh China–Bangladesh Friendship Bridge.¹² Earlier in May 2010, China had signed an agreement to invest US \$ 2.515 million in the Mongla EPZ to manufacture rubber sheets which would create employment opportunities for 1,200 Bangladeshi nationals. It is also investing US \$ 5.048 million in the Uttara EPZ. China and South Korea are the largest foreign investors in Bangladesh followed by India. In September 2011, China Harbour Engineering Company Ltd was selected to implement a project for Jamuna River dredging (14 km). China is providing Bangladesh with hydrological data at three points in the upper reach of river Brahmaputra on a daily basis between January to October free of cost. China has also agreed to develop a deep-sea port at Sonadia near Cox's bazaar.

The two countries have extensive defence cooperation, involving regular military-to-military exchanges and contacts at high levels. In 2011, Air Chief Marshal Ma Xiaotian, Deputy Chief of the General Staff of People's Liberation Army (PLA), and Vice Admiral Ding Yiping, Deputy Commander of Navy of PLA, visited Bangladesh. Foreign Minister of Bangladesh, Dr Dipu Moni, visited China in June 2011 and held talks with her

counterpart. They reiterated the need for both countries to cement their relationship and strengthen bilateral cooperation. Both the countries agreed to develop road and other connectivity. Bangladesh is purchasing forty-four military armoured vehicles costing US\$ 200 million from China.¹³ Bangladesh Army Chief, General Muhammed Abdul Mubeen, visited China in September 2011 and met the Chinese Defence Minister, Liang Guanglie, and both countries agreed to deepen their defence relationship further. It may be remembered here that China had agreed to supply frigates to Bangladesh Navy in 2010. China and Bangladesh are likely to strengthen their relationship further in the future, especially on economic and security-related issues.

CHINA–BHUTAN

While Bhutan and China do not share official diplomatic relations, the two countries are engaged in boundary negotiations since the 1980s. The area of dispute entails the northwest and central regions of Bhutan and so far, nineteen rounds of boundary talks have been held between both the countries. In the latest round held in January 2010, both sides decided on a joint field survey which would enable harmonizing the reference points and names of the disputed areas. Also, the

¹² The data used in this paragraph have been taken from both Chinese and Bangladeshi media and government sources.

¹³ Zhang Xianyi, 'China Favours Regional Connectivity', *Daily Star*, 27 September 2011, available at <http://www.thedailystar.net/newDesign/news-details.php?nid=204181>, last accessed on 16 February 2012.

focus of the survey was the disputed areas in the western sector which constitute the pastoral lands of Doklam, Charithang, Sinchulumpa, and Dramana. While the twentieth round is yet to take place, the focus is likely to be on the western sector, which constitutes the strategic Chumbi Valley—a vital tri-junction between Bhutan, India, and China, which is 5 km from the Siliguri corridor—an area of immense geo-strategic significance for India. Chinese presence on northwestern borders, where it has been successful in building six roads, has been a growing concern for the Bhutanese, and there are pressures from the National Assembly members on the incumbent government to solve the boundary dispute.

However, it has been reported that economically, China is slowly making inroads into Bhutan. China has expressed its intent to invest in projects relating to health and education services. It has also been exporting farming and telecommunication equipments, and recently it has supplied some solar panels to Bhutan, which are being used by the people inhabiting the border areas in northwest Bhutan.

Formalizing diplomatic relations with China will occupy an important place in Bhutan's foreign policy in the coming years. As public pressure builds up to resolve the disputed boundary issue, and as China's penetration into Bhutanese economy is

likely to grow—in view of its efforts to offer itself as an attractive economic partner to Bhutan, particularly for the development of north and northwestern areas—there may be a major shift in Bhutanese foreign policy, away from its current focus on India.

CHINA–MALDIVES

The growing economic and military power of China along with its dependence on energy sources coming from Gulf and Africa has made Chinese interested in the Maldives. The diplomatic relationship between China and Maldives was established on 14 October 1972. Since then, the country has been trying to build on it with various economic programmes and high-level visits. In the year 2011, the same trend was maintained. In early 2011, the Speaker of the Maldivian Parliament, Abdulla Shahid, visited China.¹⁴ He was greeted there by Wu Bangguo, Chairman of the Standing Committee of the NPC. Wu expressed China's desire to maintain friendly exchanges and cooperation at all levels in an effort to expand mutual trust and economic and trade cooperation in fields such as fisheries, tourism, and infrastructure building. China also encouraged Chinese companies to further participate in the Maldives' national construction and more Chinese tourists to visit the country. Bangguo mentioned that the relationship between the two countries

¹⁴ Zheng Jie and Che Hongliang, 'Maldives–China Ties to Continue to Prosper: Maldivian Parliament Speaker', *Xinhua*, 28 May 2011, available at <http://english.people.com.cn/90001/90776/90883/7393725.html>, last accessed on 16 February 2012.

would be a model for relations between big and small nations. Wu Bangguo paid a return visit to Maldives towards the end of May 2011, and held bilateral meeting with Abdulla Shahid and called for closer cooperation between the two parliaments with the aim of pushing forward bilateral relations. They also planned to take the bilateral relationship to a new level on the fortieth anniversary of establishing of bilateral relations in 2012.

China–Maldives bilateral relations received a major boost after China opened its embassy in Male on 8 November 2011. It was opened two days before Maldives hosted the seventeenth summit of the South Asian Association for Regional Cooperation (SAARC). Only India, Sri Lanka, Pakistan, and Bangladesh have an established diplomatic presence in the Maldives.

China is also trying to increase its leverage with Male by sending larger number of tourists as tourism remains a major contributor to the Maldivian economy. Chinese tourist arrivals doubled year-on-year in 2010, according to the Maldives Ministry of Tourism, Arts, and Culture. By September 2011, the number of visitors from China reached 146,668, which went

past the total of 118,961 in 2010.¹⁵ This growing Chinese market has encouraged a Maldivian airline, MEGA Maldives, to start direct flights from China to Male International Airport—the islands’ main entry point for foreign tourists.

China in the past has shown interest in creating a naval base for itself in Maldives. Though Chinese lost some influence after Nasheed became President, they are still trying to bag some crucial development projects in Maldives. China, in particular, seems interested in developing Ihavandhoo and Maarandhoo Islands, with transshipment ports among other things, as well as grabbing a piece of action in the development of the country’s second international airport at Hanimaadhoo. The islands in question are located in the Haa Alif Atoll, situated in the north of Maldives.¹⁶ China wants a presence in these islands which will fulfill their desire to get a foothold in the Indian Ocean. China’s main aim is to ensure the security of its sea lanes for facilitating its critically needed energy imports. Though this policy of China has often been described as ‘string of pearls’ strategy, however, it now appears more due to China’s global military ambitions.¹⁷

¹⁵ ‘Cold war in the tropics: China, India vie for Maldives’, 16 November 2011, available at <http://in.reuters.com/article/2011/11/16/idINIndia-60554420111116>, last accessed on 16 February 2012.

¹⁶ Rajat Pandit, ‘China’s Stepped Up Moves in Maldives Worry India’, *The Times of India*, 11 October 2011, available at http://articles.timesofindia.indiatimes.com/2011-10-10/india/30262896_1_indian-military-surveillance-systems-ins-tillanchang-maldives, last accessed on 16 February 2011

¹⁷ Anand Kumar, ‘Chinese Engagement with the Maldives: Impact on Security Environment in the Indian Ocean Region’, *Strategic Analysis*, Vol. 36, No. 2, March 2012, pp 276–89.

President Nasheed, while in power, always tried to allay Indian fears. In October 2011, he stated in Perth (Australia) on the sidelines of the biennial Commonwealth Heads of Government Meeting (CHOGM) that the Maldives 'will always be India's friend' and also added that he trusted 'democracy far more than any other system'.¹⁸ With the rising political instability in Maldives after Nasheed's resignation, and increasing assertion of the Islamists, there is a fear that India may lose its long-standing advantage in Maldives unless due diplomatic efforts are taken to sustain Indian influence.

CHINA–NEPAL IN 2011

As a state sharing its border with China's restive province of Tibet, Nepal occupies a special position in Chinese foreign policy. Since the 1950s, when Nepal was coerced to surrender some of its advantages—granted to it in the bilateral treaty of 1856 known as the Treaty of Thapathali which was replaced by new treaty in 1956—China has been seeking a reliable political partner in Nepal to ensure that the Nepalese territory is not used by Tibetan rebels against Chinese interests. Nevertheless, in keeping with its earlier policy, it quietly recognized India's natural influence over Nepal. This is not to deny that China responded well to Nepalese courtship to use it as a balancer vis-à-vis India. In view

of the continuing uncertain political transition since 2007, China has shown greater interest in Nepal. The reasons are twofold: (a) the growing unrest in Tibet; and (b) the opportunity in Nepal offered by the emergence of a left-wing Maoist political outfit in Nepalese politics, with perceived pro-China sympathies.

China is looking for new political partners in Nepal after the fall of the monarchy in 2008. To add to Chinese worries, there has been a surge in anti-China protests by the Tibetan refugees living in Nepal during this transition. In spite of its assertive posture in Asian and international issues as a rising economy and a global player, the world has found China extremely sensitive and vulnerable over the Tibet issue. Therefore, it is making all efforts to ensure a friendly regime in Nepal which would disallow Tibetan insurgent activities in Nepal.

The unusual Chinese nervousness over the Tibet issue was quite visible during its premier's brief stopover visit at Nepal on 14 January 2012. An earlier scheduled visit was cancelled and this particular one was kept a top secret until the very last day. During the visit, an eight-point joint statement was issued, which pledged to 'further promote Nepal–China friendly relations of comprehensive partnership of cooperation featuring everlasting friendship on the basis of the five principles of

¹⁸ For details see: R. K. Radhakrishnan, 'Maldives, a friend of India: Nasheed', *The Hindu*, 6 November 2011, available at <http://www.thehindu.com/news/international/article2601561.ece>, last accessed on 16 February 2012.

peaceful coexistence'.¹⁹ China increased its annual assistance to Nepal from RMB 150 million to RMB 200 million. It also announced an RMB 750 million (US \$ 120 million or Nepalese Rs [NRs] 9.7 billion) grant to Nepal to be spent on mutually identified projects under a new bilateral Agreement on Economic and Technical Cooperation (Link1). China also announced a one-time grant of \$ 20 million to be spent on the rehabilitation of former Maoist combatants.²⁰

The Tibet issue dominated bilateral discussions during the visits of several delegations from China to Nepal in 2011. Tibet still remains a major strategic concern for China, which was reflected in the year 2011. The visits also indicated the growing Chinese interest in Nepal. The Chinese high-level visits to Nepal in 2011 included: (a) the visit of Chinese Vice Minister of Commerce, Fu Ziyiing, in February 2011, during which a loan assistance of approximately NRs 7 billion was made available to Nepal for the construction of Upper Trishuli Hydropower Project; (b) the visit of PLA Chief, General Chen Bingde, on 23 March 2011, during which

China agreed to provide engineering equipment assistance worth RMB 30 million and assistance worth RMB 100 million to the Nepal Army Hospital at Chhauni; (c) the visit of Standing Committee Member of Politburo of the Communist Party of China (CPC) and China's National Security Chief, Zhou Yongkang, on 16 August 2011; and (d) a high-level delegation led by Vice Minister of the International Department of the Central Committee of the CPC, Ai Ping, on 20 October 2011.²¹

There have been major shifts in China's foreign policy towards Nepal since 2008. It has increased its political, economic, military, and academic delegations to Nepal, posted one of its better diplomats as Ambassador to Kathmandu, increased people-to-people contacts, opened more customs posts at the borders, increased annual grant assistance, and most importantly, strengthened its engagements at the institutional level leading to greater interaction with Nepalese army, bureaucracy, police, and armed police (mostly deployed along the borders). According to *Xinhua*, in 2010, the number

¹⁹ For details of the joint statement see: 'China, Nepal Issue Eight-Point Joint Statement on Relations, Cooperation' available at <http://np.china-embassy.org/eng/Features/wenjiabaonepal20120114/t895872.htm>, last accessed on 17 February 2012.

²⁰ Please see media reports on this: Ananth Krishnan, 'Wen Jiabao makes brief Nepal visit, offers aid', *The Hindu*, 15 January 2012, available at <http://www.thehindu.com/todays-paper/tp-international/article2802669.ece>, last accessed on 17 February 2012.

²¹ The data on the visits have been derived from the backgrounder issued by the Chinese foreign office on the website hosted by the Chinese embassy in Nepal, 'Backgrounder: Bilateral Relations between China and Nepal', 15 January 2012, available at <http://np.china-embassy.org/eng/Features/wenjiabaonepal20120114/t895871.htm>, last accessed on 17 February 2012

of bilateral personnel exchanges with Nepal had reached 74,000.²² Moreover, it said that during the past five years, the Tibet Autonomous Region has enhanced its position as a main trade frontier in southwest China by constructing infrastructure, preparing for the establishment of China–Nepal economic cooperation zone, and building the ‘continental trade route to South Asia’. The present Chinese Ambassador to Nepal, Yang Houlan, has been particularly proactive in establishing linkages with Nepalese political leadership from all political parties, opening Confucius centres, talking to the Nepalese banks, visiting villages along Nepal–China border, and making his presence felt in think tank and academic circles.

China has three major strategic interests in Nepal: first, containing Tibetan refugees (total number amounts to about 20,000) south of the Himalayas and stopping their anti-China activities; second, neutralizing India’s influence in Nepal and setting up a pro-China regime in Kathmandu, for which China has scaled-up its policy of engagement in recent years and adopted even soft diplomatic measures, that is, people-to-people contacts, cultural relations, scholarships to students, economic aid, and spreading of Chinese

Buddhism in Nepal; and third, investing in strategically important infrastructure like airports and important highways. The investments in Lumbini and Pokhara airports are a point of reference.²³ By contributing specifically to the integration process, China is seeking to earn popular goodwill, and by maintaining contacts with all political forces, it is projecting itself as a neutral force, aiming more at creating conducive environment for greater bilateral economic cooperation which would strengthen political relationship as well.

CHINA–PAKISTAN

China and Pakistan celebrated sixty years of their diplomatic engagement in 2011. The relationship between the two prospered, especially since the 1960s, against the backdrop of the India–China war of 1962. Pakistan has since looked up to China as a major strategic partner. The illegal transfer of nuclear and missile technology between the two countries is well established. Pakistan played a major role in the US–China reconciliation in early 1970s. China and Pakistan are united in their antipathy towards India and each uses the other as a strategic ally in southern Asian region against India. Given the fact that India has suffered aggression from

²² See ‘China and Nepal: Friendly neighbors across Himalayas’, Chinese Government’s official web portal, 14 January 2012, http://english.gov.cn/2012-01/14/content_2044455.htm, last accessed on 17 February 2012.

²³ Dr Liu Guang, Deputy Mayor of Kunming Municipal Government of China and also the Standing Committee Member of CPC’s Kunming City, was in Nepal in December 2010 to establish sister city relationship with Kunming and Pokhara.

both these countries, India has genuine concerns about Sino-Pakistan nexus. The Indo-US nuclear deal in 2007 has been wrongly interpreted by both as being directed against them and this has brought them even closer together. This is demonstrated by the brazen attempt by the Chinese to grandfather some nuclear deals with Pakistan, as a strategic counter to Indo-US deal. In recent years, the two countries have characterized their relationship as an 'all-weather' friendship and the Chinese President even termed as being 'higher than the mountains, deeper than the oceans'. China has engaged itself in critical infrastructure building and business investments in Pakistan. This is amply demonstrated by the construction, and later expansion, of the Karakorum Highway, a deep-sea port at Gwadar, Chashma Nuclear Power Plant, Taxila Heavy Mechanical Complex, Jinnah Sports Stadium, and the Pakistan–China Friendship Centre. Reports in the media indicate that Chinese are increasing their footprints in the Pakistan-occupied Kashmir (PoK) under the pretext of developing infrastructure in the region. It

is considered as a matter of grave concern by India.²⁴

In 2011, while celebrating their long-standing relationship, Chinese State Councillor, Dai Bingguo, went yet another step further than all-weather friendship and called Pakistan an 'iron-core' friend.²⁵ He referred to the 'thunderous, standing ovation from the tens of thousands of Chinese spectators as the Pakistani delegation walked into the stadium at the opening ceremony of the Beijing Olympic Games' and stated that from 'the eight-year-old to the eighty-year-old, China–Pakistan friendship has struck root in the hearts of the 1.5 billion people of our two countries. It is their commitment that has nourished the tree of China–Pakistan friendship and enabled it to bear bountiful fruits'.²⁶ The emphasis in bilateral relations would be on further strengthening bilateral strategic cooperation, expanding areas of practical cooperation (rehabilitation of road network after the floods, energy, space, banking, power, etc.), and people-to-people exchange. China–Pakistan trade hovers around US\$ 10 billion and they are taking

²⁴ See Selig S. Harrison, 'China's Discreet Hold on Pakistan's Northern Borderlands', *New York Times*, 27 August 2010, available at: <http://www.nytimes.com/2010/08/27/opinion/27iht-edharrison.html>, also see Mandip Singh, "Increasing Chinese Footprint in India's North West: What should India do?", IDSA Comment, 21 October 2011, at http://www.idsa.in/idsacomment/IncreasingChineseFootprintinIndiasNorthWest_msingh_211011

²⁵ 'Carry Forward China-Pakistan Friendship for Common Progress', Remarks by State Councilor Dai Bingguo at the Reception Marking The 60th Anniversary of China-Pakistan Diplomatic Relations and The Closing of the Year of China-Pakistan Friendship, Islamabad, 23 December 2011, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t891857.htm>, last accessed on 17 February 2012.

²⁶ Ibid.

active measures to raise it to about \$15 billion by 2012. According to Pakistan Foreign Ministry, 'over 100 Chinese projects in various fields are underway in Pakistan and thousands of Chinese are working on these projects'.²⁷

China and Pakistan are committed to 'promote all-dimensional, multi-tiered, wide-ranging exchanges and cooperation between our two countries to build stronger popular support for [their] friendship'.²⁸ During 2011, several high-level visits took place between the two countries. In February 2011, Pakistani President Zardari stopped over on his way back from Japan at Tianjin in China and met Chinese Vice Foreign Minister, Zhang Zhijun, and the Mayor of Tianjin. Pakistani Prime Minister, Yusuf Raza Gilani, visited China from 17 to 20 May 2011 on a bilateral visit, soon after Osama Bin Laden's killing, to celebrate the sixtieth anniversary of the Pakistan–China diplomatic relations. During the visit, Gilani met with President Hu Jintao; Wen Jiabao, his counterpart in China; Jia Qinglin, Chairman Chinese People's Political Consultative Conference (CPPCC); and many Chinese business

leaders. President Zardari went on an official visit to China from 30 August to 1 September 2011 to participate in the first ever China–Eurasia Expo held in Urumqi city. During his visit, Zardari also met Vice Premier Li Keqiang and the provincial leadership, including CPC Party Secretary, Zhang Chunxian, and Governor Nur Bekri of Xinjiang Uygur Autonomous Region (XUAR). Besides these visits, other high-level visits included that of Chairman Senate; Speaker and Deputy Speaker of National Assembly; a number of ministerial delegations; Chairman Benazir Income Support Programme; and delegations from different political parties from Pakistan, including Bilawal Bhutto, Chairman Pakistan Peoples Party (PPP) during 2008–11. From the Chinese side, Wen Jiabo visited Pakistan in November 2011, and more than twenty delegations visited Pakistan, including those led by Vice Premier Zhang Dejiang and Defence Minister General Liang Guanglie.

China and Pakistan had a two-week long brigade-level joint exercise between the two armies, code named YOUYI-IV, near Jhelum, in November 2011.²⁹ The two

²⁷ Peer Muhammad, 'Pakistan-China trade volume to touch \$15 billion mark by 2012: Foreign Office', *Business Recorder*, 9 July 2010, cited at <http://www.defence.pk/forums/economy-development/64986-pakistan-china-trade-volume-touch-15-billion-mark-2012-foreign-office.html>, last accessed on 17 February 2012.

²⁸ 'Carry Forward China-Pakistan Friendship for Common Progress', Remarks by State Councilor Dai Bingguo at the Reception Marking The 60th Anniversary of China-Pakistan Diplomatic Relations and The Closing of the Year of China-Pakistan Friendship, Islamabad, 23 December 2011, available at <http://www.fmprc.gov.cn/eng/wjdt/zyjh/t891857.htm>, last accessed on 17 February 2012.

²⁹ 'Youyi' literally translates into friendship. This series of joint exercise started in 2004.

armies have very good relationship. Pakistani Army Chief, Ashfaq Pervez Kayani, went on a visit to China in January 2012, at the invitation of PLA leadership. He held wide-ranging talks with General Ma Xiaotian, PLA's Deputy Chief of General Staff, on bilateral defence cooperation issues spanning defence and security dialogue, joint exercises, training of personnel, defence co-production, and defence trade. He also met General Liang Guanglie, China's Defence Minister, and Premier Wen Jiabao. Jiabao reiterated Chinese support to Pakistan and held that 'in view of the complex and evolving regional and global situation, closer and strengthened coordination between Pakistan and China is imperative in order to meet common challenges'.³⁰

In spite of the time-tested Pakistan–China relations, and long-running Chinese distrust of India, China has kept away from India–Pakistan tensions and has, so far, adopted a public posture of encouraging India–Pakistan dialogue. Not long before, according to reports, China had quietly asked Pakistan to relax its stand on Kashmir and adopt the model of its dialogue with India, despite the unresolved boundary dispute. Moreover, in times of Indo-Pak military engagements, like in the case of

1971 war or the Kargil encounter, China chose to stay aloof. Nevertheless, China–Pak joint military and security cooperation will continue to add to Indian worries in future.

CHINA–SRI LANKA

China's ties with Sri Lanka have intensified, particularly since 2009. China has now become Sri Lanka's largest donor and third-largest import origin country. According to Sri Lankan President Mahinda Rajapaksa, 'the relations between China and Sri Lanka are at the highest levels of friendship and understanding'.³¹ In this background, China–Sri Lanka relations in 2011 have been presented in this section.

Against the backdrop of ongoing international attempts to isolate Sri Lanka over human rights accountability issues, President Rajapaksa's government is seen to be boosting its relations with China. There were three very high-level visits to China from Sri Lanka in 2011: by President Rajapaksa, Prime Minister DM Jayaratne, and External Affairs Minister, Professor GL Peiris.

Professor G L Peiris paid a working visit to China during 23–4 May 2011 at the invitation of Chinese Foreign Minister, Yang

³⁰ As per reports in Pakistani media, 'Pakistan, China to support each other's core interests: Wen Jiabao', *Dawn*, 5 January 2012, available at: <http://www.dawn.com/2012/01/05/pakistan-china-to-support-each-others-core-interests-wen-jiabao.html>, last accessed at 19 February 2012.

³¹ Rajapaksa cited in Chinese Embassy report, 'Interview: Sri Lanka Looks Forward to Increasing Cooperation with China: President', 9 August 2011, available on <http://lk.chineseembassy.org/eng/xwdt/t847379.htm>, last accessed at 19 February 2012.

Jiechi.³² During his visit, among other issues, Peiris briefed his counterpart about Sri Lanka's position on a range of issues connected with the Darusman Report, the work of the Lessons Learnt and Reconciliation Commission (LLRC), and initiatives on the part of the Inter-Agency Advisory Committee appointed by the Government of Sri Lanka. Prime Minister Jayaratne visited China to attend the inauguration of the fifteenth China International Fair for Investment and Trade (CIFIT) 2011 in Xiamen in September 2011. He had also attended the opening ceremony of the nineteenth China Kunming Import and Export Fair and the fourth South Asian Countries Trade Fair in June 2011. President Rajapakse led a high-level delegation on an invitation extended by the Chinese President Hu Jintao in August 2011.³³ During his four-day visit, Rajapaksa held bilateral discussions with Chinese President Hu Jintao and the Prime Minister Wen Jiabao and expressed his willingness to enhance Sri Lanka's cooperation with China in all fields and promote bilateral comprehensive partnership of cooperation.

As far as high-level visits from China are concerned, a delegation comprised of six very senior Chinese military officers,³⁴ headed by General Ma Xiaotian, Deputy Chief of General Staff of the PLA, visited Sri Lanka in December 2011. The delegation called on the Commander of the Air Force, Air Marshal Harsha Abeywickrama, Commander of the Sri Lanka Navy, Vice Admiral Somathilake Dissanayake, Sri Lankan Army Commander, Lieutenant General Jagath Jayasuriya, and Secretary to the Ministry of Defence and Urban Development, Gotabaya Rajapaksa and discussed wide range of matters, including Sri Lanka's humanitarian operations in the north. Earlier, another Chinese defence delegation visited in October 2011, and met Admiral Somathilake Dissanayake. During the discussions, the visitors offered to conduct joint naval exercises and surveillance operations. They also had a meeting with Gotabaya Rajapaksa on 12 October, when Major General Qian Lihua signed a memorandum of understanding (MoU) with him to provide material assistance worth RMB 10 million to the Defence Services College in Colombo.

³² 'Sri Lanka has Fullest Capability to Resolve Her Own Issues—China's Foreign Minister', 25 May 2011, available at http://www.mea.gov.lk/index.php?option=com_content&task=view&id=2776&Itemid=75, last accessed at 19 February 2012.

³³ The delegation comprised of: External Affairs Minister, Professor GL Peiris; Higher Education Minister, SB Dissanayake; Secretary to the President, Lalith Weeratunga; and Foreign Ministry Secretary, Karunathilaka Amunugama.

³⁴ The delegation consisted of: Rear Admiral Guan Youfei, Deputy Chief, Foreign Affairs Office (FAO), Ministry of National Defence (MND); Senior Colonel (Air Force) Guo Hongwei, Secretary to General (Air Force) Ma Xiaotian; Senior Colonel Song Yanchao, Deputy Director General, Asian Affairs Bureau, FAO, MND; Colonel Zhao Meng, Staff Officer, FAO, MND; Colonel Liu Bin, Staff Officer, FAO, MND; and Captain Jiang Bin, Staff Officer, FAO, MND.

Other than the bilateral visits, leaders of both the countries use other international fora to discuss their bilateral and other issues of interests. President Hu Jintao met President Rajapaksa in June 2011 at the sidelines of the St. Petersburg International Economic Forum, held in St. Petersburg, Russia. During all these discussions, while Sri Lanka reiterated its continuing support on issues relating to Taiwan and Tibet, that is, 'One-China policy', China assured Sri Lanka of its continued support for the latter's efforts to safeguard its national independence, sovereignty, and territorial integrity, as well as its path to development and its domestic and foreign policies. Chinese leaders have also assured the Sri Lankan leaders that China would continue to encourage Chinese companies, especially large enterprises, to engage in Sri Lanka's development and expand trade and investment with the country in order to realize mutual benefit and common development. China has also pledged to boost bilateral cooperation between the two countries in many areas, including infrastructure, the exploitation of energy and resources, and tourism. On the issue of accountability, China is of the view that the Sri Lankan government has already set up its own institutions to investigate relevant issues and therefore urges international community to provide support and assistance to such efforts by the Sri Lankan government and avoid

taking measures that could further complicate the issue.

Growing trade and economic relations is another important indicator of the China–Sri Lanka multidimensional engagement. In 2010, Sri Lanka's export to China was valued at Sri Lankan Rupees (SLR) 8,579 million, which accounted for 0.9 per cent of its total export. On the other hand, Sri Lanka's import from China in 2010 was SLR 140,210 million, 9.2 per cent of its total import value.³⁵ Sri Lanka faces a huge trade deficit vis-à-vis China, but interestingly, Sri Lankans do not show much resentment about it, at least in public, as they do in case of the India–Sri Lanka trade gap. Despite these trade gaps, Sri Lanka looks forward to increased cooperation in trade and investment with China. Nonetheless, the issue of the trade gap was brought out by Minister Peiris to Minister Yang Jiechi during his visit to China. He suggested that China would benefit from facilitating more export opportunities and transfer of technology to upgrade Sri Lanka's exportable products to China. Responding to this, Yang Jiechi said that his government was committed to the adoption of measures to reduce the trade imbalance between the two countries.

China became the top-most aid provider to Sri Lanka with a total aid commitment of US \$ 759.8 million during January–April 2011.³⁶ Other than these long-term loans,

³⁵ The economic data used in this section are based on information provided at the website of the Central Bank of Sri Lanka: <http://www.cbsl.gov.lk>, last accessed at 19 February 2012..

³⁶ Daya Gamage, 'Drop in US Aid No Surprise, China Top Most Aid Provider', *Sunday Observer*, 31 July 2011, available at <http://www.sundayobserver.lk/2011/07/31/fea30.asp>, last accessed on 18 February 2012.

Government of China sent over \$ 1.5 million worth emergency relief supplies to Sri Lanka in January 2011 for the flood victims. Further, in 2011, China Development Bank Corporation agreed to provide financial assistance to the extent of US \$ 1.5 billion³⁷ within three years for the construction of roads, bridges, water supply schemes, and also for irrigation and power. Sri Lanka entered into a US \$ 500 million³⁸ deal with one of the largest port operators in the Asian region, the Hong Kong-based China Merchants Holdings International (CMHI), to build and operate South Container Terminal at the port of Colombo. China has agreed to provide a credit facility of about US \$ 25 million through the EXIM Bank of China to meet 85 per cent of the cost of 'Lighting Sri Lanka Uva Province' project under the Uva Udanaya, on a request made by President Rajapaksa.³⁹ The Sri Lankan government has decided to purchase plant and machinery needed for road construction

from China at a cost of US \$ 115.8 million.⁴⁰ It will be relevant to mention here that in 2011, Central Bank of Sri Lanka included the official currency of China, Renminbi or Yuan, in the list of designated currencies permitted for international transactions through banks in Sri Lanka.

Chinese companies are engaged in infrastructure-building activities in Sri Lanka in a major way. The foundation stone for the construction of the main passenger terminal building at the Mattala Airport, which will be built from funds from the China Harbour Engineering Corporation, was laid in 2011. The year saw the completion of Norochcholai Coal Power Plant which was built using a US \$ 455 million loan from China's EXIM Bank.⁴¹

China-Sri Lanka defence and security cooperation is also on the upswing. The year witnessed a high-level visit by a PLA delegation which further enhanced military ties in the field of professional training,

³⁷ See official press release on June 23, 2011 at The Official Government News Portal of Sri Lanka, available at [http://www.news.lk/v2/index.php?option=com_content &view=article&id=18296:press-release&catid=52:cabinet-decisions&Itemid=625](http://www.news.lk/v2/index.php?option=com_content&view=article&id=18296:press-release&catid=52:cabinet-decisions&Itemid=625), last accessed on 18 February 2012.

³⁸ 'China Sign Agreement to Upgrade Colombo South Container Terminal', The Official Government News Portal of Sri Lanka, 17 August 2011, available at: http://www.news.lk/v2/index.php?option=com_content&view=article&id=18713:sl-china-sign-agreement-to-upgrade-colombo-south-container-terminal&catid=62:latest-news&Itemid=371, last accessed on 18 February 2012.

³⁹ 'Chinese Credit to Finance Lighting Lanka Project', *Daily Mirror*, 17 February 2011, available at <http://print.dailymirror.lk/news/news/35931.html>, last accessed on 18 February 2012.

⁴⁰ 'China to Undertake Mega Road Construction Job', *Daily Mirror*, 3 June 2011, available at <http://print.dailymirror.lk/news/news/45872.html>, last accessed on 18 February 2012.

⁴¹ Sri Lanka's first-ever coal power plant at Norochcholai, constructed with a Chinese grant of US\$ 455 million and a Sri Lankan government commitment of Rs 5.3 billion, was commissioned by President Mahinda Rajapaksa on 22 March 2011. Most of the construction was carried out by China National Machinery Import and Export Corporation.

exercises, and military assistance to Sri Lanka.⁴² The PLA continues to offer training to Sri Lankan military personnel on various training modules. As of 2011 figures, thirty-two Sri Lankan military officers, including two Major Generals, were undergoing training at several PLA facilities in China.⁴³ During the year, the two countries also signed two MoUs with regard to the instruments needed for the removal of land mines and instruments which are needed by Sri Lankan Army. The Sri Lankan Air Force took delivery of two MA 60 passenger aircraft from China on 30 September 2011.⁴⁴

To strengthen the cultural ties and people-to-people exchange, China has proposed establishment of Confucius Centres and a TV channel in Sri Lanka to popularize the Chinese language, telecast educational programmes, and train teachers and school principals.⁴⁵ During his visit to China in August 2011, President Rajapaksa inaugurated the newly built Sri Lanka Research Centre at Beijing Foreign Studies

University. In 2011, National Performing Arts Theatre, for which China provided 40 per cent of the total cost (SLR 3,080 million), was also inaugurated in Colombo.

According to the Sri Lanka Tourism Development Authority, in the first ten months of 2011, tourist arrivals from China grew by 71.6 per cent to 13,889 in October from 8,092 in January 2011.⁴⁶ Sri Lanka has implemented a number of programmes targeting the broad tourist base in China with the support of Chinese tour agencies, including opening of a public page on the Chinese Facebook, www.renren.com.

IMPLICATIONS FOR INDIA

From the given discussion, it is clear that China is upgrading its relationship with all South Asian countries in a determined manner. It is expanding the areas of engagement, creating opportunities for Chinese investment where it is profitable, offering aid and assistance, and mostly engaging itself profitably in infrastructure-

⁴² 'Top Chinese Military Delegation in Lanka', *Daily Mirror*, 13 December 2011, available at <http://www.dailymirror.lk/news/15413-top-chinese-military-delegation-in-lanka.html>.

⁴³ See 'High-level Chinese military delegation visits Sri Lanka', *Daily Financial Times*, Colombo, December 14, 2011, available at: <http://www.ft.lk/2011/12/14/high-level-chinese-military-delegation-visits-sri-lanka/>, last accessed on 19 February 2012.

⁴⁴ Supun Dias, 'SLAF Takes Delivery of Chinese MA 60 Aircraft', *Daily Mirror*, 1 October 2011, available at <http://print.dailymirror.lk/news/news/57807.html>, last accessed on 16 February 2012.

⁴⁵ 'China to Set Up Confucius Centres, TV Channel Here', *Daily Mirror*, 21 October 2011, available at <http://www.dailymirror.lk/news/14252-china-to-set-up-confucius-centres-tv-channel-here.html>, last accessed on 16 February 2012.

⁴⁶ 'Sri Lanka to attract more Chinese tourists', *ColomboPage.com*, November 28, 2011, available at http://www.colombopage.com/archive_11B/Nov28_1322498809CH.php, last accessed on 16 February 2012.

building projects in most of the countries. It has to be acknowledged also that the Chinese ability to deliver on these fronts has generated popular goodwill in most of the countries. With its increasing economic might and its global presence, it is also being viewed as a reliable partner in the region. While this may not offset the natural affinities that India has with each of the South Asian countries, it is likely to increasingly reduce their dependence on India on many counts. This may inevitably lead to an overall weakening of Indian influence and pose a critical challenge to Indian diplomacy and foreign policy.

China's interests in the neighbourhood may be benign at the moment, but with increasing penetration into the region through multi-dimensional engagements, it is likely to lead to further assertive posture vis-à-vis India in future. The condescending reactions by a Chinese columnist Li Hongmei (from the state-run Xinhua News Agency) in the *The Global Times* (owned by the Chinese Communist Party) to a comment in the Indian media by India's former defence minister, Jaswant Singh, in November 2011 indicated the Chinese resolve to ignore delusional reactions from India, push for 'win-win'

relations with India and its neighbours, and bring Chinese influence right up to India's doorsteps. This particular article was written against the backdrop of media reports in India about warnings given by the Chinese to an Indian Navy vessel sailing in international waters off the coast of Vietnam (in the South China Sea). The author mentioned, among other things, Chinese activity in Pakistan and Myanmar, the expansion of China's port agreements and 'heightened Chinese naval activity in the Indian Ocean' and concluded that all this were well in line with the Sun Tzu dictum of containing 'an adversary through the leverage of converting the neighbourhood of that adversary into hostiles'.⁴⁷ Hongmei termed it 'wild speculation' and argued that because of India's 'inferiority complex', any 'move the Dragon takes in the region would in all likelihood vex the Elephant'.⁴⁸

Chinese presence in the neighbourhood may have alerted the wider strategic community in India; however, at the official level, India has advocated a watchful and cautious stand. In the face of accumulating public concern about Chinese assertions, Prime Minister Dr Manmohan Singh perhaps felt compelled to dispel public

⁴⁷ Jaswant Singh, 'Asia's Giants Colliding at Sea?', 24 October 2011, available at <http://www.jaswantsingh.com/asia-giant.html>, last accessed on 16 February 2012.

⁴⁸ The original article titled 'India's Undue Worry About China Results from Inferiority Complex', appeared in *The Global Times*, on 24 November 2011 at http://news.xinhuanet.com/english2010/indepth/2011-11/24/c_131266603.htm, last accessed on 25 November 2011; however, later this was deleted and excerpts from this provocative piece can be found on http://shanghaiist.com/2011/11/25/xinhua_india_has_an_inferiority_com.php, last accessed on 16 February 2012.

perception of China attempting to strike India, by stating in the Indian Parliament on December 14, 2011, that this was not true.⁴⁹ Earlier, in November 2011 Dr Singh had stated in Bali, during the ASEAN Summit, that there was enough space in Asia for both the countries to grow together⁵⁰, and later in December 2010, during Wen Jiabao's visit to India, he mentioned that India-China relationship

'transcended the bilateral dimension and [had] assumed global and strategic significance'.⁵¹ Such official assurances notwithstanding, popular concerns about China's lengthening shadow in the region are likely to grow in the coming days, unless India takes appropriate diplomatic and strategic measures to arrest its declining influence in South Asia.

⁴⁹ See media report, 'No Threat from China: Manmohan', *The Hindu*, 14 December 2011, available at <http://www.thehindu.com/news/national/article2714065.ece>, last accessed on 16 February 2012.

⁵⁰ 'India Tells China its Interest in Disputed Sea Purely Commercial', *The Hindu*, November 19, 2011, available at: <http://www.thehindu.com/todays-paper/article2640719.ece>, last accessed on 16 February 2012.

⁵¹ 'PM's Speech at the Banquet Hosted for Premier Wen Jiabao of China', 16 December 2010, <http://meaindia.nic.in/mystart.php?id=100516881>, last accessed on 16 February 2012.

CHINA–US RELATIONS IN 2011

STYMIED BY STRATEGIC MISTRUST

RUKMANI GUPTA

Arguably the most important bilateral relationship in the world, between the People's Republic of China (PRC) and the United States of America (US), saw a period of relative instability in 2011. High-level exchanges throughout the year and the constitution of new dialogue mechanisms notwithstanding, it seems that the differences rather than the commonalities marked the year.

A FLURRY OF EXCHANGES

The year 2011 began with a high-profile visit by Chinese President Hu Jintao to the US in January. Coming at the heels of US Defence Secretary Robert Gates' visit to Beijing, Hu's visit was deemed a success by both sides. While Gates' China visit was overshadowed by news of the launch of China's stealth fighter, the J-20, Hu's meet with Obama was seen as more successful than his visit during the Bush presidency which had been plagued by gaffes. Although Obama made references to human rights issues, Hu seemed not overly perturbed by these, going so far as to state in a televised joint press conference that China could certainly improve on many

counts. Hu emphasized the need for the two countries to deal with each other as equals, with mutual respect. The visit saw the emergence of a consensus between the two largest economies of the world to build a cooperative partnership for mutual benefit to cope with challenges ahead.

Subsequent dialogues and exchanges included the human rights dialogue between the two sides in April 2011. That the two countries have been able to institutionalize a meeting on an issue such as human rights, which remains remarkably contentious, is a sign of how far the relationship has progressed. While the US seems committed to pressing for political freedom in the wake of economic reform, China, on its part, seems willing to engage in dialogue, even if it does not agree with its dialogue partner. This clearly indicates a desire, on both sides, to engage even on the more sensitive issues in the relationship.

Notably, the third round of the Strategic and Economic Dialogue between China and the US was held in Washington in May 2011. This particular dialogue went a step

further than those earlier in that it also had a defence component. For the first time, senior military officials from both countries participated in the dialogue. The US Secretary of State, Hillary Clinton, underlined the importance of the bilateral relationship between China and the US in her opening remarks at the SED, stating that both countries faced common regional and global challenges and how the two '...work together to meet those challenges will help define the trajectory, not only of our relationship going forward, but the future peace, prosperity and progress of the world'.¹

The SED sought to implement the consensus reached by the two sides during Hu's visit. Agreements for consultations on Asia-Pacific affairs and a China-US Governors Forum were signed. Subsequently, two rounds of consultations on Asia-Pacific affairs and the Governors Forum were held during the year.

It was not only the political side of the relationship that seemed to receive a fillip in 2011. In May, Chen Bingde, Chief of the General Staff of China's People's Liberation Army (PLA), travelled to Washington for a visit to further mend bilateral military ties, which was then reciprocated by a trip to China in July by Mike Mullen, then Chairman of the US Joint Chiefs of Staff.

China had suspended military ties with the US for much of 2010 following the announcement of the US arms sales to Taiwan and the visit to the White House by the Dalai Lama in January 2010. Admiral Mullen's visit came at a time when the rhetoric over territorial disputes in the South China Sea was already heightened and the US Navy had conducted joint drills with the Philippines as well as naval exercises with Japan and Australia. The first such meeting in four years between the militaries thus seemed to indicate recognition of the necessity for dialogue between the two countries, irrespective of differences.

THE DOWNWARD DIP

Mid-year, however, the goodwill generated by the frequent exchanges dissipated with Obama's meeting with the Dalai Lama in mid-July. Just two weeks after Mullen's visit, Chinese officials protested against American reconnaissance patrols near its coast even as officials on the mainland and in Taiwan downplayed an incident where two Chinese Sukhoi-27 fighter planes shadowing an American U-2 surveillance plane crossed the median line in the Taiwan Straits.²

A visit to China by US Vice President, Joe Biden, to put the bilateral relationship back

¹ Hilary Clinton, 'Remarks at the Opening Session of the U.S.-China Strategic and Economic Dialogue', available online at <http://www.state.gov/secretary/rm/2011/05/162881.htm>, accessed on 5 February 2012.

² J. Michael Cole, 'Intrusion by PLA Plane More Than Routine: Analysts', *Taipei Times*, available at <http://www.taipetimes.com/News/taiwan/archives/2011/07/28/2003509332>, accessed on 7 February 2012.

on track accomplished little. It was haunted by news of a brawl during a 'friendship' basketball game between Washington's Georgetown Hoyas and Chinese professional side, the Bayi Military Rockets, in Beijing's Olympic Stadium³ and the announcement of a US\$ 5.85 billion arms sale package to Taiwan a month later.⁴ The ghosts that had plagued military-to-military relations between China and the US in 2010 had obviously not been laid to rest. Trial runs of China's first aircraft carrier in 2011 did little to mitigate suspicions over Chinese intentions in the region.

October saw the passage of a bill in the US Senate that would allow penalties to be applied to China for 'currency manipulation'. China opposed the move, calling it an unnecessary politicization of the currency issue.

During the November summit of the Asia-Pacific Economic Cooperation (APEC) in Hawaii, US Secretary of State Hillary Clinton, in her opening remarks, identified the next century as 'America's Pacific Century', thereby clearly articulating American interests and commitment to a presence in Asia—a point which had seemed to cause much unease to China in the past. Obama, too, re-emphasized the creation of a free trade area in the form of the Trans-Pacific Partnership (TPP).

Nations around the Pacific Rim that signed up for the US-led TPP included Chile, Peru, Vietnam, Malaysia, Brunei, Singapore, Australia, and New Zealand. Although not specifically excluding China from the group, Obama made it clear that entry into the TPP would entail a variety of economic reforms—from ensuring workers' right and protecting intellectual property rights to the valuation of currencies on market conditions. Unsurprisingly, China has viewed the TPP as an attempt to scuttle its own economic free trade agreements (FTAs) and other initiatives in the Asia-Pacific.

China's concerns were only heightened by Obama's announcement, on a visit to Australia, to base a small contingent of US marines, initially 250 and gradually building up to 3,000, on the port of Darwin in Australia's Northern Territory. Ostensibly to ensure maritime and shipping security, this move has been seen as securing American presence in the region, and thwarting the creation of anti-access capabilities by China.

Obama also became the first US President to attend the East Asia Summit (EAS) held on 19 November in Bali, Indonesia. The US was involved in discussions regarding the importance of cooperation on the region's most pressing political and security

³ Tania Branigan, 'Georgetown Hoyas in Brawl with Chinese Basketball Team', *The Guardian*, 19 August 2011, available at <http://www.guardian.co.uk/world/2011/aug/19/georgetown-hoyas-brawl-basketball-china>, accessed on 5 February 2012.

⁴ Xinhua, 'US Urged to Resolve Taiwan Arms Sales Dispute', *China Daily*, 26 October 2011, available at http://www.chinadaily.com.cn/china/2011-10/26/content_13982051.htm, accessed on 7 February 2012.

challenges, including maritime security, non-proliferation, and disaster response. Osama's participation in the EAS underscored the US administration's commitment to deepening engagement in the Asia-Pacific region and playing a leadership role in its emerging institutions. Furthermore, Obama made clear that full and active US engagement in the region's multilateral architecture helps to reinforce the system of rules, responsibilities, and norms that underlies regional peace, stability, and prosperity. This interest in the multilateral institutions in the Asia-Pacific is not unrelated to concerns regarding Chinese claims and behaviour in disputed maritime zones such as the South China Sea. Although it cannot be assumed that China is happy with what it has termed 'interference by outside powers' in the past, there is little that it can do when its neighbours are quite happy to make room for the US in the region with a view to countering China's growing might.

THE PROBLEMS AND PROSPECTS

Washington's policy announcement that sought to position the US as a 'pivot' in Asia was undoubtedly the most contentious development in 2011 as far as Beijing is concerned. This along with the stationing of US marines in Darwin sends a fairly clear signal to China—that the dependence in the relationship notwithstanding, the US is not willing to withdraw from the region and let China carve a space for itself. Following comments at the Association of Southeast Asian Nations (ASEAN) Regional Forum at Hanoi in 2010 when US officials claimed a 'national interest' in the freedom of

navigation in the South China Sea, the strengthening of America's relationships with countries in Southeast Asia as well as traditional allies in East Asia, all have served to establish the US commitment to the region.

At a time when China's neighbours are uncertain about its intentions in the long run, American presence has come to be seen as a balancer. American engagement of Myanmar over the course of the year with a high-profile visit to the country by Secretary Clinton in November has also been seen as a broader strategy to provide an alternative to Chinese influence in the country. While the US moves in the region can certainly be interpreted as curtailing China's strategic choices, the fact remains that both, the US and China's neighbours in the Asia-Pacific, want stable ties with Beijing. Even as the US positions itself as an Asian pivot, it has consistently sought to reassure China of its actions. Confrontation with the PRC is clearly not on America's agenda.

On issues related to North Korea and Iran, the US and China seem to continue to disagree. However, cooperation with China, especially with regard to North Korea, is essential for the US in the wake of Kim Jong-il's death.

Apart from these, there remain unresolved economic issues between the two countries. The most important of these is the issue of the valuation of the Chinese renminbi in relation to the US dollar. Although China has committed to incrementally revalue the renminbi, the US is less than happy with the progress made so far. Also, China's

inability to effectively protect intellectual property rights and curtail incidents of industrial espionage are becoming issues that can only be expected to gain prominence during the upcoming US presidential elections. The imperatives of political campaigning will ensure that candidates are not seen as being 'soft' on China. As the US struggles with the fallouts of the financial crisis, talking of the threat that China poses to American industrial output and jobs has almost become a convention. Whether the human rights issue or the debate over China's holdings of US Treasury bonds, it is reasonable to expect China-related rhetoric in coming months, much of it unflattering.

This is not to suggest that bilateral ties will be necessarily impacted by the race up to

US presidential elections; China has, after all, been fairly restrained in its response to issues raised by candidates so far. There is an understanding that much of what is said is quite possibly little more than political posturing for the benefit of the domestic American audience. However, given that there is a leadership transition in the works for China as well, a hardening of stance on both sides would not be unsurprising. Given the multiple levels of institutionalized dialogue mechanisms that exist between the US and China, it is highly unlikely that the stresses within the relationship will not be managed. What these institutional mechanisms seem to address is the pervasive strategic mistrust between the two states which continues to define their interaction.

CHINA AND ASEAN IN 2011

REDEFINING A RELATIONSHIP

UDAI BHANU SINGH

The year 2011 was the year of anniversaries for China–Association of Southeast Asian Nations (ASEAN) relations. It was the twentieth anniversary of China–ASEAN dialogue relations, the twentieth anniversary of the normalization of China–Vietnam relations, the year of China–ASEAN friendly exchange, and the first anniversary of China–ASEAN Free Trade Area. In a fast-changing global and regional environment, each player has to contend with a multitude of variables. China and the ASEAN countries have to secure their national objectives, both strategic and economic, by balancing their capabilities and opportunities with those of other actors.

The region is comprised of nations with varying range of capabilities and resources. In order to attain the national objectives (strategic and economic), nations have to rely on both bilateral diplomacy and multilateral diplomacy. China seeks to effectively exercise diplomatic pressure on

the ASEAN countries. At the bilateral level, this has meant utilizing its understanding of the inner workings of the party political system, ethnic relations, and the topography of the country, and in all this, leveraging its economic power and its diaspora connections. At the multilateral level, this implies the proactive use of its position as a permanent member of the United Nations Security Council, and its membership of the various ASEAN forums and the East Asia Summit (EAS). With plans to open a permanent mission in Jakarta in 2012, where ASEAN has its headquarters, China has signalled endorsement of an ASEAN-driven regional cooperation. China offered to give ASEAN a sum of \$10 billion in loans and lines of credit for infrastructure projects which is in addition to \$15 billion committed two years before. It has also agreed to set up a fund for maritime cooperation (to ensure environmental protection, navigational safety, and protection against transnational crimes).¹

¹ 'China Says Willing to Discuss Maritime Code with Southeast Asian Nations', *South China Morning Post*, 19 November 2011, in *BBC Monitoring Global Newswire – Asia-Pacific Political*, 20 November 2011.

BILATERAL RELATIONS

The vitality of bilateral relations can be gauged from the frequency of exchange of high-level visits and the range of interaction

that they encapsulate. China and ASEAN states have had a regular stream of visits in 2011. Table 5.1 gives a representative sample.

Table 5.1: Exchange of Visits between China and ASEAN Countries in 2011

Month	From China	From ASEAN	Remarks
February	State Councillor and Minister of Public Security, Meng Jianzhu.		Signed a memorandum of understanding (MoU) with Singapore Home Affairs Minister, K Shanmugam, on cooperation in fighting cross-border crimes.
April	(Top political advisor) Jia Qinglin, Chairman of Chinese People's Political Consultative Conference, led a delegation.		Met President U Thein Sein of Burma, his first official meeting with a foreign delegation after taking over as President. Assured cooperation in politics, economic matters, and border affairs.
	Zhang Xiaoqiang, Vice Minister of the National Development and Reform Commission.		Met Cambodian Prime Minister Hun Sen. Said China would encourage more investors to invest in Cambodia.
		Thai Princess Maha Chakri Sirindhorn.	Met Wu Bangguo, Chairman of Standing Committee of National People's Congress (NPC).
August		President Benigno S. Aquino III of the Philippines.	In Beijing (30 August) for five-day visit.
September	State Councillor Dai Bingguo.		In Vietnam (5-9 September) for the fifth session of the Steering Committee for Vietnam-China Bilateral Cooperation to review the development of the countries' relationship since the fourth committee meeting in China in early July.

Month	From China	From ASEAN	Remarks
October		General Secretary of the Communist Party of Vietnam Central Committee, Nguyen Phu Trong.	Held talks with Hu Jintao, General Secretary of the Central Committee of the Communist Party of China (CPC) and Chinese President.
	Assistant Foreign Minister, Liu Zhemin on 13 October.		Headed a delegation to the ASEAN Plus China, Japan, and South Korea (10+3) Senior Officials' Meeting and the EAS Senior Officials' Consultation in Bali, Indonesia.
November		Myanmar's Commander of the Armed Forces, General Min Aung Hlaing, on 28 November in Beijing.	Met Chinese Vice President Xi Jinping, who is also Vice Chairman of the Central Military Committee, and General Chen Bingde, Chief of the General Staff of People's Liberation Army (PLA). Visited Beijing, some military academies, and Shanghai, Hangzhou, and Chengdu. Signed MoU on defence cooperation with his Chinese counterpart, General Chen Bingde.
December	Chinese Vice President Xi Jinping.		Met Vietnamese General Secretary, Nguyen Phu Trong, and President Truong Tan Dung. Signed over ten bilateral cooperation documents covering trade, finance, news, culture, health, etc.
		Cambodia's President of National Assembly, Heng Samrin, led a group of parliamentarians from 4-10 December.	Met Wu Bangguo, Chairman of Standing Committee of China's NPC, and visited Economic and Scientific Development Zones in Dalian city of Liaoning province and Guangzhou province.
	Chinese Vice President Xi Jinping.		Visits Vietnam (20 November -2 December) and Thailand (2-4 December).

Source: Compiled from newspaper reports and various editions of *BBC Monitoring Global Newsline – Asia-Pacific Political*.

CHINA'S BILATERAL COOPERATION WITH KEY SOUTHEAST ASIAN NATIONS

Cambodia

China–Cambodia strategic partnership, which was initiated in 2010, was carried forward in 2011. China supported Cambodia's stance on Cambodia–Thailand border dispute resolution and said that all the talks on Cambodia–Thai border dispute have to include the third party.²

Indonesia

Premier Wen of China used a multilateral event to highlight bilateral ties with Indonesia. He spoke of the great importance of infrastructure construction and industrial development of Indonesia's six economic corridors, and China's endeavour to promote cooperation in energy, industry, defence, as well as in the maritime area.

Myanmar

The ethnic unrest in Myanmar, especially in the Kachin area, and the ongoing political transition in the country was expected to impact Sino-Myanmar relations sooner or later. In September, Myanmar suspended the construction of \$3.6 billion Myitsone dam designed to produce 3,600–6,000 MW

of power, 80 per cent for China. Chinese Vice President, Xi Jinping, told Myanmar's Commander of the Armed Forces, Min Aung Hlaing, during his official visit to Beijing on 28 November: 'China will work with Myanmar to further bolster the comprehensive strategic partnership of cooperation'.³ The two sides agreed to enhance cooperation in areas including high-level visits, personnel training, frontier defence, and equipment cooperation.

The Chinese Ambassador met Aung San Suu Kyi following the re-registration of her party, the National League for Democracy, as a legal party on 13 December. Myanmar's new Defence Chief, General Min Aung Hlaing, made his first trip abroad to Vietnam and not to China (unlike his predecessors) on 14 November. The Chinese Premier, Wen Jiabao, who was scheduled to visit Myanmar in December, too cancelled his trip. Given the fact that China is Myanmar's biggest neighbour, and the two share a long border, the United States (US) Secretary of State, Hillary Clinton, felt constrained to note: 'We have no concerns about Burma (Myanmar) having good relations with China...'.⁴

The Philippines

Sino-Filipino relations are frequently marred by maritime disputes of varying

² 'Cambodia Welcomes China's Stance on Resolving Border Row with Thailand', *Agence Kampuchea Presse*, 15 February 2011, in *BBC Monitoring Global Newslines – Asia-Pacific Political*, 17 February 2011.

³ 'Chinese Vice-president Vows to Strengthen Ties with Burma', *Xinhua*, 28 November 2011, in *BBC Monitoring Global Newslines – Asia-Pacific Political*, 29 November 2011.

⁴ 'U.S. Not Concerned about Myanmar's Good Ties with China: Clinton', *Xinhua*, 3 December 2011, available at http://news.xinhuanet.com/english2010/world/2011-12/03/c_131286257.htm accessed 29 January 2012.

kinds: disputes over territorial jurisdiction of South China Sea, drug smuggling, and straying of fishermen into either state's territorial waters. China denied a visit to Philippine Vice President, Jejomar Binay, seeking mercy for a Filipino national on death row for drug smuggling. On the other hand, Philippines detained six Chinese fishermen for illegally entering its territorial waters.⁵

Thailand

Chinese Vice President, Xi Jinping, paid a three-day visit to Thailand in December to discuss bilateral relations. Diplomatic relations between the two countries were established thirty-six years ago. China made a four-point proposal for improved China–Thai relations:

1. Elevate strategic cooperation to a higher level: by charting a course and mapping out key areas in their cooperation for greater stability and common prosperity.
2. Enhance high-level exchanges.
3. Deepen their practical cooperation to add fresh impetus to growth of bilateral ties: use joint commission on economy and trade to achieve an aggregate trade

of \$100 billion by 2015. Cooperate in areas such as railways, finance, disaster reduction and prevention, maritime and military affairs, and law enforcement.

4. Expand bilateral cultural exchanges: cooperate in areas of culture, language teaching, tourism, and youth exchanges.⁶

Timor-Leste

China was the first to establish diplomatic ties with East Timor some nine years ago. Timor-Leste President, Ramos Horta, said that his country has become a trading partner rather than a receiver of Chinese aid.⁷

Vietnam

Vietnam's relations with China are overshadowed by dissonance in the maritime domain. During the fifth session of the Vietnam–Chinese Steering Committee for Bilateral Cooperation held in Hanoi in September under the Chairmanship of Deputy Prime Minister, Nguyen Thien Nhan, and Chinese State Councillor, Dai Bingguo, the two sides agreed to promote cooperation in the field of trade, law enforcement, security,

⁵ 'China Asks Philippines to Ensure Safety of Detained Fishermen', *Xinhua*, 5 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 6 December 2011.

⁶ 'Chinese Vice President Discusses Bilateral Ties with Thai PM', *Xinhua*, 22 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 24 December 2011.

⁷ He said this in a meeting with Zhou Yongkang, a member of China's Standing Committee of the Political Bureau of the CPC Central Committee. See 'Chinese Politburo Member Meets East Timor, Laos leaders', *Xinhua*, 5 September 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 6 September 2011.

education, and people-to-people exchange. They also agreed to increase negotiations on sea-related issues so as to soon sign an agreement on basic principles on guiding the settlement of the sea issues and to speed up the implementation of the Declaration on the Conduct of Parties in the South China Sea (DOC).

MULTILATERAL LEVEL (See Table 5.2)

Interactions at the multilateral level are an important part of diplomacy, especially in the international organizations, including the United Nations and its bodies, and regional organizations, especially ASEAN and various forums created by it. Of interest to China is the fact that Thailand succeeds it as the country in charge of coordinating relations between China and ASEAN.

Some of the issues discussed at the multilateral forums, which have a longer-term relevance, include the issue of terrorism, the dispute relating to the South China Sea, and the Mekong river dispute. These are briefly addressed next.

South China Sea

The contest over the sovereignty of South China Sea, in part or whole, involves China and five ASEAN countries, namely, Brunei, Indonesia, Malaysia, the Philippines, and Vietnam. It provides vital sea lanes for transportation of goods and materials that

has spurred the growth of economies of East Asia. This necessitated that the main protagonists attempt to manage the dispute. On 4 November 2002, ASEAN and China signed the DOC. The DOC is a stepping stone towards peaceful resolution of dispute in South China Sea; it is premised on principles of international law and proposes to achieve peace through two mechanisms: trust and confidence building; and undertaking of 'cooperative activities'. Not enough has been done to take the matter forward towards resolution. At the ARF in July 2010, there were renewed calls for legally binding code of conduct. But progress on this has been slow.

Varied responses have emerged to the situation of conflict in South China Sea as China was perceived as becoming increasingly assertive. China does not regard EAS as the right forum to discuss the South China Sea issue. Chinese Premier Wen said: 'I don't want to discuss this issue at the summit...', even as a *Xinhua* commentary warned against 'interference' in the South China Sea.⁸ He reiterated faith in the DOC signed in 2002, maintaining that navigation freedom granted by international law was not affected by disputes, and stressed on resolution through 'friendly negotiation and consultation'. He said that 'The South China Sea is an important transportation passageway for China, regional countries and even the world. The Chinese

⁸ Li Bo and Ming Jinwei, 'Any Attempt to Interfere in South China Sea Disputes will Undermine Regional Peace, Stability', *Xinhua*, 19 November 2011, available at http://news.xinhuanet.com/english2010/indepth/2011-11/19/c_131257617.htm, accessed 29 January 2012.

Table 5.2: China–ASEAN Multilateral Interactions

Month	Event
March	17th ASEAN–China Senior Officials’ Consultations in Hangzhou, China. Co-chaired by Assistant Foreign Minister of China, Hu Zhengyue, and Assistant Foreign Minister of Vietnam, Pham Quang Vinh.
July	Representatives from ASEAN member states attended the 9th East Asia Forum in Chengdu on the theme, ‘Accelerating Regional Integration: Internal Growth Engine of East Asia’, which also covered extensive and interactive discussions on regional market, connectivity infrastructure, and industrial match making and transfer.
July	Foreign Minister of China, Yang Jiechi, and Minister for Foreign Affairs Vietnam, Pham Gia Kiem, met on the sidelines of the ASEAN Regional Forum (ARF) in Bali, Indonesia.
21-6 October	The Eighth China-ASEAN Expo at Nanning, China. ⁹
13-16 December	The Tenth ASEAN-China Senior Transport Officials Meeting in Phnom Penh, Cambodia, concluded with the adoption of a joint ministerial statement to deepen ASEAN-China cooperation on maritime consultation mechanism, air transport agreement, and joint ASEAN-China activities for 2012.
14-15 December	International seminar on implementing the DOC and maintaining the navigational freedom and security of the sea in Haikou, Hainan province, China.
16-20 December	Vietnam-China trade fair organized at border city of Mong Cai, in Quang Ninh province of Vietnam.
20 December	The Fourth Greater Mekong Subregion (GMS) summit at Naypyidaw endorses the New GMS Strategic Framework for 2012-22. Attended by leaders of China, Laos, Myanmar, Thailand, and Vietnam.

Source: Compiled from newspaper reports and various editions of *BBC Monitoring Global Newslines—Asia-Pacific Political*.

⁹ Those attending the Expo included: Chinese Prime Minister, Wen Jiabao; Malaysian Prime Minister, Najib; Cambodian Prime Minister, Hun Sen; Vice President of Myanmar, U Tin Aung Myint Oo; Laos Deputy Prime Minister, Somsavat; Thai Deputy Prime Minister, Kittirat; Vietnam Deputy Prime Minister, Nguyen Xuan Phuc; and ASEAN Secretary General, Surin.

government has made a positive contribution to safeguard the navigation security in the South China Sea'.¹⁰ In another speech, Wen warned: 'Outside forces should not get involved under any circumstance in the handling of the South China Sea disputes'.¹¹ When China's South Sea Fleet conducted military exercise at the Hoang Sa (Paracel) archipelago on 3 February, it provoked protest from the Vietnamese Foreign Ministry. 'The military exercise of the Chinese Navy's South Sea Fleet at Hoang Sa archipelago seriously violated Vietnam's sovereignty over the archipelago, went counter to the ASEAN-China Declaration of the Conduct of Parties in the East Sea (DOC) and negatively affected peace and stability in the region', said the Foreign Ministry spokeswoman, Nguyen Phuong Nga.¹² On 22 November, Chinese press reported that the transport department of the Chinese province of Hainan had approved a Chinese company's launch of a tourism service to Hoang Sa (Paracel island) archipelago. Vietnam

responded two days later (24 November), asserting sovereignty over Hoang Sa and Truong Sa (Spratly) archipelagos, when its Foreign Ministry spokesman stated: 'All foreign activities in the two archipelagos without Vietnam's approval are violations of Vietnam's sovereignty and go against the DOC's spirit'.¹³

A degree of nuanced sabre rattling by some of the littoral South China Sea states party to the dispute, although denied, has occurred. The Philippines was completing a structure (to shelter and protect its troops) on Patag island in the Spratlys which is claimed by China, Vietnam, and Taiwan.¹⁴ Later, it announced its decision to deploy its biggest and most modern ship, armed and combat ready, the *BRP Gregorio Del Pilar*, to the South China Sea (or the West Philippine Sea).¹⁵ On its part, China dispatched to the South China Sea its largest patrol ship (3000 ton class Hajian 50) capable of accommodating helicopters to guard its territorial rights and maritime interests.¹⁶

¹⁰ 'Premier Wen Jiabao Elaborates China's Position on South China Sea', 20 November 2011, available at <http://www.fmprc.gov.cn/eng/topics/wjbdyldrhy/t879891.htm>, accessed 2 February 2012.

¹¹ 'China Says Willing to Discuss Maritime Code with Southeast Asian Nations', *South China Morning Post*, 19 November 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 20 November 2011.

¹² 'Vietnam Protests against Chinese Naval Exercises in Paracel Islands', *Vietnam News Agency (VNA)*, 17 February 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 19 February 2011.

¹³ 'Vietnam Foreign Ministry Hails ASEAN-Beijing Consensus on South China Sea', *VNA*, 24 November 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 26 November 2011.

¹⁴ 'Philippine Navy Building Shelter for Troops on Disputed Island', *The Philippine Star*, 31 July 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 1 August 2011.

¹⁵ 'Philippine Navy to Deploy Warship in South China Sea', *Philippine Daily Inquirer*, 1 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 2 December 2011.

¹⁶ 'Beijing Sends Largest Patrol Ship to East China Sea to Guard Territorial Rights', *Xinhua*, 13 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 14 December 2011.

The Indonesian President, Yudhoyono, agreed that the ASEAN summits should not focus on disputed political and security issues. Malaysia's Defence Minister, Datuk Seri Dr Ahmad Zahid Hamidi, hoping that differences would be resolved diplomatically rather than militarily, said: 'Our ministry agrees with the ASEAN stance and will avoid going to war in the area'.¹⁷ Philippines Foreign Secretary, Albert del Rosario, and Vietnamese Prime Minister, Nguyen Tan Dung, following a meeting in Hanoi, called for turning the DOC into a legally binding code of conduct and for ASEAN and China to jointly embark on development projects in the South China Sea to prevent an eruption of conflict.¹⁸

Mekong River

Tension between China and Thailand erupted following the killing of thirteen sailors on two cargo ships on the Mekong. This turned out to be a personal and drug-related crime, not an officially sanctioned action. This incident led to an agreement among China, Myanmar, Thailand, and Laos for improved intelligence sharing and enhanced security along the Mekong, a shipping lane that extends for 3,000 miles. While the Southeast Asian neighbours oppose any deployment of Chinese patrol vessels on the Mekong fearing interference

in their internal affairs, the Chinese government is sensitive to the growing domestic opinion to protect Chinese citizens abroad.

Transportation challenges and opportunities were discussed by China and ASEAN at the tenth ASEAN Transport Ministers Meeting in Phnom Penh (13–16 December). The entry into force of the ASEAN–China Air Transport Agreement and its Protocol 1 was a significant milestone in ASEAN–China transport cooperation. Under its provisions, designated airlines of ASEAN would be allowed to provide air services from any city with international airport in its territory to any city with international airport in the territory of China and vice versa. China developed fifty infrastructure projects in various ASEAN countries through the credit support of \$15 billion it committed in 2009.¹⁹

Struggle against Terrorism

Terrorism is a matter which concerns China and ASEAN states equally, and potential for cooperation exists. The Indonesian Army Special Forces Command (Kopassus) has agreed to finalize cooperation with China's special forces in dealing with terrorism, according to Kopassus Commander, Major General

¹⁷ 'Defence Minister says Malaysia Not to Go to War Over Sea Dispute—Paper', *The Star*, 8 August 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 10 August 2011.

¹⁸ 'Philippines, Vietnam want Legal Binding 2002 Accord on Disputed Territories', *The Daily Tribune*, 8 April 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 9 April 2011.

¹⁹ China has committed, at the fourteenth China–ASEAN summit, an additional \$10 billion towards China–ASEAN land connectivity.

Lodewijk F Paulus, on 28 March 2011. Cooperation agreements in the area of human resources development, exchange of officers, education, joint training and the transfer of technology were also likely.²⁰

Economic Relations

The rise of major powers like China is closely linked with its economic relations. Therefore, China's relations with the economically vibrant Southeast Asian neighbourhood constitute an important element in its national strategy. First, China sought to accelerate the trade liberalization by building the East Asia Free Trade Area and the Comprehensive Economic Partnership for East Asia respecting ASEAN's centrality. Second, China sought to raise the financial and monetary cooperation with ASEAN countries. On the other hand, ASEAN regional economic stability was dependent on China keeping its currency stable.

China is ASEAN's biggest trade partner (accounting for 11.3 per cent of ASEAN's

total trade) and ASEAN is China's fourth biggest (accounting for 9.8 per cent of China's total trade).²¹ This trend received a further boost with the launch of the ASEAN–China Free Trade Area (ACFTA) on 1 January 2010.²² China–ASEAN trade has grown since the launch of the ACFTA. The two-way trade increased from \$292.78 billion in 2010 to \$295.9 billion in just the first ten months of 2011 (an increase of 25.7 per cent over the previous year). China's top three trade partners were Malaysia, Thailand, and Singapore.²³ China–ASEAN trade is targeted to grow to \$500 billion by 2015.

Trade with individual ASEAN countries also showed an upward trend. China was Thailand's largest trade partner, its largest export market, and its second largest import source. The two-way trade between Thailand and China was \$52.95 billion in 2010 and was targeted at \$100 billion by 2015.²⁴ The two-way trade between Vietnam and China was \$30 billion in 2010 and was targeted to increase to \$60 billion by 2015.

²⁰ 'Indonesian, Chinese Special Forces Agree to Cooperate against Terrorism', *Metro TV, Jakarta*, 29 March 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 6 April 2011.

²¹ In the first half of 2011, ASEAN rose to become China's third largest trade partner. Refer 'Plus Three's Foreign Direct Investment in ASEAN Climbs 62%', *Port Calls Asia*, 18 August 2011, available at <http://www.portcalls.com/plus-three%E2%80%99s-foreign-direct-investment-in-asean-climbs-62/> accessed 29 January 2012.

²² With that, 97 per cent of the products classified by ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and China in the normal track were eliminated. Full implementation of the ACFTA in the four remaining CLMV countries (Cambodia, Laos, Myanmar, and Vietnam) will come into effect from 1 January 2015.

²³ 'China–ASEAN 2011 Trade to Hit Record High', *China Daily*, 17 November 2011, available at http://www.chinadaily.com.cn/bizchina/2011-11/17/content_14113326.htm, accessed 18 November 2011.

²⁴ *Xinhua*, 23 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 30 December 2011.

Tables 5.3 and 5.4 list China's exports to and imports from ASEAN countries between 2005 and 2010.

China is also interested in developing economic and trade cooperation zones in Vietnam in which Chinese enterprises can invest.²⁵ By signing a 70 billion Yuan (\$11.06

billion) currency swap deal with Thailand (valid for next three years) in December 2011, China sought to ensure regional financial stability while promoting trade and investment.²⁶ The eighth China-ASEAN Expo was also held in Nanning (21–26 October 2011). Table 5.5 shows China's trade with ASEAN countries in 2011.

Table 5.3: China (Mainland) Exports to ASEAN Countries: in US \$ Millions

Country	2005	2006	2007	2008	2009	2010
Brunei	58.51	109.60	123.99	142.60	154.37	404.36
Cambodia	423.51	523.85	969.38	934.95	881.28	1184.71
Indonesia	5842.86	6636.90	8557.88	15249.20	14002.17	20424.22
Laos	115.87	185.59	195.15	294.96	413.91	524.10
Malaysia	13176.56	15887.31	18908.17	20084.24	17390.52	20682.69
Myanmar	1028.40	1327.95	1861.12	2177.10	2507.03	3828.80
Philippines	2972.59	3672.12	4001.23	4561.09	4060.39	4608.83
Singapore	20625.98	27242.81	31889.65	33711.12	25964.32	33665.67
Thailand	11153.31	13800.94	16381.97	19934.51	17161.10	24526.18
Vietnam	5899.70	7391.30	12710.00	15973.60	16441.00	20018.83

Source: Direction of Trade Statistics. Data extracted from IMF Data Warehouse on 22 February 2012.

²⁵ During his visit to Vietnam in December 2011, Chinese Vice President Xi Jinping suggested accelerating the construction of 'two corridors and one circle' [building the economic corridor linking Kunming, Lao Cai, Hanoi, Haiphong, and Guangning and the economic corridor linking Nanning, Lang Son, Hanoi, and Guangning; and building the economic circle surrounding Beibu Gulf]. See 'Chinese Vice-president Meets Vietnam PM', *Xinhua*, 22 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 25 December 2011.

²⁶ 'Visiting Chinese Vice-president, Thai PM Sign Six Agreements', *Xinhua*, 22 December 2011, in *BBC Monitoring Global Newslines—Asia-Pacific Political*, 24 December 2011.

Table 5.4 : China (Mainland) Imports from ASEAN Countries: in US \$ Millions

Country	2005	2006	2007	2008	2009	2010
Brunei	188.84	195.74	219.58	75.33	256.54	581.121
Cambodia	540.87	542.56	17.09	839.85	1646.28	1383.66
Indonesia	6662.35	8343.57	9675.51	11636.50	11499.33	15692.61
Laos	23.22	45.12	77.26	135.89	305.97	510.92
Malaysia	9303.10	11646.10	15451.76	19048.93	19202.94	25067.89
Myanmar	249.49	229.70	336.87	585.93	586.87	873.63
Philippines	4076.68	4617.33	5749.86	5469.19	2986.46	5701.50
Singapore	19751.82	26513.84	28927.20	31124.90	26356.53	36495.55
Thailand	9105.15	11810.43	14834.01	15975.52	16076.23	21478.85
Vietnam	3228.10	3242.80	3646.10	4850.10	4909.00	7308.80

Source: Direction of Trade Statistics. Data extracted from IMF Data Warehouse on 22 February 2012.

Table 5.5: China's Trade with ASEAN Countries: 2011 (US\$ Millions/Percentage)

				% change	%change	%change
	Total Imports & Exports	Export	Import	Total Imports &Exports	Export	Import
ASEAN Total	362,853	170,083	192,770	23.9	23.1	24.6
Indonesia	60,521	29,222	31,299	41.6	33.1	50.5
Malaysia	90,034	27,890	62,144	21.3	17.2	23.2
Philippines	32,254	14,254	17,999	16.2	23.5	11.0
Singapore	63,482	35,570	27,911	11.2	10.0	12.9
Thailand	64,736	25,696	39,040	22.3	30.2	17.6
Vietnam	40,207	29,091	11,115	33.6	25.9	59.1

Source: <http://www.e-to-china.com/customsinfo/latestdata/2012/0110/99626.html>, accessed on 22 March 2012.

Cultural Relations

China projected its soft power in Myanmar, a predominantly Buddhist country, by sending Buddha's sacred tooth relic to Naypyidaw, Yangon, and Mandalay for a forty-eight-day public obeisance.²⁷ China has utilized its Confucius Institutes, cultural exchanges, and encouragement of Chinese language teaching too. China and Thailand jointly set up twelve Confucius Institutes and eleven Confucius classrooms in Thailand.²⁸

The Chinese Vice President made a point of visiting the Confucius Institute in Chulalongkorn University during his Thai trip in late 2011. The Vice President also visited flood-affected Bangkok, including a school. China provided timely flood relief. He could then rightfully say: 'Every time when either of us encounters any disaster or difficulties, we always come to help and support each other'.²⁹ The musical, 'China and Thailand Are as Close as Family', sponsored by Princess Chulabhorn, was popular with the Chinese people.

The Chinese diaspora in Southeast Asia is another source of influence. Thailand has one of the largest ethnic Chinese

community residing on its territory. Another instance of Chinese soft power projection is China's interest in creating a joint website together with the Philippines, aimed at increasing people-to-people exchanges. It will host information on tourism, current news, culture and education, partnerships and joint projects, and developments in information and communication technology.³⁰

IMPLICATIONS FOR INDIA

During 2011, the Southeast Asian interactions with China were complemented by India's own interactions with its ASEAN neighbours. The aim of these interactions is, first, the pursuit of India's 'Look East' policy. Second, operational interaction with ASEAN navies with recently acquired new platforms and weapon system similar to the Indian Navy's helps in harmonising the preparedness of the two navies. During the overseas deployment to the South China Sea and the western Pacific, among the port calls the Indian Navy made, were to Singapore, Subic Bay and Manila (the Philippines), Ho Chi Minh City (Vietnam), Bandar Seri Begawan (Brunei), Kota Kinabalu

²⁷ The tooth relic had been sent earlier too, to Myanmar, in 1955–6, 1994, and 1996–7. See 'Buddhist Relic from China Completes Tour in Burma', *Xinhua*, 24 December 2011, in *BBC Monitoring Global Newswire—Asia-Pacific Political*, 25 December 2011.

²⁸ 'Text of Chinese Vice-president's Speech at Function in Thailand', *Xinhua*, 29 December 2011, in *BBC Monitoring Global Newswire—Asia-Pacific Political*, 30 December 2011.

²⁹ 'Chinese Vice-president Visits Flood-affected School in Bangkok', *Xinhua*, 23 December 2011, in *BBC Monitoring Global Newswire—Asia-Pacific Political*, 25 December 2011.

³⁰ 'China, Philippines to Create Joint Website to Boost People-to-People Exchanges', *Xinhua*, 7 December 2011, in *BBC Monitoring Global Newswire—Asia-Pacific Political*, 9 December 2011.

(Malaysia), and Jakarta (Indonesia), by Indian Navy ships *Delhi*, *Ranvir*, *Ranvijay*, *Jyoti*, and *Kirch*. The Indian Navy also participated in SIMBEX bilateral exercise with the Singapore Navy in the South China Sea from 18–26 March 2011.³¹

Ironically, China felt encircled. An article published in a Hong Kong newspaper noted that China felt cornered following two developments: one, the unveiling of the US–Australia plan to establish a US

military base in Australia’s Northern Territory; and second, India’s oil exploration deal in South China Sea that India struck with Vietnam. India will eventually have to decide how it measures up to its ‘Look East’ policy.³² It will have to prioritize its interactions, taking into account what the implications of its actions and inactions entail, and once having prioritized, to see through its implementation.

³¹ Details available at http://indiannavy.nic.in/Report_110516_OSD11.pdf, accessed 29 December 2011.

³² ‘Fears of Encirclement as South China Sea Tensions Continue’, *South China Morning Post*, 20 November 2011, available at http://viet-studies.info/kinhte/fears_of_encirclement.htm, accessed 28 December 2011.

CHINA'S RELATIONS WITH JAPAN, KOREAS MEASURED CAUTION

SHAMSHAD A KHAN

China's relations with its East Asian neighbours have always been multifaceted. While relations with Japan and South Korea have been bumpy, relation with North Korea has been very friendly. This Chapter highlights important events in the region in 2011 which impacted on China's relations with Japan, South Korea and North Korea.

JAPAN

The year 2011 witnessed some amount of diplomatic thaw between China and Japan as China restored high-level political interactions with its neighbour. However, the Senkaku islands dispute¹ remained a major irritant in the China–Japan relationship as Beijing suspended talks with

Tokyo over a treaty on the development of a joint gas field in the East China Sea, which was supposed to be signed in November 2010.²

The Senkaku Shadow

The high-level political interactions between the two countries was restored after hectic parleys at the sidelines of Asia–Europe Meeting in Brussels in October 2010, when Wen Jiabao met with his Japanese counterpart and agreed to 'improve ties'. Despite the restoration of summit-level interaction, the Senkaku incident left a deep impact on China–Japan diplomatic relations and continued to hamper bilateral relations in 2011. To understand how the incident impacted on Japanese thinking, it would be worth to

¹ Known as Diaoyu in China, the island chain is under the effective control of Japan, but is claimed by China and Taiwan. China suspended various high-level ministerial meetings with Japan following 7 September 2010 incident near Senkaku islands, in which a group of Chinese fishermen were apprehended by the Japanese Coast Guard for transgressing Japanese maritime boundary.

² For a detailed account of the territorial dispute, see Shamshad A. Khan, 'China, Japan Spat in East China Sea', *IDS Comment*, 22 September 2010, available at http://www.idsa.in/idsacomment/ChinaJapanspatinEastChinaSea_sakhan_220910, accessed on 4 February 2012.

note how the *Sentaku*—a monthly magazine covering Japan's political, social, and economic scenes—interpreted the incident:

China is waging wars on three fronts. One is to build up domestic and international public opinion that is supportive of China. The second is psychological warfare aimed at lowering the morale of the military of countries confronting China. The third is to push the legal justification of Beijing's territorial claims. In the fishing boat incident, Japan was soundly defeated, at least from a psychological perspective.³

Analysing the Chinese behaviour following the fishing boat incident, Japanese scholar and a former diplomat, Shinichi Kitaoka noted, 'Japan has been shaken by China's high-handed diplomatic offensive over an incident off the Senkaku Island...'. Kitaoka suggested that Japan should develop 'necessary capability', adding, 'when dealing with countries such as China, diplomatic approaches that are not backed by force are meaningless'.⁴ Similarly, Yoichi Funabashi, in an opinion column in *Asahi Shimbun*, opined that 'One cannot help but conclude that Japan is either clumsy in its diplomatic efforts or simply a poor fighter. In comparison, the various measures taken

by the Chinese government to apply pressure on Japan can only be described as a diplomatic "shock and awe" campaign'.⁵

Disaster Diplomacy and Some Headway

The March 2011 earthquake and tsunami provided China an opportunity to mend fences with Japan. Chinese Premier Wen Jiabao visited the Japanese embassy and expressed condolences for the earthquake and tsunami victims. China was able to take better stock of the situation at the ground as its Foreign Minister, Yang Jiechi, visited Japan in the wake of the crisis to participate in a pre-scheduled trilateral meeting of Foreign Ministers from China, South Korea, and Japan. As a goodwill gesture, China gave a call to the international community to help its neighbour. The call was also a quid pro quo to Japan's help in 2008 Sichuan earthquake that devastated a part of China's Sichuan province. This was certainly a change in Beijing's attitude towards its neighbour, which was battling with the crisis.

Later, Chinese Premier Wen Jiabao visited Japan in May 2011 to participate in the fourth trilateral summit meeting between China, Japan, and South Korea. Chinese Premier also visited Miyagi prefecture, which was devastated by tsunami, and

³ 'China's Invaluable Lesson', *Sentaku* magazine, October 2010, reproduced in *The Japan Times*, 13 October 2010, p.17.

⁴ Shinichi Kitaoka, 'Establish Quiet, Firm Defense Policy', *Yomiuri Shimbun*, 4 October 2010, p. 12.

⁵ Yoichi Funabashi, 'Japan-China Relations Stand at Ground Zero', *Asahi Shimbun*, 9 October 2010, p. 3.

conveyed sympathy to Japanese citizens affected by the disaster on behalf of the Chinese people. For its part, Japan also took diplomatic initiative to strengthen its ties with China as Japanese Prime Minister Noda visited Beijing on 25 December 2011.

It was the first official visit to China by a Japanese Prime Minister since the Democratic Party of Japan came to power. But yet again, their differences on territorial issues led to an impasse in their relationship. Noda could not get Hu Jintao to offer progress in the joint development of natural gas resources in the East China Sea—an issue Japan is interested in—noted *The Japan Times* in its editorial.⁶ The Chinese leaders gave a cold response to Noda's request that China cooperate with Japan to solve the issue of the abduction of Japanese nationals by North Korea. Both Hu and Wen only expressed a hope that the issue will be solved through 'dialogue and cooperation' between Japan and North Korea.⁷

China–Japan Relations: The Peoples Perception

Summit-level meetings between China and Japan have failed to change deep-rooted nationalist sentiment against one another. A section of people in both the countries had been strong proponents of improving

Sino-Japan relations. But this constituency has also eroded following the fishing boat incident in East China Sea. One year after the Senkaku incident, Japanese and Chinese people have a bad impression of each other, despite deepening economic and trade relations between the two countries, revealed a survey, jointly conducted by *China Daily* and Japanese think tank Genron. According to a poll conducted in Japan and China, 78.3 per cent of the Japanese polled had a bad impression of China—a rise of 6.3 percentage points from a year before—and 65.9 per cent of the Chinese polled held a similar impression of Japan—a rise of 10 percentage points.⁸

Both Genron and the *China Daily* had started assessing public perceptions through their joint surveys since 2006. The drop has reversed a six-year trend characterized by increasingly favourable opinions among Chinese people towards Japan. In 2006, just 11.6 per cent of respondents had a favourable opinion of Japan, but this figure had risen uninterruptedly up to 2010, noted *China Daily* analysing the trend.⁹ The change in public perception could be mainly attributed to territorial disputes. Japanese respondents cited China's military build-up, its frequent intrusion into Japanese

⁶ 'Noda's Beijing Summit (Editorial)', *The Japan Times*, 28 December 2011, p. 16.

⁷ Ibid.

⁸ Survey quoted in 'Japan Rules the Senkakus', *The Japan Times*, 9 September 2011, p. 16.

⁹ Li Xiaokun, 'Rising Enmity Haunts China–Japan Relations', *China Daily*, 12 August 2011, available at http://www.chinadaily.com.cn/china/2011-08/12/content_13096911.htm, accessed 2 February 2012.

territorial waters, and possession of nuclear weapons as reasons for their fear, while the Chinese respondents referred to the history of Japan's invasions and the existence of 'those who wish to revive Japan's militarism'.

Now Senkaku Also a 'Core Interest of China'

The polls are reflective of the fact that both the countries need to take steps to avert friction in East China Sea. However, both the parties have taken various steps to strengthen their claims over the sovereignty of the Senkaku islands. The Japanese accounts suggest that Chinese surveillance ships have trespassed Japanese maritime boundary off the Senkaku islands as many as eleven times, following the fishing boat incident in September 2010. At one point of time, Japan had to scramble its aircraft to chase the Chinese military aircraft flying over the East China Sea.¹⁰ The Japanese media has reported a number of times in 2011 that the Japanese Foreign Ministry has summoned the Chinese Ambassador to lodge protests.¹¹ Japan has also blamed

China for its efforts for unilaterally extracting the oil and natural gas from the East China Sea.

On the other hand, China has lodged protests with Japan over naming of four uninhibited islands adjacent to Senkaku.¹² China also protested the visit of Japanese politicians who landed this year on the Senkaku in a bid to strengthen claims of Japanese sovereignty over the islands.¹³ One of the columnists in Chinese government mouthpiece, the *People's Daily*, opined that the 'attempt to name some islets near the Diaoyu Islands is a blatant move to damage China's Core interest'.¹⁴ This is the first time that the Senkaku has been identified as 'core interest', which caused wariness among the Japanese analysts towards China.

China's defence build-up has also caused wariness in Japan, especially after China's first aircraft carrier (a refitted 67,000 ton vessel originally built by Soviet Union) started its first sea trial in 2011. The Japanese media has been reporting that the flattop is likely to be commissioned in the

¹⁰ 'Japan Sends Jets as China Planes near Disputed Islands', *BBC*, 3 March 2011, available at <http://www.bbc.co.uk/news/world-asia-pacific-12632042>, accessed 4 February 2012.

¹¹ 'Minister Lodges Protest over Chinese Boats' Approach near Senkakus', *Kyodo/The Mainichi Daily*, 26 August 2011, p. 2.

¹² Zhang Yunbi, 'China Makes Representation to Japan over Island Naming', *China Daily*, 13 January 2012, available at http://www.chinadaily.com.cn/cndy/2012-01/31/content_14508187.htm, accessed 7 February 2012.

¹³ Wang Chenyan, 'China Protests Diaoyu Islands Visit by Japan', *People's Daily*, 4 January 2012, available at <http://english.peopledaily.com.cn/90785/7695354.html>, accessed 3 February 2012.

¹⁴ Yu Qing, 'China Will Not Tolerate Test of Its Will to Safeguard Sovereignty', *People's Daily*, 18 January 2012, available at <http://english.peopledaily.com.cn/90780/7708939.html>, accessed 7 February 2012.

People's Liberation Army (PLA) Navy in October 2012. 'China's military buildup would lead to strengthening of military cooperation among the U.S. and China's neighboring countries. China should realize that this would increase instability in the region and would not benefit China,'¹⁵ commented *The Japan Times* in its editorial on the first sea trial of the aircraft carrier.

The Japanese lawmaker and former Defence Minister, Shigeru Ishiba, questioned the Chinese intention of deploying the aircraft carrier. 'China should clarify why it needs an aircraft carrier and how it plans to use it,' said Ishiba, adding that 'the move would lead to an arms race'.¹⁶ Reports of China having staged test flight of new stealth fighter J-20, also created wariness about Chinese defence planning. The security experts in Japan viewed this development as a step towards narrowing the military gap with the US in the region.¹⁷ These developments prompted Japan to plan a second helicopter destroyer in fiscal 2012. The Japanese Defence Ministry has asked for a budget to build a 19,500 ton vessel with a flat deck similar to a small

aircraft carrier. Nine helicopters will be able to simultaneously land or take off from the ship.¹⁸

China–Japan Trade Relations and China's Rare Earth Squeeze

Despite the downslides in the diplomatic relations between China and Japan, the trade relations showed upward trends. The total value of trade between Japan and China in the first six months of fiscal 2011 jumped 17.9 per cent from a year earlier to \$ 163.15 billion, the Japan External Trade Organization noted in its analysis.¹⁹

However, the Japanese business community continues to express unease over China using the 'rare earth metals' — indispensable for the production of hybrid automobiles and other high-tech products — as 'strategic asset'. In the immediate aftermath of the fishing boat incident near the Senkaku islands, Chinese companies had unilaterally terminated the shipments of rare earth minerals. They redirected their shipments to other countries, pushing the Japanese manufacturer to move production to China

¹⁵ 'China's Dream Boat (Editorial)', *The Japan Times*, 22 August 2011, p. 16.

¹⁶ 'Ishiba Questions China's Aircraft Deployment', *Kyodo/The Mainichi Daily*, 23 August 2011, p. 1.

¹⁷ 'China Stealth Fighter "Appears" to Have Made Second Flight', *Reuters/Asahi Shimbun*, 20 April 2011, available at <http://in.reuters.com/article/2011/04/19/idINIndia-56423620110419>, accessed on 19 February 2012.

¹⁸ 'Defence Ministry Plans Second Helicopter Destroyer', *Asahi Shimbun*, 17 September 2011, available at on <http://www.asahi.com/english/TKY201109160363.html>, accessed on 19 February 19 2012.

¹⁹ 'Japan–China Trade Hits Record High', *Kyodo/The Japan Times*, 18 August 2011, p.1.

to avoid the export bottleneck.²⁰ 'This was nothing short of an economic sanction since Japanese industry depends on China for 90 percent of its requirements for such materials,' opined *Sentaku* magazine.²¹

Yoichi Funabashi noted that 'there is no doubt that China used economics as a diplomatic tool', adding that 'it would be ironic and tragic if the export ban (of rare earth metals) against Japan was the salute to mark China passing Japan as the world's second biggest economy'.²² The *Yomiuri Shimbun* suggested the Japanese businesses 'to reconsider business model'.²³ It noted, 'Beijing's hard-nosed response to the latest dispute has made it painfully obvious to many Japanese firms that they should not rely too much on China to protect their business and interests'. The daily stated that 'it is disturbing that allowing Japan's economy to become "hostage" to China's whims could sway government decisions on foreign and security policies'. It advised 'Japanese companies should take this opportunity to reconsider their business strategy of concentrating production centers and investment in China, and

instead start exploring new markets as the first step to reducing business risks'.²⁴ It must be mentioned here that many in Japan believe that China's squeeze on rare earth metals to Japan is aimed at enticing 'high-tech companies that need these minerals to build operations in China with the aim of promoting technology transfers'.²⁵

As per the Japanese estimates, Japan consumes 30,000 tons of rare earth metals per year. Japanese business industry dependent on Chinese rare earth material supply did feel the heat of suspension of shipments. As a first step, it sifted through garbage and huge stockpiles of abandoned household electronic appliances and automobiles. As a second step, it expedited efforts to find reliable suppliers of rare earth metals, including India and Vietnam. Though China lifted ban on export of rare earth metals to Japan, it has implemented two measures. First, it has fixed export quota; and second, it has banned exports at prices lower than specified level. As a result, the prices of these metals have trebled as compared to November 2010 level.

²⁰ 'China's Rare-earth Blockage Taking a Toll on Businesses', *Asahi Shimbun*, 22 October 2010, p. 3.

²¹ 'China's Invaluable Lesson', n. 3.

²² Yoichi Funabashi, 'Japan-China Relations Stand at Ground Zero', *Asahi Shimbun*, 9 October 2010.

²³ 'Depend on China at Your Peril (Editorial)', *Yomiuri Shimbun*, 30 September 2010, p. 2.

²⁴ Ibid.

²⁵ 'Japan Should Ask WTO to Resolve China Rare Earth Problem', *Asahi Shimbun*, 20 July 2011, available at <http://ajw.asahi.com/article/views/editorial/AJ2011071910690>, accessed 19 February 2012.

For example, lanthanum oxide, used in making optical lenses for digital cameras, fetched \$139 per kg in May 2011, up from \$59 in December 2010.²⁶ In the changed circumstances, Japan's quota was restricted to 14,446 tons for the first half of 2011. But Japan could procure only 3,500 tons of the quota during the first six months because higher prices prompted Japanese companies to cut back on the imports. This led the Japanese government to announce emergency measures to avoid price fixing and quotas for rare earth metals. The Ministry of Economy, Trade and Industry (METI) has announced \$ 370 million subsidies for development of alternative materials and rare earth recycling technologies. This is aimed at preventing Japanese manufacturers of automobiles and electronics from being forced to shift production to China.²⁷ Despite all concerns, China's efforts to squeeze Japanese companies to move production to China continue unabated. To achieve this goal, China has maintained rare earth export levels for this year also at the previous

year's level.²⁸

These developments suggest that China has been successful in using economics as a diplomatic tool by using rare earth metal as a strategic asset. But in the longer term, it is likely to lose that clout as Japan is looking to tap other countries who have rare earth materials. Also, the Japanese companies are taking measures to diversify their manufacturing base. A survey by the Japan Bank for International Cooperation, conducted at the end of 2010, suggests that 74.9 per cent of the 605 Japanese manufacturers selected India as their investment destination over the next ten years, compared with 71.7 per cent that chose China. A survey conducted in 2009 found that China was first and India second.²⁹ Here, territorial dispute with China and China's quota restriction on rare earth metals are acting as a factor as Japanese investors want to reduce their dependence on China. To diversify investment risk, Japan is looking at India and Vietnam.

²⁶ 'China's Restrictions Caused Rare Earth Prices to Triple since November', *Asahi Shimbun*, 21 May 2011, available at <http://www.asahi.com/english/TKY201105200152.html>, accessed on 19 February 2012.

²⁷ 'METI to Support Projects to Cut Rare Earth China Dependence', *Asahi Shimbun*, 4 June 2011, available at <http://www.asahi.com/english/TKY201106030149.html>, accessed on 19 February 2012.

²⁸ 'China to Maintain Rare Earth Export Levels in 2012', *Asahi Shimbun*, 28 December 2011, available at <http://ajw.asahi.com/article/asia/china/AJ201112280032>, accessed on 19 February 2012.

²⁹ 'India Overtakes China as Most Attractive Market for Japanese Firms', *The Mainichi Daily*, 5 January 2011, available at http://articles.timesofindia.indiatimes.com/2011-01-05/international-business/28379081_1_india-overtakes-china-japanese-firms-foreign-investment, accessed on 19 February 2012.

THE KOREAS

China maintained friendly relations with North Korea in 2011 too, and gave much needed political support to the reclusive state and ensured a smooth political transition following the death of Kim Jong-il. Kim Jong-il made an unannounced visit to China in May 2011. Highlighting the visit, Chinese media reported that North Korean leader's visit was to study Chinese model of economic development.³⁰ This was his third visit to China within the period of twelve months. 'By hosting Kim three times in a row without paying a return visit, the Chinese leadership sent a clear message to international community that China has extraordinary influence over North Korea unequalled by any country',³¹ opined a seasoned scholar on North Korean affairs. However, it is also true that China has failed to bring the North back to the Six-Party table, despite repeated efforts.

The fact that Chinese leadership offered special condolence to North Korea by visiting Pyongyang's embassy in Beijing hints to the fact that China is serious to engage the new leader, Kim Jong-un. And China would continue to engage North Korea to exert its influence over the politics of the Korean peninsula.

As regards China's relationship with South Korea, the two countries witnessed some rough periods in their bilateral ties; there were repeated incidences of fatal clashes between Chinese fisherman and South Korean Coast Guard in the Yellow Sea. China exerted pressure to secure release of its fisherman arrested by the South Korean authorities. Media reports suggest that in 2011 alone, South Korea seized some 430 Chinese fishing boats in the Yellow Sea for illegal fishing.

The two countries also had differing perceptions over 'regional priorities, including China's North Korea Policy and South Korea's with the US'.³² In a bid to 'maintain high-level contacts and improved political mutual trust', Chinese Vice Premier Li Keqiang visited Seoul and met with South Korean Prime Minister Kim Hwang-sik. But the visit did not go beyond a 'goodwill' visit.

China and South Korea also had various high-level interactions at the multilateral level in 2011, including a trilateral summit between the leadership of China, Japan, and South Korea in May 2011 in Tokyo. They discussed various ways to improve their three-way trade and how to better deal with regional issues of mutual concern.

³⁰ 'China Trip by North Korean Leader Kim Jong Il Ends', *BBC*, 27 May 2011, available at <http://www.bbc.co.uk/news/world-asia-pacific-13570704>, accessed 2 February 2012.

³¹ Jae Cheol Kim, 'China-DPRK's Special Relationship of Convenience', *East Asia Forum*, 5 July 2011, available at <http://www.eastasiaforum.org/2011/07/05/china-dprk-s-special-relationship-of-convenience/>, accessed 3 February 2012.

³² See-Won Byun, 'Sino-South Korea Ties Warming?', *The Diplomat*, 2 September 2011, available at <http://the-diplomat.com/new-leaders-forum/2011/09/02/sino-south-korea-ties-warming>, accessed 3 February 2012.

CONCLUSION

The trends in China–Japan relations in 2011 suggest that both the countries remain mired in territorial disputes and have taken measures to strengthen their claims over the sovereignty of the uninhabited islands in East China Sea. China–Japan summit-level interactions, both at the multilateral and bilateral fora, have made little headway. The inclusion of Senkaku/Diaoyu as China’s ‘core interest’ and visit by Japanese lawmakers on the island, as well as naming of the some of the unnamed islands in early

2012, suggest that China–Japan relations will be rockier in the near future. The similar trend is likely to continue in China and South Korea relations as China views Seoul’s expansion of Jeju Naval base as a move to counter China with the US’s help. On the other hand, Beijing’s weight to resolve North Korean problems will entice Seoul to pamper China. However, China–North Korea relations will continue to deepen in the coming year. Pyongyang will continue to bank on Beijing for the survival and consolidation of Kim Jong-Un regime.

CHINA- AUSTRALIA RELATIONS IN 2011 GLASS HALF EMPTY OR HALF FULL?

RAHUL MISHRA

The year 2011 was a 'mixed bag' for China-Australia relations. While the two countries celebrated diplomatic, cultural, people-to-people contacts and burgeoning trade ties, the Australia-US Darwin base agreement emerged as a thorny issue, inviting Chinese criticism. Additionally, China perceived Tibet issue as a potential threat to bilateral cordial relations.

On the positive side, Australia celebrated the year of Chinese culture in 2011; 'Experience China', as the celebrations were called, was apparently the largest series of cultural events initiated by the Chinese government in Australia till date. Aimed at promoting mutual understanding between the two countries and its people, the events were flagged off on 24 June 2011.¹ A memorandum of understanding (MoU) was signed earlier, which has led to

celebrating reciprocal years of culture (2010-12) between China and Australia.²

In 2010, 'The Year of Australian Culture' was celebrated in China, and was considered a great success. Diplomatic relations between Australia and China were established on 21 December 1972, and the two countries are celebrating forty years of setting up of bilateral ties in 2012.

HIGH-LEVEL VISITS

The year 2011 is significant also due to the fact that in April 2011, Julia Gillard paid her first visit to China as the Prime Minister. During Gillard's visit, a range of agreements were discussed and inked. Sectors such as science and research, tourism, services, trade, customs, and infrastructure figured prominently in the discussions.³ A new

¹ For details, please see 'Year of Chinese Culture in Australia 2011-12', available at <http://yearofchineseculture.com/>, accessed 6 February 2012.

² Ibid.

³ Prime Minister of Australia Press Office, Australian Government, Media Release, 'Bilateral Meeting Furthers Australia's Economic Ties with China', 26 April 2011, available at <http://www.pm.gov.au/press-office/bilateral-meeting-furthers-australias-economic-ties-china-beijing>, accessed 5 February 2012.

Australia–China Science and Research Fund, which aims to focus on clean energy, have also been set up. The two governments will commit Australian dollar (AUD) 9 million each over three years.⁴ Both the leaders also witnessed signing of a deal for an iron ore project in Western Australia.

Earlier, during Australia’s Secretary for Trade Justin Elliot’s visit, AusTrade office was opened on 15 March 2011 at Chengdu (Sichuan province). From the Chinese side, Chairman Jai Qinglin of the Chinese People’s Political Consultative Conference (CPPCC) National Committee visited Australia. Later, in December 2011, Australian Minister for Home Affairs and Justice, Brenon O’Connor, visited Beijing and Shanghai. His visit was aimed at meeting Chinese Minister of Public Security, Meng Jianzhu, to discuss bilateral cooperation on crime prevention. Apart from discussing ways to combat transnational crime, improving Australian Federal Police–Ministry of Public Security coordination was also discussed.⁵

BILATERAL TRADE/FREE TRADE AGREEMENT

China has been Australia’s biggest trade partner for the past four years. In late 2007, China overtook Japan to become Australia’s

largest trading partner, and in 2009 became Australia’s largest export market. In 2010–11, China was Australia’s largest export market, largest import source and the biggest trade partner. As is evident from Table 7.1, China’s share in Australia’s total trade volume was close to 20 per cent, which is significantly high and much ahead of other countries, including Japan (11.8 per cent) and the US (8.8 per cent). Considering China’s leading position trade in goods, it is highly unlikely that its share will decrease. However, as the table shows, China places third in terms of trade in *services*, after the US and the UK. Clearly, China–Australia trade is dominated by goods, which demonstrates China’s lagging behind in services sector, a factor that weakens its position vis-à-vis UK and the US. With the commencement of India–Australia Uranium trade, China’s prominence is likely to go down in future.

The two countries are also working on the possibility of inking a bilateral free Trade Agreement (FTA). In that regard, Australia and China agreed to commence negotiations on 18 April 2005 following consideration of a joint FTA Feasibility Study. The joint feasibility study on FTA was completed in March 2005. Australia and China completed seventeenth round of negotiations on 24 November 2011 in Beijing.⁶ Among other things, agricultural

⁴ Ibid.

⁵ Chinese Embassy in Australia, Media release, ‘Australian Minister Visits China to Reaffirm Bilateral Successes in Combating Transnational Crime’, available at <http://www.china.embassy.gov.au/bjng/MR20111221.html>, accessed 5 February 2012.

⁶ Department of Foreign Affairs and Trade, Australian Government, ‘Australia–China Free Trade Agreement Negotiations’, available at <http://www.dfat.gov.au/fta/acfta/>, accessed 2 February 2012.

Table 7.1: Australia's Top 10 Two-way Trading Partners in 2010–11 (in AUD million)*#

Sr.	Country	Goods	Services	Total	% Share	Rank
1.	China	105,964	7,301	113,265	19.7	1
2.	Japan	63,643	4,088	67,731	11.8	2
3.	USA@	35,039	15,535	50,574	8.8	3
4.	Republic of Korea	29,557	2,298	31,855	5.5	4
5.	Singapore	16,885	6,547	23,432	4.1	5
6.	United Kingdom	12,589	8,883	21,472	3.7	6
7.	New Zealand	15,067	6,061	21,128	3.7	7
8.	India	17,848	3,192	21,040	3.7	8
9.	Thailand	16,072	3,014	19,086	3.3	9
10.	Malaysia	12,874	2,907	15,781	2.7	10
	Total two-way trade	466,242	107,930	574,172	100.0	

Source: Based on DFAT STARS database and ABS catalogues 5368.0 (September 2011), 5368.0.55.003, and unpublished ABS data (Australia's trade in goods and services by top ten partners, 2010–11).⁷

Note: * All data is on a Balance of Payments (BOP) basis, except for 'Goods' by country, which are on a recorded trade basis.

Excludes imports of aircraft from regional import totals from September 2008 onwards.

@ Based on unpublished ABS data and includes confidential aircraft imports for the US only.

⁷ Available at http://www.dfat.gov.au/publications/tgs/FY2011_goods_services_%20top_10_partners.pdf, accessed 8 February 2012.

tariffs and quotas, manufactured goods, services, temporary entry of people, and foreign investment were discussed during the seventeenth round of negotiations.⁸

STRATEGIC AND DEFENCE TIES

In early November 2011, the Deputy Chief of General Staff of the Chinese People's Liberation Army (PLA), General Ma Xiaotian, visited Canberra. During his visit, General Ma met with the Australian Secretary of Defence, Duncan Lewis, and Vice Chief of the Defence Force, Air Marshal Mark Binskin. One of the important components of his visit was the fourteenth Annual Australia–China Defence Strategic Dialogue.⁹

Evidently, Australia has been trying hard that its defence ties with the US do not affect their ties with China. For instance, Australian Defence Force (ADF) and the PLA conducted a joint exercise in Sichuan province of China. The joint exercise—named 'Cooperation Spirit 2011'—began on 27 November and continued till 1

December 2012. Outlining the basic aims of the joint exercise, Australian Defence Minister Smith said, 'Cooperation Spirit is a bilateral Humanitarian Assistance and Disaster Relief (HADR) exercise, and aims to enhance coordination and cooperation between our two countries in responding to unforeseen disasters that occur in the Asia-Pacific'.¹⁰

CHINA'S TERRITORIAL SENSITIVITIES AND AUSTRALIA

Australia supports China's 'One-China policy'; successive Australian governments since 1972 have taken this stand on Taiwan, Tibet, and Xinjiang.¹¹ Australia has maintained ties with Taiwan at an unofficial level through trade and cultural and educational links. However, considering the US position on Taiwan and Australia's alliance partnership with the US, the situation seems complicated. It may be said that on Taiwan issue, Australia might follow the US stand as it is a military alliance partner of the US. Such a situation will be discomfiting to China.

⁸ Ibid.

⁹ Department of Defence, Australian Government, Media Release, 'Gen Ma Visit to Australia—14th Annual Australia–China Defence Strategic Dialogue', 11 November 2011, available at <http://news.defence.gov.au/2011/11/11/gen-ma-visit-to-australia-14th-annual-australia-china-defence-strategic-dialogue/>, accessed 6 February 2012.

¹⁰ Department of Defence, Australian Government, 'Minister for Defence—Australia Cooperates with China on Humanitarian Assistance and Disaster Relief', 28 November 2011, available at <http://www.minister.defence.gov.au/2011/11/28/minister-for-defence-australia-cooperates-with-china-on-humanitarian-assistance-and-disaster-relief/>, accessed 6 February 2012.

¹¹ Department of Foreign Affairs and Trade, Australian Government, 'Taiwan Brief', available at http://www.dfat.gov.au/geo/taiwan/taiwan_brief.html, accessed 4 February 2012.

Tibet has been another prickly issue for Australia–China relations. For instance, China lashed out at Australia for criticizing it on human rights violations and condition of Tibetans in 2009. China registered its protest even on the Dalai Lama’s eleven-day visit to Australia in June 2011. That was his eighth visit to Australia.¹² Responding to Chinese diplomatic pressure, Senator Ludlam in his press release said:

As strange as it may seem that the Chinese government is terrified of a 76 year-old Buddhist monk, this is not the first time they’ve tried this tactic. It would be useful for them to explain why they are urging democratically elected members of Parliament to not hear His Holiness speak.¹³

However, the government’s position on Tibet seems consistent, and Australia doesn’t want to invite any troubles at government-to-government level. Prime Minister Julia Gillard’s refusal to meet the Dalai Lama is a case in point here.

In the light of 2011 incidents of self-immolation by Tibetans in Sichuan and Tibet Autonomous Region (TAR), Tibetans living in Australia registered their protest.

For instance, the Tibetan community in Melbourne protested against China in front of the Chinese Consulate on 19 October 2011. The protest was in line with Global Hunger Strike called by the Dalai Lama. A few days later, similar protests were held in Sydney also.¹⁴ Evidently, Australia supports the Tibetan cause on human rights ground and not on the matter of sovereignty. Taking note of the grave human rights situation, Foreign Minister Kevin Rudd’s office issued a statement on Tibetan immolations on 18 January 2012. The salient points of the statement are given below:

1. The government reminds the Chinese authorities that economic development should be complemented by protection of the unique linguistic, cultural, and religious identities of China’s minorities.
2. Officials from the Australian Embassy in Beijing visited Sichuan province in October 2011 to hear firsthand from the monks there of what was happening.
3. The Australian Ambassador raised the government’s serious concerns with the Vice Governor of Sichuan province on 29 November.

¹² ‘His Holiness Ends Australian Tour with Indigenous Right Speech’, *The Tibet Post International*, 20 June 2011, available at <http://www.thetibetpost.com/en/news/international/1800-his-holiness-ends-australian-tour-with-indigenous-rights-speech>, accessed 4 January 2012.

¹³ Ibid.

¹⁴ ‘Tibetan in Australia Strike Outside Chinese Consulate’, *The Tibet Post International*, 20 October 2011, available at <http://www.thetibetpost.com/en/news/international/2105-tibetans-in-australia-strike-outside-chinese-consulate>, accessed 4 January 2012.

4. On the minister's instructions, representations have been made repeatedly to the Chinese authorities in Beijing and to the Chinese Embassy in Canberra.
5. The foreign minister also discussed the treatment of Tibetans with Vice President Xi Jinping in 2010 and again with senior politburo member Jia Qinglin in April 2011.¹⁵

THE US FACTOR

On 16 November 2011, the US President, Barack Obama, announced the US–Australia joint plan to deploy 2,500 marines in Australia to shore up alliance in Asia. The Darwin base of Australia will amount to the first long-term expansion of the American military's presence in the Pacific since the end of the Vietnam War.¹⁶ According to media reports, concerns have

been raised that the Darwin agreement has complicated the South China Sea dispute involving China.¹⁷ Under the plan, 2,500 US marines will be deployed in the Darwin base by 2016. Clearly, Australia wants to safeguard its national security and be prepared for any eventuality, while maintaining cordial relations with China. As Professor Alan Dupont says: 'Australian strategic rationale is that we are also hedging against increasing Chinese military power and their capacity to destabilize maritime trade routes. And we want to get closer to the US.'¹⁸

Incidentally, the US and Australia celebrated sixty years of the Australia, New Zealand, United States Security (ANZUS) Treaty in 2011. The Darwin base is clearly a manifestation of the robust military alliance. For the record, the ANZUS Treaty is the military alliance which binds Australia and the US to cooperate on

¹⁵ 'Australian Government's Statement on Tibetan Immolations', *Australia Tibet Council*, 18 January 2012, available at <http://www.atc.org.au/news-mainmenu-28/1-latest/1854-australian-governments-statement-on-tibetan-immolations-16-january-2012>, accessed 22 January 2012.

¹⁶ 'A US Marine Base for Australia Irritates China', *The New York Times*, 16 November 2011, available at <http://www.nytimes.com/2011/11/17/world/asia/obama-and-gillard-expand-us-australia-military-ties.html?pagewanted=all>, accessed 20 December 2011.

¹⁷ 'Military Deal Turns Focus to South China Sea Dispute', *The Australian*, 19 November 2011, available at <http://www.theaustralian.com.au/national-affairs/defence/military-deal-turns-focus-to-south-china-sea-dispute/story-e6frg8yo-1226199527758>, accessed 23 January 2012.

¹⁸ 'US Marine Base for Darwin', *Sydney Morning Herald*, 11 November 2011, available at <http://www.smh.com.au/national/us-marine-base-for-darwin-20111110-1n9lk.html>, accessed 22 December 2011.

mutual defence. It was concluded in San Francisco on 1 September 1951, and entered into force on 29 April 1952.¹⁹

In order to make greater sense of emerging geo-political equations in Asia, Julia Gillard commissioned a White Paper on *Australia in the Asian Century* on 28 September 2011. The White paper is given a mandate to consider the following:

- The current and likely future course of economic, political and strategic change in Asia, encompassing China, India, the key ASEAN countries as well as Japan and the Republic of Korea;
- The domestic economic and social opportunities and challenges of the Asian Century for Australia;
- Opportunities for a significant deepening of our engagement with Asia across the board, including in the economy, science and technology collaboration, clean energy, education, business-to-business and people-to-people links and culture;
- The political and strategic implications of the Asian Century for Australia; and
- The role of effective economic and political regional and global cooperation.²⁰

The White Paper, likely to be released during the middle of 2012, is expected to bring in more insights for Australia, which is grappling with the mounting geopolitical challenges in Asia. It is also believed that the White Paper will give a definitive structure to Australia's future strategic choices and decisions.

THE ROAD AHEAD

The year 2011 demonstrated very well, as did previous three years, that the Australian economy's robust performance during the global economic slump came about largely due to its trade dependence on China. However, the relationship is more of a 'resource supplier-buyer' kind than that of trade partners. The biggest challenge for Australia lies in changing the heavy trade dependence on resource supply and yet, keeping the overall trade volume intact.

In the final analysis, it can be said that economic ties drive the overall Australia-China relationship. However, when it comes to making choices on strategic and defence issues, Australia will not think twice on siding with the US. The golden rule that Australia seems to have made for itself is: ensure that Canberra doesn't see a day when it has to choose between the US and China; meanwhile benefit from the

¹⁹ '60th Anniversary of ANZUS Treaty', *VOA News*, 14 September 2011, available at <http://www.voanews.com/policy/editorials/americas/60th-Anniversary-Of-Anzu-129838758.html>, accessed 12 January 2012.

²⁰ 'Australia in the Asian Century', Media release, Press Office of the Prime Minister, available at <http://www.pm.gov.au/press-office/australia-asian-century>, accessed 12 January 2012.

good times. Achieving what foreign minister calls 'Australia-China 2.0', will require a carefully designed policy which is implemented prudently. Only then,

Australia will achieve, in Prime Minister Julia Gillard's words, 'an ally in Washington and a friend in Beijing' in coming years.

CHINA AND WEST ASIA IN 2011

THREAT OR OPPORTUNITY?

M MAHTAB ALAM RIZVI

INTRODUCTION

The year 2011 witnessed extraordinary changes in the West Asia and North Africa (WANA) region. The West Asian region possesses huge energy resources like oil and gas; any major development in this region is bound to have an immediate and strong impact on the world's economy and politics. China's policy towards West Asia has been shaped by a number of structural considerations as well as specific issues and developments in these countries. Today, China is the West Asian countries most significant Asian energy market, and offers political cover because it does not ask them for political or human rights concessions. The other major happening, the 'Arab uprising', also had a profound impact on China's West Asia policy.

The 'Arab Spring' that began early in 2011 stunned the entire region. Dictators were

overthrown; power changed hands; and few countries that defied changes are in tumult, such as Syria and Yemen. China has had to monitor the changing developments closely to protect its growing commercial interests in the region. It has realized, to its disappointment, that the past policy of diplomatic relationship based on separating economics from politics in dealing with West Asian countries is no longer relevant.¹ China finds itself in the awkward position of having to justify its positions on issue like good governance and human rights, especially in Xingjiang province.

A few Chinese officials and academics view the ongoing crisis in the West Asian region as a threat to their national interests. Others consider it an opportunity to develop new ties in a region that has been strongly controlled by other foreign powers, especially the United States (US) and

¹ Jing-dong Yuan, 'The Arab Spring and China's Evolving Middle East Policy', *World Politics Review*, 20 December 2012, available at <http://www.worldpoliticsreview.com/articles/10992/the-arab-spring-and-chinas-evolving-middle-east-policy>, accessed 2 February 2012.

European countries. China's policy towards the West Asian region is based on Five Principles of Peaceful Coexistence. These are: West Asian countries decide their own social and political systems; help these countries' independence, sovereignty, and territorial integrity; and oppose external intervention in their internal affairs.

The Arab Spring not only impacted China's political outlook, energy, and trade and commerce but also spread fear among the Chinese elite at home. Proactive measures were taken to avoid a 'Jasmine Revolution' from taking place in China: for example, tighter Internet monitoring and censorship, especially the use of social media, and surveillance and control of public mass gatherings and protests. In 2011, for the first time in decades, the resources allocated to public security expenditures, approximately \$95 billion, exceeded the official defence budget of \$92 billion.² As professor and human rights advocate, Perry Link, disclosed in a *New York Review of Books* blog, the day after Mubarak's fall, members of the Chinese Politburo called an urgent, informal meeting to review the situation. Six days later, an independent Chinese

news outlet, *Boxun*, revealed the outcomes of the meeting:

Halt all independent reports, commentaries, and discussions (including internet threads), whether in the print media or internet, on the situation in Egypt and similar places; strengthen work in filtering and managing blogs, micro-blogs, and discussion forums; assure that media in all locations uniformly adhere to the standard texts of the New China News Agency in any report or commentary on the Middle East.³

The statement by Chinese Prime Minister Wen Jiabao at the Fourth China–Arab Business Conference in Sharjah (United Arab Emirates[UAE]) in January 2012 highlighted China's close links with the West Asian countries. Wen stated that the trade between China and the Arab states entered record figures in 2011 despite political turmoil in the region. Wen's statement suggested China is a growing power in the West Asian region, gaining influence at the expense of the US.⁴ In recent years, relationship between China and West Asia has grown beyond defence

² Ibid.

³ Douglas H. Paal, 'China Reacts to Middle East Unrest', *Carnegie Endowment for International Peace*, Washington DC, 28 February 2011, available at <http://www.carnegieendowment.org/2011/02/28/china-reacts-to-middle-east-unrest/6yy>, accessed 4 February 2012.

⁴ Ministry of Foreign Affairs, People Republic of China, 'Wen Jiabao Attends the Opening Ceremony of the Fourth Entrepreneurs' Conference & Investment Seminar of China–Arab States Cooperation Forum', 18 January 2012, available at <http://www.fmprc.gov.cn/eng/zxxx/t897991.htm>, accessed 20 March 2012. See also Dilip Hiro, 'China Courts the Middle East', 30 January 2012, available at <http://yaleglobal.yale.edu/content/china-courts-middle-east>, accessed 20 March 2012.

cooperation, spilling over into commerce, energy, and political support. Trade and economic cooperation between China and West Asian countries has increased exponentially. China's non-interference policy in the West Asian region helps maintain normal relations with all countries in order to protect its national and long-term economic interests.

CHINA–WEST ASIA: POLITICAL RELATIONS

Soon after the new administrations came to power in Tunisia and Egypt, a number of officials from the Chinese Ministry of Foreign Affairs visited the two countries in early March 2011. Chinese Deputy Foreign Minister travelled to Tunisia in early March 2011 and to Egypt in early May 2011, which promoted the mutual trust between the two countries and showed China's willingness to take a positive and open attitude towards the new administration.

China has also extended its relations with the Gulf Cooperation Council (GCC), a major regional organization that has contributed to maintain stability in the region. China warmly welcomed the Saudi King's special envoy in mid-March 2011. Chinese Foreign Minister visited Abu Dhabi, the capital of the UAE, in early May to attend the second round of strategic

dialogues between China and the GCC. Both sides expressed their strong desire to carry out strategic cooperation. On Libya, China did not vote in favour of the United Nations Security Council's (UNSC) resolution for establishing a no-fly zone in Libya⁵ and strongly condemned North Atlantic Treaty Organization (NATO) airstrikes, which it considered contrary to the original intent of the resolution. With the former rebels now in power, the new administration in Tripoli has adopted a less-than-friendly attitude toward Beijing, with obvious implications for China's economic interests in Libya.

CHINA AND SAUDI ARABIA

In January 2012, Chinese Premier Wen Jiabao travelled to Saudi Arabia, Qatar, and UAE, the first trip by a Chinese high official in two decades. Some experts believe that the recent trip came about due to different reasons.⁶ The Chinese government may be more careful about the side it selects, considering the embarrassment caused when the biggest state-owned arms company was found to have offered to sell weapons to Colonel Qaddafi of Libya to put down the uprising.

Since 1990, when Saudi Arabia and China set up diplomatic ties, bilateral relations have grown swiftly. Their trade grew to \$40

⁵ 'China Contributes to Stability in West Asia, North Africa', *People's Daily*, 31 May 2011, available at <http://english.peopledaily.com.cn/90001/90780/91343/7396483.html>, accessed 3 February 2012.

⁶ Michael Wines, 'Middle East Trip Suggests Change in Policy by China', *The New York Times*, 13 January 2011, available at http://www.nytimes.com/2012/01/14/world/asia/wen-jiabao-in-middle-east-as-china-evaluates-oil-policy.html?_r=2, accessed 5 February 2012.

billion in 2010, and their 'strategic oil partnership' has resulted in growing investments in Saudi oil and gas fields from Chinese national oil companies as well as Saudi equity in Chinese refinery facilities. In 2009, for the first time, Saudi Arabia exported more oil to China than it did to the US. Regular high-level officials visit from both sides and mounting business ties have further boosted the bilateral relationship. In February 2009, Chinese President Hu Jintao visited Saudi Arabia and signed major trade agreements, including the \$1.8 billion high-speed monorail linking Mecca and Medina that will be constructed by the China Railway Construction Corporation by 2013. Notably, the Chinese press praised the Saudi royal family for its handling of recent unrest in the kingdom.⁷

CHINA AND IRAN

One of the major players in the West Asian region is Iran. China has always maintained cordial relations with Iran. However, China's economic ties with Iran have been a topic of debate, especially China's reluctance in imposing international sanctions to force Iran to abandon its

nuclear programme, in keeping with its own commercial interests. On 31 December 2011, Obama administration imposed new sanctions on Iran which China has opposed saying that it will continue to trade directly with Iran. China's Foreign Ministry spokesman, Hong Lei, specifically said that one country placing its domestic law above international law, and applying coercive measures impinging on the free functioning of other country's foreign and trade relations, would be counterproductive. He also added that at present, all sides concerned should step up their diplomatic efforts for dialogue and negotiation, take new measures to enhance mutual trust, and create favourable conditions for addressing Iran's nuclear issue appropriately.⁸

China and Iran have become major economic partners in recent years, partly due to the withdrawal of Western companies in line with sanctions against Iran. In July 2011, the two countries signed a series of agreements worth \$4 billion for infrastructure projects in the water, mining, energy, and industrial sectors.⁹ Hong acknowledged that China has regular 'open and transparent economic and energy interactions with Iran'.¹⁰ 'These

⁷ Jing-dong Yuan, 'The Arab Spring and China's Evolving Middle East Policy', *World Politics Review*, 20 December 2012, available at <http://www.worldpoliticsreview.com/articles/10992/the-arab-spring-and-chinas-evolving-middle-east-policy>, accessed 2 February 2012.

⁸ 'China Opposes Unilateral Sanctions against Iran', *China Daily*, 9 January 2012, available at http://www.chinadaily.com.cn/china/2012-01/09/content_14409846.htm, accessed 29 January 2012.

⁹ 'China Opposes "Unilateral" US Sanctions on Iran', *Khaleej Times*, 4 January 2012, available at http://www.khaleejtimes.com/DisplayArticle09.asp?xfile=data/middleeast/2012/January/middleeast_January102.xml§ion=middleeast, accessed 7 January 2012.

¹⁰ Ibid.

interactions do not violate UN Security Council resolutions and will not impair third party interests,' he said.¹¹ Therefore, these interactions should not be affected. However, Beijing has already been driving a hard bargain. China, which bought 11 per cent of its oil from Iran during the first eleven months of last year, has cut its January purchase by about 285,000 barrels per day (bpd), more than half of the close to 550,000 bpd that it bought through a 2011 contract.¹² In 2010, Sino-Iranian bilateral trade reached \$30 billion and China became the Iran's largest trading partner.

Despite the UNSC sanctions, China continues to allow its companies to do business with Iran, including energy-related investments, such as the development of the Yadavaran oil field by Sinopec, and infrastructure projects, such as the construction of subway lines in Tehran. It is speculated that more than 100 Chinese companies are working in Iran, with total signed contracts estimated at \$100 billion to \$120 billion.¹³

CHINA AND TURKEY

The Chinese believe that Turkey is one of the important countries in the WANA

region due to its growing economy, increasingly independent and leading diplomacy, and being a focal point between Europe, Eurasia, and West Asia. Chinese analysts consider that Turkey's stock is also growing day by day. The ruling Justice and Development Party (AKP) has followed a more independent foreign policy than its predecessors that has looked at Turkey distance itself from the US and particularly Israel.¹⁴

Chinese Premier Wen Jiabao's official visit to Turkey in October 2010 marked a new phase in Chinese-Turkish relations. Numbers of agreements were signed to develop further cooperation in various areas. The two governments aimed to triple bilateral trade volume to \$50 billion by the end of 2015. Wen was the first Chinese Premier to visit Turkey in eight years. Turkish Prime Minister Recep Tayyip Erdogan and Wen signed deals, including an agreement to transform the ancient Silk Road into a 'Silk Railway' connecting China and Turkey. China and Turkey have also built up a strategic relationship, including conducting joint military exercise. In October 2010, Turkey included Chinese warplanes in its military exercise 'Anatolian Eagle', manoeuvres that earlier had

¹¹ Ibid.

¹² 'Iran Embargo Gathers Support in Asia, Europe', *Khaleej Times*, 13 January 2012, available at http://www.khaleejtimes.com/DisplayArticle08.asp?xfile=data/middleeast/2012/January/middleeast_January336.xml§ion=middleeast, accessed 14 January 2012.

¹³ Jing-dong Yuan, 'The Arab Spring and China's Evolving Middle East Policy', *World Politics Review*, 20 December 2012, available at <http://www.worldpoliticsreview.com/articles/10992/the-arab-spring-and-chinas-evolving-middle-east-policy>, accessed 2 February 2012.

¹⁴ Richard Weitz, 'How China Sees Middle East', *The Diplomat*, 6 September 2011, available at <http://the-diplomat.com/china-power/2011/09/06/how-china-sees-middle-east>, accessed 5 February 2012.

included the US and Israel. However, Turkey apparently left its modern US-built F-16s in their hangars during the exercises and instead flew its F-4s, which the US Air Force retired from service in 1996, but the damage was done. Rumours circulated that Turkey had deployed its advanced US-made F-16 Fighting Falcons during the manoeuvres, raising fears in Washington and Brussels that sensitive US and NATO technology would slip into the hands of the Chinese. Turkish officials denied the allegations, however, stating that they took great care to protect sensitive technology, a point confirmed by officials in Washington.¹⁵ The exercises included mock dogfights and other air-based manoeuvres.

Yet, key questions remain regarding the details of important aspects of the exercise. Chinese participation in the exercise aggravated the already existing crisis of confidence between the US and its NATO partner. That the joint exercise between China and Turkey upgraded their bilateral relationship to that of a strategic partnership only makes matters worse.¹⁶ According to the Turkish Ambassador to China, Murat Salim Esenli, the trade

volume in the previous year was around \$20 billion, increasing steadily and slowly. 'If we can maintain the momentum of the increase, we would be able to reach a volume of \$45 billion by 2015', said Esenli. 'We have a strong desire to meet the targets.'¹⁷ Recently, in September 2011, Esenli said Turkey would also like to attract investments from China and is considering having more production lines established in Turkey as well as having more joint ventures with Chinese companies. 'And we've already acted in these ways and we start seeing more concrete results.'¹⁸

CHINA, ISRAEL, AND PALESTINE

The turmoil in the WANA region erupted at a time when China's engagement with the region was maturing. Over the years, ideology was the primary driver of China's West Asia policy, where it sided with the Palestinian cause in the Israeli–Arab conflicts. China also provided economic and military assistance as well as political and diplomatic support to the Palestine Liberation Organization (PLO) and other Arab countries.¹⁹ However, in contrast, recently in August 2011, the Chinese Chief

¹⁵ Chris Zambelis, 'Turkey Sacrifices Uighurs to Trade', *Asia Times*, 19 January 2011, available at <http://atimes.com/atimes/China/MA19Ad02.html>, accessed 4 February 2012.

¹⁶ 'China's Rise in the Middle East', *Los Angeles Times*, 16 November 2010, available at <http://articles.latimes.com/2010/nov/16/opinion/la-oe-schenker-china-mideast-20101116>, accessed 30 January 2012.

¹⁷ Li Jingjing, 'Turkish Ambassador Eyes All-level Co-op with China', *China Economic Net*, 14 September 2011, available at http://en.ce.cn/Insight/201109/14/t20110914_22694099.shtml, accessed 3 February 2012.

¹⁸ Ibid.

¹⁹ Jing-dong Yuan, 'The Arab Spring and China's Evolving Middle East Policy', *World Politics Review*, 20 December 2012, available at <http://www.worldpoliticsreview.com/articles/10992/the-arab-spring-and-chinas-evolving-middle-east-policy>, accessed 2 February 2012.

of Staff, General Chen Bingde, visited Israel. This was the first-ever visit by a Chief of Staff. According to *China Daily*, the visit was signal of warming bilateral ties between the two countries. Chen's visit came at a time when Israel was increasingly concerned by multiple efforts to isolate and delegitimize it. His visit sent a signal that China doesn't share those values.²⁰ The diplomatic relations between China and Israel are complex and manifold. Israel was the first country in the West Asian region, and one of the first in the world, to recognize the People's Republic of China. However, due to China's initial refusal to recognize Israel, the relations between two countries diminished. However, on 23 January 1992, the Foreign Minister of Israel, David Levy, paid a four-day visit to Beijing, and this opened the door for formal establishment of ties. In September 2011, the Israeli Minister of Transport, Israel Katz, announced that China and Israel had agreed to construct a major high-speed rail link joining the Mediterranean with the Red Sea.

CONCLUSION

Due to significant development of its industrial, petrochemical, and manufacturing sectors, as well as the rapid

expansion of personal automobile use, China is currently the world's second largest consumer of oil. Some analysts believe that China will be the main buyer of oil by 2025. Despite assertive quest for supply diversity, 70–80 per cent of China's future oil imports will have to come from the WANA region. To fulfil its growing demand, over the past years, China has actively engaged Iran through a variety of economic and political stimulus plans so as to ensure a free flow of energy at a moderate price. Recently, the China Customs Organization revealed that Iran's total crude exports to China was enhanced by 47 per cent from January to July 2011,²¹ compared to the previous year (2010).

The recent developments in the WANA region, especially due to the Arab Spring, have led to significant changes and put the great power (China) in a dilemma to balance its foreign policy in the region. Saudi Arabia has strengthened diplomatic relations with China as well as with Russia in the wake of the US support of President Hosni Mubarak's ouster in Egypt and the protests in Bahrain. Saudi Arabia sent a clear message to the West, especially the US, that it was willing to take China's support if the US does not support it. China has also grasped this opportunity and given assurance of support to Saudi Arabia.

²⁰ Shalom Wald and Gedaliah Afterman, 'China Enters the Middle East', *Jerusalem Post*, 23 August 2011, available at <http://www.jpost.com/Opinion/Op-EdContributors/Article.aspx?id=235150>, accessed 5 February 2012.

²¹ Geoffrey F. Gresh, 'China's Emerging Twin Pillar Policy in the Gulf', 7 November 2011, available at http://mideast.foreignpolicy.com/posts/2011/11/07/chinas_emerging_twin_pillar_policy_in_the_gulf, accessed 5 February 2012..

Furthermore, China has become a close friend of Saudi Arabia as it offers better economic relations without any preconditions on political reforms. China's relations with Iran and Saudi Arabia are based on economic and political links throughout the region. China has also started to develop its military and naval presence in the WANA region. However, the crucial test of China's new regional role would depend on its balancing act vis-à-vis Iran and Saudi Arabia.

Chinese friendship with West Asian countries is increasing day by day. However, the main anxiety among Chinese leaders is that religious and other ties with the region would import chaos into Xinjiang region where its large Muslim population (Uighur minority) lives. The Chinese are also concerned that the new administration in the WANA region will disrespect China's trade interests due to

their relations and economic ties with the West. The Arab uprising and its aftermath provide China with both challenges and opportunities. China's traditional stands of non-interference and state sovereignty have been put under increasing pressure by the international community's emphasis on good governance and respect for human rights in responding to developments there. China's recent veto on Syria resolution would also damage its relations with other Gulf countries. According to François Godement, a senior fellow at the European Council on Foreign Relations in Paris, due to recent uprising, China's political influence has gone down a lot in the last year. He added 'Libya, Yemen, Syria—those are all states which had either good or very good relations with China'. Godement also said that 'In that mood, it's quite possible that the Chinese would decide to hedge'.²² Whether that is right is in doubt.

²² Michael Wines, 'Middle East Trip Suggests Change in Policy by China', *The New York Times*, 13 January 2012, available at <http://www.nytimes.com/2012/01/14/world/asia/wen-jiabao-in-middle-east-as-china-evaluates-oil-policy.html>, accessed 28 January 2012.

SECTION II

INTERNAL ISSUES

CHINA'S POLITICAL LANDSCAPE

PREPARING FOR TRANSITION

AVINASH GODBOLE

In many ways, 2011 was an important year as far as the People's Republic of China's (PRC) domestic political process is concerned. After an eventful 2010 which saw tension following the fishing boat incident with Japan, shelling on the Korean peninsula and the award of Nobel Peace Prize to Liu Xiaobo, 2011 was relatively peaceful. Many drivers have guided the political process in 2011. Some of these drivers are domestic, while others have been inspired from developments that have taken place outside of China. This chapter will discuss the political processes in China in 2011 based on these important drivers. They include:

- The legacy of Hu Jintao and emergence of the new leadership;
- Jasmine Revolution and the fears of its imminent Chinese manifestation; and
- Inflation, inequality, corruption, and mass incidents.

A common thread that runs through all these variables is that throughout the year, the Communist Party of China (CPC) was pursuing the same goals, i.e. to ensure stability. As Susan Shirk opines, this goal is consistent with the Party's style of working since the 1989 Tiananmen Square incident.¹ She adds that the CPC's formula for ensuring stability includes: (a) avoiding public leadership splits; (b) preventing large-scale social unrests; and (c) keeping the military on the side of the Party.² For example, in 2011, the National People's Congress (NPC) passed a budget for the domestic law and order apparatus (*wei-wen*) which, for the first time, surpassed the budget of the People's Liberation Army (PLA). At 624.4 billion Yuan (US \$ 95 billion), this represented a 13.8 per cent increase over the 2010 budget. In contrast, the military budget was 601.1 billion Yuan (\$ 91.5 billion).³ This reflects on how

¹ Susan Shirk, *China: Fragile Superpower*, New York: Oxford University Press, p. 39.

² Ibid.

³ Willy Lam, 'Beijing's Wei-wen Imperative Steals the Thunder at the NPC', *China Brief*, 11(4), 10 March 2011, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=37630&tx_ttnews%5BbackPid%5D=517, accessed on 2 February 2012.

seriously stability is viewed by the Party leadership.

However, this is not an aberration but a continuation of the trend that has been seen throughout most of the tenure of President and Secretary General Hu Jintao. Right at the dawn of his term as the President, in 2004, Hu Jintao is quoted to have said, '...Enemy forces inevitably take public opinion to be their point of attack...Soviet Union disintegrated under the assault of their Westernization and bourgeoisie liberalization'.⁴ Following this statement, there was a crackdown on media that was perceived to be even remotely liberal.⁵ Therefore, these fears have led to ideological reassertion of the supremacy of the Party as well as overreaction to any events that appeared to challenge it.⁶ Subsequent events like the Tibetan riots of March 2008, Beijing Olympics, release of the Charter 08, Xinjiang riots, and the Nobel Peace Prize to dissident activist Liu Xiaobo, coupled with the numerous mass incidents, only seem to have reinstated the leadership's belief in prioritizing stability above all else. Nevertheless, excessive stress

on stability in 2011 was in stark contrast with the hopes of change after Premier Wen Jiabao nearly praised democracy in an interview with CNN's Fareed Zakaria in late 2010. Answering a question, Wen had said, 'I believe I and all the Chinese people have such a conviction that China will make continuous progress, and the people's wishes for and needs for democracy and freedom are irresistible'.⁷ It is notable the Wen Jiabao made a similar statement in World Economic Forum of 2011 in Dalian when he said that China needed more democracy.⁸

LEGACY OF HU JINTAO AND EMERGENCE OF THE NEW LEADERSHIP

Thus one can argue that in the last leg of their leadership, the Hu–Wen combine has been concentrating in ensuring the sustenance of the CPC's powers, and charting out a face-saving farewell for themselves, as against leaving a long-term impression on the way the Party–state functions. This brings one to the question of the legacy of Hu Jintao's presidency. Like his predecessors, Hu will surely like to leave

⁴ *Kaifang*, December 2004, http://www.open.com.hk/2003_12news1.htm. cited by Joseph Fewsmith, *China Leadership Monitor*, No. 14, 2005, available at http://media.hoover.org/sites/default/files/documents/clm14_jf.pdf, accessed on 27 March 2012.

⁵ For more see Fewsmith, No.4, p. 5.

⁶ Even towards the end of his tenure, similar tendency is noticed. For example, the PLA was recently reminded that

⁷ Fareed Zakaria GPS, 'Transcript of Interview with Wen Jiabao', *CNN*, 3 October 2010, available at <http://transcripts.cnn.com/TRANSCRIPTS/1010/03/fzgps.01.html>, accessed on 2 February 2012.

⁸ Quoted by Damian Grammaticas, 'Chinese Premier Wen Jiabao Calls for More Democracy', *BBC News*, 15 September 2011, available at <http://www.bbc.co.uk/news/world-asia-pacific-14932483>, accessed on 2 February 2012.

a lasting political philosophy for the future leaders of China. Hu Jintao's regime had also begun with much hope when, first, he had adopted 'harmonious' development as his guiding philosophy. Alongside a realization that not all was well with the model hitherto pursued, it was a statement of optimism about the new leader's willingness to look at things differently. Second, he acted proactively in the 2003 Severe Acute Respiratory Syndrome (SARS) episode by sacking the health minister and Beijing Mayor for mishandling of the crisis. Third, it was only after Hu's ascent to the Party leadership that the statistics on social unrests were made public in a bid to instill accountability among the lower rungs of the Party leadership.⁹ These two initiatives clearly signaled that 'transparency' would become the keyword of the regime's governance style.

However, none of that has been translated into practice over the later phase of the Hu regime. Instead, there seems to have emerged a pattern whereby Premier Wen Jiabao praises democracy and calls for more of it to be made available in case of China, when talking to international media or gatherings, on the one hand, and President Hu criticizes Western culture as being an attack on the Chinese society while talking

to Chinese gatherings, on the other. In a recent essay in the party magazine, Hu Jintao said, 'We must clearly see that international hostile forces are intensifying the strategic plot of Westernizing and dividing China, and ideological and cultural fields are the focal areas of their long-term infiltration'.¹⁰ There are various ways of looking at this dual brinkmanship on part of the Chinese leadership. One way to see this is as an appeal to Chinese nationalism once again, towards restoring the Party legitimacy. Another way would be to consider this as uncertainty on part of the leadership while steering the future course of China. It can also be interpreted as recognition of the lack of appeal of China's soft power by which it was hoping to make an impact on the way the country was perceived abroad. However, it seems unlikely that CPC would ever be able to promote the Chinese culture and encourage creativity so long as it tries to control what is discussed and criticized.

At another level, it seems likely that the top leadership of China has taken recourse to the language of culture and national identity to divert the attention away from core problems in the society. Hu Jintao's harmonious development is nowhere close to being achieved. As discussed later, economic inequality seems to have only

⁹ Cheng Li and Eve Cary, 'The Last Year of Hu's Leadership: Hu's to Blame?', *China Brief*, 11(23), 20 December 2001, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=38811&tx_ttnews%5BbackPid%5D=517, accessed on 2 February 2012.

¹⁰ Edward Wong, 'China's President Lashes Out at Western Culture', *The New York Times*, 3 January 2012, available at <http://www.nytimes.com/2012/01/04/world/asia/chinas-president-pushes-back-against-western-culture.html?ref=china>, accessed on 2 February 2012.

increased in the near past and corruption is not controllable as yet and looks unlikely to be effectively managed in the near future. Therefore, restoration of the cultural rhetoric seems to be the method of choice towards approaching the question of inequality and corruption.

XI JINPING

The heir apparent to Hu Jintao, Xi Jinping came to prominence after his stance against corruption landed him as Party Chief in Shanghai in 2007. His father was a close aide of Mao but was also prosecuted and jailed during the Cultural Revolution. Xi has previously held important positions inside the CPC as the top-ranking member of the Party secretariat, Principal of the Communist Party's Central Party School, and so on. At present, he is the Vice Chairman of the Central Military Commission (CMC). He is pro-market and is against red-tapism as well as wasteful expenditure.¹¹ He has also dealt with both South and North Korea. In addition, analysts from Taiwan have expressed optimism over his ascent, from his approach to Taiwan while he was the senior official in the province of Zhejiang.¹² However, at other times, he has also expressed nostalgic remembrance of Mao.

In the past two years, Xi Jinping has undertaken various foreign tours so as to silence the criticisms about his lack of

international experience. Many of these tours have been either to China's neighbouring countries or the developing parts of the world. It is hoped that Xi Jinping will have clearer mandate, being a princeling and a nominee of Jiang Zemin, the creator of second stage of economic reforms. How he handles social tensions remains to be seen.

What was intensely speculated was that Xi Jinping would promote other princelings, including Bo Xilai to the Politburo Standing Committee. However, with the developments following the Wang Lijun-Bo Xilai saga, there is a sense of uncertainty over the planned script of the transition. While Bo Xilai was popular amongst the people for his welfare measures, perhaps somewhere the Party also felt that his personality cult was becoming larger than his image as a Party Secretary. In addition, the exposé of the possible negative outcome of the Wang-Bo saga can not be ignored.

INFLATION, INEQUALITY, CORRUPTION, AND MASS INCIDENTS

In general, the CPC believes that economic prosperity will help it sustain its hold on political power since prosperity can give it the legitimacy to rule. Therefore, the performance legitimacy of the state is critically important for the Party, and the leaders of the Party are ever anxious to reach out to the masses to showcase that

¹¹ Jonathan Fenby, 'China Orchestrates its Political Transition', *Politics China*, 11 April 2011, available at http://www.trustedsources.co.uk/ezodf/exportPDF/17206/%28file%29/china_orchestrates_its_political_transition.pdf, accessed 2 February 2012.

¹² Private conversations with the author, undocumented.

the country is on the right path of development and growth and that the people's future is best secured in the hands of the Communist Party's rule. However, in the recent past, the Party bosses have realized that this formula of development is showing its dark underbelly in bigger and graver manifestations, and the new social media in the country is helping proliferate these incidents to the people rapidly, must to their consternation and dislike.

Slowdown and Inflation

In the two decades, after the Tiananmen Square protests, double-digit income growth and sustained rise in people's real incomes was the source of performance legitimacy for the Party. However, after coming out relatively unscathed during the global recession of 2008–09, China's economy has started showing signs of tiredness in the last year-and-a-half. First of all, growth rates have come down to single digits. In the last quarter of the year 2011, China's gross domestic product (GDP) grew at 8.9 per cent, and this trend of slowdown was expected to continue into 2012 as well.¹³ This was lower than 9.1 per cent recorded in the previous quarter. In the same period, overall exports and imports also reduced. Analysts have concluded that lower imports in this

quarter would translate into further reduction of exports in the quarter. This clearly indicates that Chinese economy is amidst a slowdown, even if the fears of hard landing are ruled out. This also showcases that despite the wishes of the leadership, the intricate engagement of the Chinese economy with the world economy will have domestic implications. Therefore, in this round, reducing imports of the European economies is having a visible impact on China.

The slowing economy is having adverse impact on the lives of ordinary citizens as well. Slow generative processes are adding monetary pressures on the financial system and, in 2011, it led to highest consumer inflation in the recent past. Inflation in China peaked in July 2011 at 6.7 per cent, before settling at 4 per cent in December 2011 after stringent macroeconomic regulations were undertaken during the year. Earlier, in 2011, Wen Jiabao had emphasized controlling inflation as one of the highest priorities for the government. Even then, in 2011, inflation had increased by 5.4 per cent on year-on-year basis, much higher than the government's target of 4 per cent.¹⁴ The seriousness of the inflation data become even more significant when compared to the data on increase in income. In 2010, real household incomes grew at

¹³ Jamil Anderlini, 'Chinese GDP Growth Rate Falls', *Financial Times Online*, 17 January 2012, available at <http://www.ft.com/intl/cms/s/0/677820ca-40bc-11e1-8fcd-00144feab49a.html#axzz1lZtMJP6a>, accessed on 2 February 2012.

¹⁴ David Pierson, 'Inflation in China Eases in December', *Los Angeles Times*, 12 January 2010, available at <http://www.latimes.com/business/money/la-fi-mo-china-inflation-20120112,0,5175110.story>, accessed 4 February 2012. Also, see Jason Miks, 'Wen Warns Over Inflation', *The Diplomat*, 27 June 2011, available at <http://the-diplomat.com/china-power/2011/06/27/wen-warns-over-inflation/>, accessed 4 February 2012.

7.8 per cent.¹⁵ When compared to the average consumer index inflation, it means that real income growth for the middle class was only negligible. Additional numbers also suggest that 'while income of normal households likely grew at around 8 percent, the top 10 percent of households may have seen income growth above 25 percent'.¹⁶ What this means is that not only was the middle class the most affected because of inflationary pressures but also the income inequality grew even when not taking into account the lower classes of the Chinese society. Further, the high inflation of 2011 is likely to have greater impact on aggregated income growth numbers for the fiscal year 2011.

Inequality

This also leads to another related variable of inequality. Even as the number of poor people in China has reduced substantially, China remains an unequal country. A 2011 White Paper claims that the number of rural poor reduced by about 70 million in the last decade. It also says that the 26.88 million poor were only 2.8 per cent of the

rural population in China.¹⁷ However, critics have argued that China is using a low baseline in calculating the absolute number of poor people. China's Gini coefficient stands closer to 0.5, which is treated as being conducive to ignite social disturbances.¹⁸ At the same time, the wealthy in China, like elsewhere, argue against higher taxes. For example, *Bloomberg* quotes Chinese billionaire and CPC member Zong Qinghou as saying that '...higher taxes sap energy from entrepreneurs. Nations with high taxes will have problems when all their money is spent', allegedly because 'Rich people are investing their money, creating more jobs. If rich people all get killed, nobody is going to invest or build factories, there will be no jobs.'¹⁹ Zong is quite oblivious to the shrinking job market in China whereby less than 70 per cent of graduates were able to get jobs in 2010–11 on the one hand, and increasing number of migrants have had to return after the economic slowdown on the other.²⁰ Therefore, once again, the anxiety of the leadership is obvious but the question is whether they have the

¹⁵ Victor Shih, 'China's Highly Unequal Economy', *The Diplomat*, available at <http://the-diplomat.com/whats-next-china/china%E2%80%99s-highly-unequal-economy/>, accessed 4 February 2012.

¹⁶ Ibid.

¹⁷ Ananth Krishnan, 'China's Rural Poverty Falls but Inequality Rises, Says White Paper', *The Hindu*, 20 November 2011, available at <http://www.thehindu.com/news/international/article2644296.ece>, accessed 4 February 2012.

¹⁸ Willy Lam, n. 3.

¹⁹ 'Wen Jiabao sees Billionaires when Communists Convene as Wealth Gap Widens', *Bloomberg Online*, 4 March 2011, available at <http://www.bloomberg.com/news/2011-03-03/wen-sees-billionaires-in-china-congress-as-wealth-gap-widens.html>, accessed 3 February 2012.

²⁰ For details on inequality in China, see Damian Tobin, 'Inequality in China; Rural Poverty Persists as Urban Wealth Balloons', *BBC Business*, 29 June 2011, available at <http://www.bbc.co.uk/news/business-13945072>, accessed 3 February 2012.

wherewithal to control the discontent, especially with the voice of the rich businessmen becoming stronger inside the Party.

Infrastructure and Corruption

Even as Hu–Wen failed in realizing their dream of creating a more harmonious and equal society, the Party–state continues to undertake and launch showcase infrastructure projects. For example, to coincide with the celebrations of the ninetieth anniversary of the CPC, China opened the world's longest sea bridge, the 42 km Jiaozhou Bay Bridge. It also launched the Beijing–Shanghai high-speed railway service, which makes the 1,318 km journey in less than five hours. Critics have argued that too many investments have gone into such projects that are anyway unviable economically as well as unaffordable for common Chinese nationals. These kinds of projects could increase a sense of discontent amongst people since they will increase inequality. Their environmental impact is also not clear as yet.²¹

At another level, authors like Minxin Pei offer alternate explanations on why such projects continue despite glaring evidence that the state's priorities need to be elsewhere. He says,

In a one-party political system which has enormous capacity for resource mobilisation but little political

accountability, the infrastructure sector is the most liable to political manipulation, waste and corruption. [Such regimes]...are fond of building huge monuments to celebrate the power of the state and its rulers. Because such spending increases GDP growth, which legitimises the Communist Party's rule, it naturally becomes a top priority for the regime. As local officials are evaluated and promoted on their ability to deliver GDP growth and physically transform their cities and towns, there is fierce competition within the Chinese officialdom in trying to build the biggest show projects. Finally, because public spending in a one-party state is shrouded in secrecy, the infrastructure boom inevitably breeds enormous corruption.²²

Therefore, this is a structural issue in the Chinese political system that encourages mega-projects instead of other cost-effective, viable alternatives. In fact, such projects are the tip of the iceberg as far as the complex scenario of corruption in China is concerned. No wonder then that, for the Party, eliminating corruption also ranks as high as managing and reducing inflation. With corruption assuming various forms, in 2011, the top leadership was seen reiterating this point many times over. The Wukan protests, Zhejiang railway accident and subsequent protests, and the

²¹ See 'China Tests Beijing Shanghai Bullet Train', *The Hindu*, 27 June 2011, available at <http://www.thehindu.com/news/international/article2138649.ece>, accessed 5 February 2012.

²² Minxin Pei, 'Bridging the Gap', *The Indian Express*, 19 July 2011, available at <http://www.indianexpress.com/news/bridging-the-gap/819206/0>, accessed 3 February 2012.

major ethnic tensions in Inner Mongolia in May and June of 2011 are all outcomes of people's anger and frustration. A party that once embraced capitalism in the name of 'Socialism with Chinese Characteristics', now finds itself taking support of Mao-era methodologies in an effort to fight corruption.²³ In 2011, after the death of Yang Shanzhou, Party Chief of Baoshan city in Yunnan province, Hu Jintao and others praised his contributions and called on the Party cadres elsewhere to learn from his example. Deputy President Xi Jinping said, 'Yang who lived up to the moral standards of a CPC member by his selflessness, hard work and clean work style is a model for all CPC members and officials'.²⁴

In China, in 2010, there were 80,000 popular protests as compared to 87,000 in 2005.²⁵ Therefore, to some extent, the increase in domestic security budget is justifiable. However, it also reflects the story of a state that seems to be falling short of social security measures but, at the same time, forced to increase security structures to manage the insecurity facing itself. After the 2005 'colour revolutions' in the Central Asian republics, the security apparatus had

installed 50,000 cameras in Urumqi, the capital city of Xinjiang province, in a bid to keep a closer watch on protests and movements.²⁶ However, the fact that it failed to stop the July 2009 riots, which were the most violent protests in Xinjiang, suggests that there is still a wide gap in applying useful and practical solutions even after the Party has sensed a potential problem. The core question in this year of political transition in China is how this kind of state-society gulf manifests itself and how the CPC approaches this question.

JASMINE REVOLUTION AND FEARS OF ITS IMMINENT CHINESE MANIFESTATION

China watched the Jasmine Revolution unfold in Tunisia, and later in Egypt and Libya, very closely. In particular, the leadership was highly vocal about its potential destabilizing impact and made every effort to mitigate its effect on China. Of course, this was not the first time that such caution was undertaken. Even when the 'colour revolutions' took place in Central Asian countries in 2003-04, the CPC had closely observed and studied their causes and implications.²⁷ This time

²³ David Cohen and Peter Martin, 'China's New Lei Feng', *Asia Sentinel*, 28 April 2011, available at http://www.asiasentinel.com/index.php?option=com_content&task=view&id=3157&Itemid=373, accessed 2 February 2012.

²⁴ Xinhua, "'As a Government Official, My Authority Can Be Only Exercised for Public Affairs': A Late County Official", 25 April 2011, available at <http://english.peopledaily.com.cn/90001/90776/90785/7361171.html>, accessed 3 February 2012.

²⁵ Bruce Dickson, 'No "Jasmine" for China', *Current History*, September 2011, p. 213.

²⁶ Willy Lam, n.3.

²⁷ 'David Shambaugh calls the Party's approach to these revolutions as being on the verge of paranoia'. For more see David Shambaugh, 'The Party State Studies Abroad', *Current History*, September 2008, pp. 287-92.

around, the reaction was worse. Although there was some attempt to instigate Jasmine-like gatherings by calling for walks and park meets in some places, Dickson reports that the state was pre-emptive to an extent that 'At one point, internet censors reportedly blocked emails with the word "tomorrow" on Saturdays and "today" on Sundays so that netizens could not find information about planned protest'.²⁸ In the process, China also came down fairly harshly against artist Ai Weiwei.²⁹

To begin with, there was complete blockade of the news coming out of Tunisia and elsewhere, and the editorials and op-eds in Chinese media were discussing how the Western-style democracy model was unsuitable for developing countries. It also barred the discussion of this revolution from the Chinese social networks and microblogs. There were reports that search engines had blocked searches on the word 'jasmine' itself, even when it has a cultural and economic context in China, like the Jasmine tea.³⁰ In addition, text messaging was blocked and calls monitored in anticipation of the 'Sunday Protests' that were called for in Beijing and elsewhere on

20 February 2011. About the same time, Zhou Yongkang, the Politburo Standing Committee member and in charge of law and order, called for the security forces to put in place mechanisms aimed at preventing and controlling unrest '...so that contradictions and disputes can be resolved at the embryonic stage'.³¹ Even towards the end of the year 2011, Zhou Yongkang delivered a similar message in a symposium where he said that 'China's judiciary and police will give top priority to creating a harmonious and stable social environment' and called on them to 'properly handle various social emergencies, build capacity to safeguard national security, social stability and harmony', according to a circular issued after the symposium.³²

ALTERNATE EXPLANATION FOR HYPER-REACTION OF THE STATE

An alternative explanation on why the Chinese leadership reacted to Jasmine Revolution the way it did is that the bureaucratic politics of the country guided this hyper-reaction. The government was in the process of fine-tuning the Twelfth Five Year Plan when the Jasmine Revolution

²⁸ Bruce Dickson, n. 23, pp. 211.

²⁹ For more on Ai Weiwei's treatment by the authorities in China, which was consistent with the response to Jasmine, see Hannah Beech and Austin Ramzy, 'Ai Weiwei: The Dissident', *Time*, 14 December 2011, available at http://www.time.com/time/specials/packages/article/0,28804,2101745_2102133_2102331,00.html, accessed on 10 February 2012.

³⁰ Ibid.

³¹ Willy Lam, n. 3.

³² *Xinhua*, 'Maintaining Stability; Top Priority for Chinese Judiciary, Police in 2012', 23 December 2011, available at http://news.xinhuanet.com/english/china/2011-12/23/c_131324108.htm, accessed 2 February 2012.

started. It is speculated that the public security apparatus might have used this occasion to hype its imminent replication in China, to justifiably increase its budgetary allocation by showing that a Jasmine-like situation could be a threat to the stability of the government.³³ Given how different arms have to compete for increased financial portion in the long-term plans, this explanation seems fairly plausible. In addition, the stability rhetoric of the top leadership would have played its part in strengthening the logic of the public security apparatus in China. It would also have been aided by the conservative faction's stress on preserving the centrality of the Party, who otherwise could have criticized the government of paying inadequate attention to an important imminent threat. Therefore, exacerbation of threat by vested interests is a fairly plausible rationale.

CONCLUSION: PRECAUTION OUTLOOK IN UNCERTAIN TIMES

At the crossroad of political transition, China is grappling with the rising inequality and class and identity-based tensions. However, the political structure that allots incentives based on quantity appears to be

ignoring the qualitative aspects of growth. In the process, it is also leading to a situation where the Party is sustaining corruption in order to showcase its vitality, while at the same time, fighting it when faced with the protests. In this situation, there can be no clear solution until structural adjustments are made and the Party shows flexibility in dealing with the disenchanting masses without being insecure about their goals and objectives.

In 2012, CCP's hope for stability is likely to translate into hyped vigilance in the areas it sees as potential troublemakers. Therefore, it is possible that there will be stricter monitoring in regions like Tibet and Xinjiang. In addition, areas like micro-blogging will be watched closely to monitor any dissent that could turn into protest. Secondly, the party is likely to show restraint wherever it can like it did when confronted by angry villagers of Wukan. In other cases where necessary, the CCP will assert its supremacy like it did in telling the army to continue its allegiance to President Hu Jintao.

Thus, stability will remain the core objective when China readies itself for handover of the leadership baton to the next generation of leaders later this year.

³³ Bruce Dickson, n. 23, pp. 212.

THE CHINESE ECONOMY IN 2011 RETROSPECT AND PROSPECTS

JOE THOMAS KARACKATTU

The year 2011 was a landmark year for China in many ways. It marks the completion of a decade of China's accession to the World Trade Organization (WTO) in 2001. To examine how China fared in the past year, it would be useful to put things in perspective. About a century ago, in the United States (US), the auto industry was clustering around Detroit, Michigan.¹ By 1929–30, Detroit was the centre of the auto industry in America, a hallmark of industrial growth there. A century later, Shanghai and Guangzhou have, in many ways, come to represent the boom for the auto industry.² The Brookings 2011 *Global Metro Monitor: Volatility, Growth, and*

Recovery report notes that 90 per cent of the fastest-growing metropolitan economies among the 200 largest worldwide were located outside North America and Western Europe.³ Shanghai ranked first (twelve Chinese metro areas ranked in the top quintile for 2010–11 performance, with Chongqing at number thirty-five), even as Houston and Dallas were the only US cities to rank among the top forty worldwide.⁴

A maelstrom of similar images flash across one's mind if we trace the place and position that China has come to occupy in the world economic arena over the years.

¹ Steven Klepper, 'The Evolution of the U.S. Automobile Industry and Detroit as its Capital', Carnegie Mellon University, 2001, available at http://www.druid.dk/uploads/tx_picturedb/dw2002-440.pdf, accessed 9 February 2012.

² Yang Zhongyang, Tong Na, and Chang Yanjun, 'Yearend: China's Auto Industry gets a Tune-up', 2012, available at http://en.ce.cn/Insight/201201/18/t20120118_23009544.shtml, accessed 22 January 2012.

³ Emilia Istrate, Alan Berube, and Carey Anne Nadeau, *Global Metro Monitor: Volatility, Growth, and Recovery 2011*, January 2012, available at http://www.brookings.edu/~media/Files/rc/reports/2012/0118_global_metromonitor/0118_global_metro_monitor.pdf, accessed 27 January 2012.

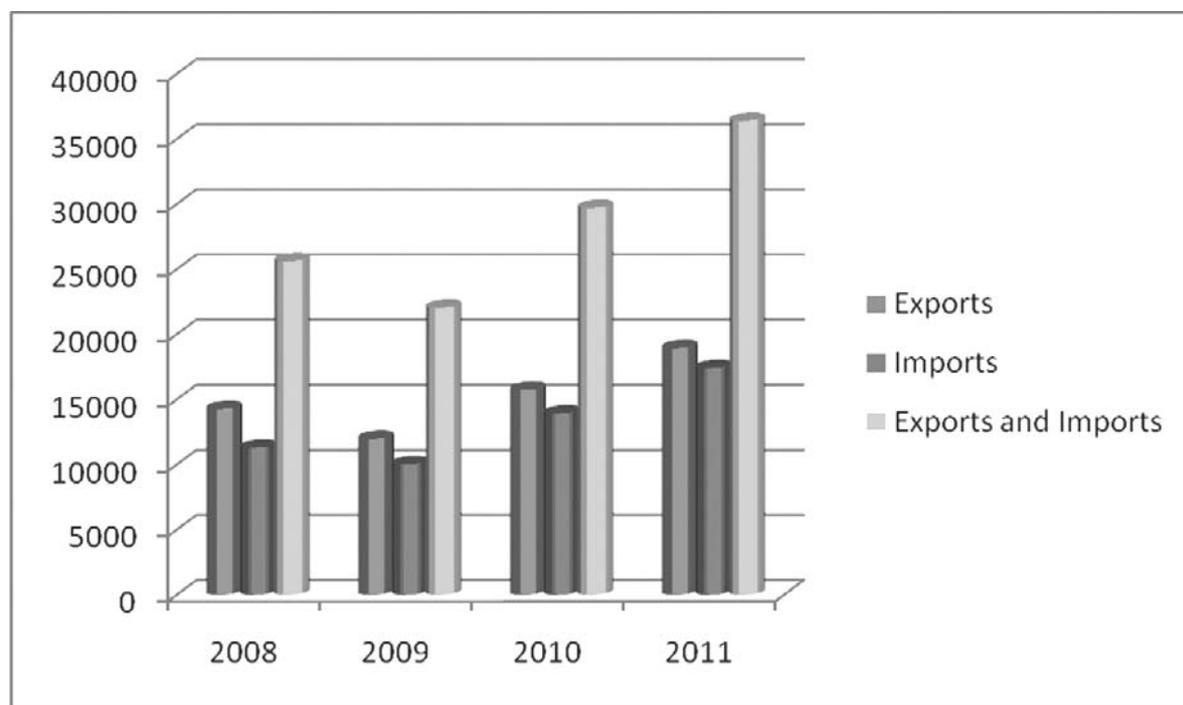
⁴ Ibid.

Figure 10.1

China's 2011 GDP growth \Rightarrow 9.2 % = Investment (5 %) + Consumption (4.7%) + Net exports (0.5 %)

Imports and Exports (100 million US Dollars)	2008	2009	2010	2011
Total	25633	22075	29740	36421
Exports	14307	12016	15778	18986
Imports	11326	10059	13962	17435
Trade balance	2981	1957	1816	1551

Source: Tabulated from National Bureau of Statistics of China.⁵

Figure 10.2: Imports and Exports

⁵ Available at http://www.stats.gov.cn:82/english/newsandcomingevents/t20120117_402779577.htm, accessed 20 January 2012.

On almost every index—gross domestic product (GDP), foreign trade, imports/exports, currency reserves—China is an economic powerhouse. It would be thus useful to retrace the growth patterns and possible outlook for China in such an important period.

RETROSPECT

China was able to hold out on its own in 2011, a year of fiscal and monetary crises in Europe, falling demand from key export markets in the US (and Europe), and physical crises in Japan (natural disaster⁶). While those developments had collateral effects on the pace of GDP growth and income recovery globally, and China was not immune to such interdependent settings, China's GDP still managed to increase 9.2 per cent (see Figure 10.1). China's GDP was valued at 47,156.4 billion yuan⁷—a robust start to the ongoing Twelfth Five Year Plan (2011–15). This was,

however, the slowest pace at which it has grown since 2002. In terms of the four quarters, growth was 9.7 per cent (1st quarter), 9.5 per cent (2nd quarter), 9.1 per cent (3rd quarter), and 8.9 per cent in the last quarter.⁸ The reasons are being largely attributed to erosion of external export demand and a dampened housing market.

The total value of imports and exports in 2011 was US \$ 3.6 trillion—an annual increase of 22.5 per cent. Of this, exports were valued at US \$ 1.9 trillion approximately, and imports at roughly US\$ 1.7 trillion (see Figure 10.2). Though there was a recorded trade surplus with the overall trade balance at US \$ 155.1 billion, it was US \$ 26.4 billion less than in 2010. The trade surplus actually shrank for China in 2011 (it was \$ 181.51 billion in 2010).⁹

However, more than exports, it is investment (chiefly, investments in fixed assets) that has been the chief driving force of the Chinese economy.¹⁰ In China's case,

⁶ The Tohoku quake and disruptions to supply chains affected trade in capital goods and electronic appliances negatively in East Asia (and in particular China), as many Japanese firms are vertically integrated with production networks in the region. See The International Bank for Reconstruction and Development/The World Bank, *Global Economic Prospects: Uncertainties and Vulnerabilities*, Vol. 4, January 2012, available at http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1326374900917/GEP_January_2012a_FullReport_FINAL.pdf, accessed 28 January 2012.

⁷ Ma Jiantang, 'National Economy Maintained Steady and Fast Development in the Year of 2011', National Bureau of Statistics of China, 17 January 2012, available at http://www.stats.gov.cn:82/english/newsandcomingevents/t20120117_402779577.htm, accessed 25 January 2012.

⁸ Ibid.

⁹ 'China's Trade Surplus Shrinks as Country Pledges to Boost Stock Market Investments', *The Telegraph*, 10 January 2012, available at <http://www.telegraph.co.uk/finance/china-business/9004103/Chinas-trade-surplus-shrinks-as-country-pledges-to-boost-stock-market-investments.html>, accessed 17 January 2012.

¹⁰ See Hans Hækkerup, *The Return of China—Globalization and Economic Power*, Copenhagen: Royal Danish Defence College Publishing House, 2009.

Table 10.1: Investment in Fixed Assets (Excluding Rural Households) by Region

	Investment		Proportion (National Total=100)	
	Accumulated from January (100 million Yuan)	Growth Rate over Same Period of Previous Year (%)	Accumulated from January	Same Period of Previous Year
National Total	269452.12	24.5	100.0	100.0
I. Eastern Region	130042.44	21.7	48.3	49.4
Beijing	4938.08	5.3	1.8	2.2
Tianjin	6412.39	29.5	2.4	2.3
Hebei	14729.41	24.8	5.5	5.5
Liaoning	15924.12	30.2	5.9	5.7
Shanghai	4234.21	-0.2	1.6	2.0
Jiangsu	23514.92	22.0	8.7	8.9
Zhejiang	12286.22	20.2	4.6	4.7
Fujian	8738.63	28.6	3.2	3.1
Shandong	23535.43	22.1	8.7	8.9
Guangdong	14319.40	17.5	5.3	5.6
Hainan	1409.63	36.6	0.5	0.5
II. Central Region	72764.93	28.9	27.0	26.1
Shanxi	5711.23	30.6	2.1	2.0
Jilin	7207.20	31.0	2.7	2.5
Heilongjiang	5793.66	34.1	2.2	2.0
Anhui	10713.25	27.6	4.0	3.9
Jiangxi	7875.05	27.4	2.9	2.9
Henan	14893.85	27.3	5.5	5.4
Hubei	10529.03	30.0	3.9	3.7
Hunan	10041.65	27.8	3.7	3.6

III. Western Region	63236.35	29.2	23.5	22.6
Inner Mongolia	10012.53	27.1	3.7	3.6
Guangxi	6630.47	28.3	2.5	2.4
Chongqing	6477.45	31.3	2.4	2.3
Sichuan	12493.41	22.5	4.6	4.7
Guizhou	3326.04	40.0	1.2	1.1
Yunnan	5317.82	27.6	2.0	1.9
Tibet	487.25	19.8	0.2	0.2
Shaanxi	8209.00	29.3	3.0	2.9
Gansu	3662.82	38.3	1.4	1.2
Qinghai	1328.29	45.7	0.5	0.4
Ningxia	1431.17	33.9	0.5	0.5
Xinjiang	3860.09	35.9	1.4	1.3

Source: National Bureau of Statistics of China.¹¹

Note: As projects are not classified area wise, the cumulative value of investment of eastern, central, and western does not equal the national total.

large-scale capital investment, financed by large domestic savings and foreign investment, has been the key driver of the economy.¹² Consumption is weaker still, despite talk of rebalancing. Even in the 4 trillion Yuan fiscal stimulus package announced following the 2008 financial

crisis, the composition was largely infrastructure (38 per cent); Sichuan reconstruction (25 per cent); housing (10 per cent); innovation (9 per cent); rural development (9 per cent), environment (5 per cent); and social welfare (4 per cent).¹³ Table 10.1 lists the break-up of fixed asset

¹¹ Available at <http://www.stats.gov.cn:82/was40/reldetail.jsp?docid=402779808>, accessed 7 February 2012.

¹² Yanrui Wu, Zhengxu Wang, and Dan Luo, 'China's Investment Record and its Fiscal Stimulus Package', Briefing series, Issue 50, China Policy Institute, University of Nottingham, March 2009; also, see Wayne M. Morrison, 'China's Economic Conditions', CRS Report for Congress, No. RL33534, 11 December 2009, available at <http://www.fas.org/sgp/crs/row/RL33534.pdf>, accessed 27 February 2010.

¹³ UK Trade and Investment, 'Market Access Intelligence: Including the Challenge of China Fiscal Stimulus Initiative (FSI)', 25 February 2010, available at https://www.uktradeinvest.gov.uk/ukti/fileDownload/Market_Access_Intelligence_Including_the_Challenge_of_China_Jeremy_Gordon.pdf?cid=44187, accessed 17 March 2010.

investment (excluding rural households) in China.

This trend of further investment in fixed assets is likely to continue and any speculation on creating overcapacity would be allayed by the fact that there is still a lot of absorptive capacity in tier-II and tier-III cities (in infrastructure).¹⁴ The only worrying trend is that since investment usually follows the economic cycle of boom and bust, a double-dip continued slowdown could lead to disruptions (economic and even social). The upside is that infrastructure investments generate employment and create further enabling conditions for economic growth, leading to employment generation in other areas in subsequent growth cycles.

PROSPECTS

The year 2012 marks an entry into, arguably, another tumultuous period for China. It is the year of the dragon. In Chinese myth making, this would be considered particularly auspicious as the dragon is the only mythical creature among the other animals in the Chinese cosmic cycle. This is also the year of the Eighteenth Communist Party Congress, where

Chinese Vice President Xi Jinping and Vice Premier Li Keqiang are expected to take up important roles in the Party structures. The year of leadership change in China also implies that fiscal and monetary policymaking would remain on the conservative side, with no drastic changeovers or experimentation expected during the 'baton relay'. For these very reasons, the debate on whether China takes on a 'Bo Xilai' model¹⁵ (domestic, inward looking) or a Guangdong-type capitalist system focused on rebuilding the export industry would not be settled in this coming year. But the coming year would surely set the tone for policymakers. Hence, a soft landing is more likely.

Based on foreseeable risks, it is safe to assume that China's growth will moderate further in 2012. As China's central bank cut the reserves that banks are compulsorily required to keep, more lending is likely, and consumption would play an incrementally greater role¹⁶ (rising household expenditure) even as monetary and fiscal policy is expected to remain modestly expansionary. In line with the International Monetary Fund (IMF) 2012 *World Economic Outlook* update, one may see China deploy additional social spending in a bid to

¹⁴ 'China and the WTO: Interview with Franklin Allen', 8 January 2012, available at http://knowledge.wharton.upenn.edu/papers/download/122011_china_allen-transcript.pdf, accessed 2 February 2012.

¹⁵ Former Chongqing Party Chief (and formerly, Dalian Mayor), Bo Xilai is credited with the revival of 'red culture', which opposes China's excessive 'embrace' of the market in the past decades. He was removed from his post in mid-March this year indicating growing tensions between Maoist traditionalists and liberal economic reformers.

¹⁶ Peter Drysdale, 'Chinese New Year: Puff the Magic Dragon?', 2 January 2012, available at <http://www.eastasiaforum.org/2012/01/02/chinese-new-year/>, accessed 20 January 2012.

Table 10.2: Consumer Prices in December and the Whole Year of 2011

Item	December		Year 2011
	M/M (%)	Y/Y (%)	Growth Rate(%)
Consumer Prices	0.3	4.1	5.4
Of which: Urban	0.3	4.1	5.3
Rural	0.3	4.1	5.8
Of which: Food	1.2	9.1	11.8
Non-food	-0.1	1.9	2.6
Of which: Consumer Goods	0.5	4.9	6.2
Services	-0.2	2.0	3.5
By Commodity Categories	0	0	0
Food	1.2	9.1	11.8
Tobacco, Liquor, and Articles	0.3	3.9	2.8
Clothing	0.4	3.8	2.1
Household Facilities, Articles, and Maintenance Services	0.0	2.5	2.4
Health Care and Personal Articles	-0.1	2.8	3.4
Transportation and Communication	-0.1	0.3	0.5
Recreation, Education, Culture Articles, and Services	-0.3	0.1	0.4
Residence	-0.2	2.1	5.3

Source: National Bureau of Statistics of China.¹⁷

¹⁷ National Bureau of Statistics of China, 'Consumer Prices for December 2011', available at http://www.stats.gov.cn:82/english/newsandcomingevents/t20120112_402778750.htm, accessed on 26 January 2012.

support poorer households so as to counterbalance some of the weakening external demand.¹⁸ The IMF has pointed out that such room exists for economies where inflation is under control, public debt is not high, and external surpluses are appreciable. This includes China. Incidentally, banks lent approximately US \$ 27.77 billion (roughly 50.1 per cent of the sector's total new loans) to support the construction of low-income housing in 2011.¹⁹ And, though the World Bank notes that China's inflationary pressure will ease out in the coming year (consumer price index [CPI] lowering to 4.1 per cent in 2012), inflation still is a worrying factor.²⁰ In 2011, the CPI went up by 5.4 per cent, hitting the highest point of 6.5 per cent in July last year.

In his 2011 book, *Demystifying the Chinese Economy*, Justin Yifu Lin, China's top man at the World Bank, held that China's dynamic growth would continue for another two decades or more. Going by most assessments, a range of 8–8.5 per cent would be a more pragmatic representation of the economic outlook (7–8 per cent on

more conservative/cautious levels) for 2012. In any case, it is likely to be the first time in over a decade that China's economic growth falls below the 9 per cent mark (in year 2001, GDP expanded 8.3 per cent). In terms of domestic challenges, generating employment for an increasing number of migrant workers would be a key challenge. The total number of migrant workers in 2011 was 252.78 million, an increase of 10.55 million.²¹ The sacred band of 7–8 per cent growth would have to be maintained in order to generate jobs to keep a check on growing social unrest.

The problem of inequity and inequality, both inter-regional (east and west) and intra-regional (rural and urban), energy-intensive growth, corruption in the Communist Party, and demographic imbalance are additional challenges to continued high economic growth. Fears of an asset bubble crash, especially in real estate, may be overstated. While the risk of downward fall of property prices is low in countries such as China and India, nonetheless, the speculative aspect may play up from time to time, especially

¹⁸ IMF, 'World Economic Outlook Update', 24 January 2012, available at <http://www.imf.org/external/pubs/ft/weo/2012/update/01/pdf/0112.pdf>, accessed 4 February 2012.

¹⁹ 'China Issues 175 bln Yuan in Loans to Support Low-income Housing in 2011', *Xinhua*, 30 January 2012, available at <http://english.peopledaily.com.cn/90882/7714803.html>, accessed 2 February 2012.

²⁰ 'Chinese Premier Wen Jiabao Warns of "Difficult" Start to 2012', *The Telegraph*, available at <http://www.telegraph.co.uk/finance/china-business/8989773/Chinese-Premier-Wen-Jiabao-warns-of-difficult-start-to-2012.html>, accessed 9 February 2012.

²¹ Ma Jiantang, 'National Economy Maintained Steady and Fast Development in the Year of 2011', National Bureau of Statistics of China, 17 January 2012, available at http://www.stats.gov.cn:82/english/newsandcomingevents/t20120117_402779577.htm, accessed on 7 February 2012.

during phases where the money supply meant to generate economic activity is diverted to speculation. Some trends from 2011 are onerous, however. While new home sales (square metre basis) grew by 3.9 per cent in 2011, this was a sharp fall from the 8 per cent growth of 2010 in this segment. Similarly, in the banking sector, while 2011 witnessed bank capital in the People's Republic of China (PRC) remain strong in terms of risk-weighted capital adequacy ratios, bank profitability, and even decline in non-performing loans, the problems of informal credit, and government-directed lending continue to remain areas of concern for 2012. Any increased exposure to unsecured debt or, as mentioned earlier, diversion to asset property speculation could lead to economic imbalances.

For the East Asian region as a whole, it would be useful to refer to the Asia Development Bank (ADB) December 2011 forecast, where emerging East Asia is expected to witness some moderation of growth rates, with aggregate GDP in the region expected to grow 7.2 per cent in 2012.²² This moderation is attributed to

withdrawal of expansionary credit in Asia by several European banks and financial institutions, and the falling trade levels. However, China is expected to continue to lead from the front even in this pack of moderate growth economies. The coming year would also witness China embrace a more responsive role in regional economic cooperation. Already in its joint declaration²³ with the Association of Southeast Asian Nations (ASEAN), China has committed to a declaration on enhanced macroeconomic and financial cooperation under the 'ASEAN Plus Three framework', which would continue as a main vehicle towards the long-term goal of building an East Asian community. This would be part of a strategic and targeted policy that is matched with increased economic activity (outward investment) in the Eurozone as a two-pronged effort at consolidating multipolarity (internationalization of the renminbi, bilateral swaps in Asia, diversification of the largely dollar-denominated foreign reserves).²⁴ China has already, through the Brazil, Russia, India, China, and South Africa (BRICS) grouping,²⁵ called for reform of the international reserve currency mechanism

²² ADB, *Asia Economic Monitor—December 2011*, 2011, available at <http://beta.adb.org/sites/default/files/aem-201112.pdf>, accessed 27 January 2012.

²³ Full text of joint statement of China–ASEAN commemorative summit, available at http://news.xinhuanet.com/english2010/china/2011-11/20/c_131257696.htm, accessed 7 January 2012.

²⁴ See David Gosset, 'China's Role in the Future of Europe', *Beijing Review*, No. 3, 19 January 2012, available at http://www.bjreview.com.cn/world/txt/2012-01/16/content_420760_2.htm, accessed on 30 January 2012.

²⁵ Article 16 of the Sanya declaration notes the need for a 'broad-based international reserve currency system providing stability and certainty'. See Joe Thomas Karackattu, 'BRICS: Opportunities and Challenges', *IDS Issue Brief*, 3 May 2011, for a detailed discussion.

through reform of the existing quota and votes in the Special Drawing Rights or SDRs in the IMF (composition of the SDRs' basket of currencies). The BRICS grouping specifically want valuation processes of the SDRs to include their own basket of currencies.

In conclusion, it would be fair to posit that while the prospect of catching up with the US, Europe, and Japan in GDP per capita is still a long way off, China's gradual steps

towards rebalancing the sources of its economic growth (more consumer-led growth) would provide more grounds for spillovers in countries such as India from where its purchase of more products and services could support job creation as well. With a growth story that has no less been the stuff of myth making for the last two decades, it remains to be seen if the mythical dragon year delivers on its reputation.

CHINA'S MILITARY IN 2011

MODERNISATION ON TRACK

MANDIP SINGH

The year 2011 saw major developments in the People's Liberation Army (PLA) in doctrine, induction of new equipment, development of new technologies, and improvement in training in all three services and the Second Artillery Force. This chapter aims to flag only key developments in the PLA through the year which have relevance for us as scholars tracking the Chinese military.

DOCTRINAL CHANGES

China White Paper on Defence 2010

China's Defence White Paper 2010 was released on 31 March 2011. Like its predecessors, this biennial document continues to remain the most important official paper on China's defence policy and developments in China's military. It is nuanced, reveals little and leaves much to extrapolation, but nevertheless, when read in conjunction with other Chinese publications, does give a broad direction to Chinese defence policy.

On foreign policy, the white paper expresses concern at the growing financial

and economic crisis facing the world. The paper highlights the growing relevance of international groupings in promoting peace and regional stability, like the Shanghai Cooperation Organization (SCO), Association of Southeast Asian Nations (ASEAN), and Asia-Pacific Economic Cooperation (APEC), where China has a significant role. For the first time, there is little mention of the Taiwan issue, and China concedes that economic and financial cooperation coupled with bilateral exchanges in mail, transport, and trade have enhanced trust in cross-strait relations.

While reiterating its peaceful and strategic policy of active defence, China has enlarged the scope of the goals and tasks of the military to include safeguarding its maritime rights and interests, and maintaining its security interests in space, electromagnetic space, and cyberspace, clearly indicating that China has interests beyond its own waters and airspace. The paper also talks of the timelines of accomplishing mechanization by 2010, and attaining major progress in computerization by 2020 and complete

computerization by 2050.¹ China sees an enhanced role for itself in the international fora by enhancing military exchanges and cooperation with developing countries, participation in United Nations peace-keeping operations, maritime escort, international counterterrorism cooperation, and disaster relief operations.

While discussing individual services, there is a marked emphasis on developments in PLA Navy (PLAN) and PLA Air Force (PLAAF) vis-à-vis the PLA Army. The need to develop technology-intensive organizations and structures in the military appears to be the underlying theme for military development. The PLA has optimized its organization, training, and structures; accelerated the digitized upgrading and retrofitting of main battle weaponry; organically deployed new types of weapon platforms; and significantly boosted its capabilities in long-distance manoeuvres and integrated assaults. The PLAN endeavours to accelerate the modernization of its integrated combat forces, enhances its capabilities in strategic deterrence and counter-attack, and develops its capabilities in conducting operations in distant waters and in countering non-traditional security threats by constructing composite support bases to build a shore-based support system, improve its surface support capabilities, and new methods of logistics support for sustaining long-time maritime missions.

The PLAAF is working to ensure the development of a combat force structure that focuses on air strikes, air and missile defence, and strategic projection. The PLA Second Artillery Force (PLASAF) strives to push forward its modernization and improve its capabilities in rapid reaction, penetration, precision strike, damage infliction, protection, and survivability, while continuing to strengthen its safety systems, safety regulations, and safety of missile weaponry and equipment, operational positions, and other key elements.

A new generation of doctrines on command in joint campaigns and operations, and other relevant supporting doctrines, have been issued and implemented, which form the basic theoretical framework for joint operations and a methodological system for joint campaign training. Focussing on military operations other than war (MOOTW), the paper mentions participation in emergency rescue and disaster relief operations, counterterrorism exercises, training and manoeuvres which demonstrated PLA's capabilities of equipment support in long-distance and transregional operations, escort operations in distant waters, and complex battlefield environments.

China's defence expenditure continues to be in keeping with previous years, except for a marginal increase in 2009, when it rose

¹ See Bijoy Das, 'China's Defence Modernisation Plans: Between The Lines', 4 June 2011, available at http://policyresearchgroup.com/myanmar-china/china_s_defence_modernisation_plans_between_the_lines.html, accessed on 12 February 2012.

from 1.32 per cent of gross domestic product (GDP) to 1.45 per cent of GDP. However, China is quick to justify that the increase is primarily due to improvement in living conditions of troops, investments in MOOTW capabilities, and rise in prices to fund its ongoing Revolution in Military Affairs (RMA). Notable, however, is the increase in defence budget from RMB 355.4 billion in 2007 to RMB 532.1 billion in 2010, an increase of almost RMB 177 billion or 50 per cent in just three years.

Training and Exercises

The doctrinal shift from joint operations (JO) to integrated joint operations (IJO) came about in the post-2002 era, when the PLA shifted emphasis from local wars under hi-tech conditions to local wars under informationalized conditions. While JO laid emphasis on jointness within individual service with vertical linkages, the IJO looks at jointness with other services, and hence lays greater emphasis on horizontal linkages. A major step in achieving this goal was the setting up of a new Military Training Department under the General Staff Department which will oversee joint training of all the three services and the Second Artillery Force.²

The PLA is still in a preliminary joint training stage. It was only in October 2011 that a Maritime Joint Defence Combat drill was organized by the North China fleet of

the Jinan Theatre. This drill was a culmination of the three years of experimental joint training task that was assigned to Jinan Military Area Command (MAC) by the CMC. Since 300 officers attended the drill and no troops participated, it would be reasonable to assume that the PLA is still grappling with the structures and doctrinal aspects of conduct of IJO.³ The actual validation of this concept with troops will require time.

Another four-day joint exercise, code named 'Vanguard-2011', was conducted by the Jinan MAC from 27 October to 1 November 2011. Two hundred and sixty officers, including foreign military officers, participated in an operational discussion in an air-land battle scenario involving participation of twelve arms, including air force, armour, air borne, aviation, and artillery. The exercise appears to be at the army group level tasked to capture an airhead and a strong point in mountains. The plan involved a joint manoeuvre by all arms, indicating that the PLA is refining joint concepts at the tactical level.

On 28–29 October, Chengdu military region in the Sichuan province had a two-day mapping and navigation support drill, code named 'Jingwei-2011'. The exercise was controlled by the General Staff Headquarters, indicating its importance, and involved the use of Geographical Information Systems (GIS) and remote

² 'China Military News', cited from *Xinhua*, 21 December 2011, available at <http://www.china-defense-mashup.com/pla-establishes-new-military-training-department.html>, accessed on 18 January 2012.

³ *PLA Daily*, 29 October 2011.

sensing satellite systems in mapping, navigation, and disseminating real time information to ground command posts. The exercise appears to be a technology demonstrator and possibly aimed at integrating space and ground control systems in providing intelligence, surveillance, and reconnaissance (ISR) to combat commanders.

Divisional-level exercises were also held in Chengdu and Lanzhou military regions involving all arms and the air force in support of ground operations. The exercise by the Group Army on the Tibetan Plateau was a first of its kind in high-altitude area of 4,500–5,000 metres. It was a coordinated battle between air-borne troops seizing a pass at 5,000 metres altitude and link up and attack by an armour-led formation closely supported by air. The Lanzhou Group Army practised a similar drill in the cold deserts of Tenggar close to Ladakh. Both these military regions are opposite the Indian Army along the line of actual control. These exercises suggest that the PLA has the ability to carry out rapid joint manoeuvres on the Tibetan Plateau and Ladakh. A report also confirmed that the PLAAF has achieved the capability of deploying new aircraft, possibly JF-17, around the year in airfields in Tibet.⁴

From the inputs available, it appears that the PLA has made fair progress in the

planning and conduct of IJO at brigade and divisional levels. However, certain key elements of successful conduct of a joint campaign require stitching up at the higher level: centralized command; the changeover of a peacetime military region HQs to a war zone (WZ) HQs and the integration of various services at the WZ level; and integration of ISR assets at the WZ HQs level.⁵

INSTITUTIONAL CHANGES

The Central Military Commission

One of the keenly watched developments in 2011 has been the role and composition of the Central Military Commission (CMC). With all but three members due to retire in 2012 and the change in the leadership of the CPC, there is much concern about the relevance of the PLA in governance of China. Members of the CMC retire at 70 years of age and their status in the Party is by the seniority in joining the Party. Their selection process is opaque and is done from a pool of thirty-six senior-most officers in the army (seven), air force (seven), and naval (three) military regions, totalling seventeen military regions. The PLA has fifty-seven officers of the rank of Generals, of which thirty-three are from the PLAA. The Second Artillery Force Chief was inducted into the CMC in 2004 and Air Force and Navy Chiefs only in 2007,

⁴ *PLA Daily*, 13 December 2011.

⁵ Also see Mandip Singh, 'Integrated Joint Operations by the PLA: An Assessment', *IDSAC Comment*, 11 December 2011, available at http://idsa.in/idsacomments/IntegratedJointOperationsbythePLA_msingh_111211.

indicating the clout of the Army in the PLA. However, with increasing budget allocations to the PLAAF and PLAN and massive equipment induction programmes, it is apparent that their visibility in the CMC is likely to increase.

The three members likely to be retained are the Chiefs of PLAN, PLAAF, and the General Armaments Department (GAD). Since these three members will gravitate upwards to posts of Vice Chairman (two) and Minister of Defence (one), vacancies are likely to be created in the Chiefs of PLAN, PLAAF, and GAD.⁶ This should pave the way for an increased presence of at least one additional naval and one air force officer in the CMC. There is speculation that Hu Jintao may retain the post of Chairman CMC even after retirement, as he himself had to wait almost two years to take over as Chairman from Zemin, but Professor Srikanth Kondapalli of the Jawaharlal Nehru University (JNU) believes that this may not happen and is in no way a Standard Operating Procedure (SOP). He further states that supersession in the PLA is unlikely.⁷

DEVELOPMENT AND INDUCTION OF NEW EQUIPMENT

Space and Satellite Technology

A significant event in China's space technology was the docking of the 8.5 ton

Tiangong-I space laboratory with the unmanned spacecraft Shenzhou-8. The Tiangong-I was launched on 29 September 2011 on a two-year earth orbit mission, while the Shenzhou-8 was launched by a Long March 2F/Y8 rocket on 1 November 2011, from Jiuquan Launch Centre. Both these vehicles successfully carried out two space docking tests on 3 November and 14 November to pave the way for a permanent manned space station in space by 2020. The operation, controlled by the Beijing Aerospace Command Centre, was a culmination of ten years of effort on a totally indigenous design, production, and experimental system by the Shanghai Academy of Spaceflight Technology. This achievement is a part of an ambitious three-stage programme to have a permanent manned station in space. Coming at a time when the United States (US) is pulling the plug on its space programme due to lack of funds is a significant indicator of China's ambitions towards becoming a superpower.

The Beidou Navigation Satellite System is the other major programme underway. Beidou-1 was a four-satellite constellation but the Beidou-2/Compass is a thirty-five satellite system which is to be operationalized by 2015–20. With ten satellites already in orbit and another six due in 2012, the Beidou Navigation System intends to provide passive positioning, navigation, and timing services to civilian

⁶ Talk by Roy Kamphausen, Senior Associate, The National Bureau of Research, at Centre for Land Warfare Studies (CLAWS), New Delhi, 9 November 2011.

⁷ Srikanth Kondapalli, talk at Centre for Land Warfare Studies (CLAWS), New Delhi, 9 November 2011.

users free of cost.⁸ The system is an alternate to the Global Positioning System (GPS) which is controlled by the US and the Global Navigation Satellite System (GLONASS) of Russia. The Beidou system will be the navigation system for all missiles and rocket applications of the PLA and is likely to achieve an initial accuracy of 25 metres by 2012, and ultimate accuracy of 10 metres once the entire system is operationalized. According to Zhao Xiaojin, Director of Aerospace Department of China, the goal is to launch 100 rockets and 100 satellites, and have 100 satellites in orbit during the Twelfth Five Year Plan.⁹ China was the second-most active space power in the world in 2011 with nineteen space launches, including twenty-one spacecrafts and three Beidou satellites, behind Russia at thirty-six but ahead of US at eighteen.

The Launch of the First Aircraft Carrier

The launch of the PLAN's first aircraft carrier, christened *Shi Lang*, for sea trials in August was the major naval achievement in 2011. Named after Admiral Shi Lang, who captured Taiwan for the Kangxi rulers in 1683, the *Shi Lang*, originally the Ukrainian Varyag, is a 65,000 deadweight tonnage (DWT), 304.5 metre long and 37 metre wide aircraft carrier, which was bought for \$20 million by a private Chinese company to be made into a floating casino.

The cover was blown when she was towed from the Black Sea to the naval shipyard at Dalian, where she underwent extensive repair and overhaul from 2005–11. With a maximum speed of 32 knots and a crew of 2,500 sailors, she carries an impressive armoury of seventy-two missiles in four clusters of eighteen tubes, 3 × 30 mm cannons for close-in warfare support, and 2 × 240 mm anti-submarine warfare (ASW) launchers which deliver ten barrels per launcher. By summer 2011, the carrier had sensors and close-in weapons systems completely installed. By August of 2011, with initial dockside testing of lighting and engines complete, with her deck painted, and an initial helicopter landing performed on deck, she set sail for sea trials on 9 August 2011. She returned to port on 14 August 2011, ending the historic event of China's first aircraft carrier putting to sea under her own power.

To serve her air wing, comprising twenty-six aircrafts and twenty-two helicopters, the PLAN has developed a naval version of the indigenous J-11B aircraft, called the J-15. It is an upgraded version of Russian SU-33 with a heavier landing gear, tail hook, folding wings, and other characteristics necessary for air operations aboard the carrier, and appears to have Active Electronically Scanned Array (AESA) radar, newer avionics and controls, and potentially more range than the

⁸ *Xinhuanet*, 28 December 2011, accessed on 12 January 2012.

⁹ Pakistan Defense, 'China to Make 100 Rocket and 100 Satellite Launches in Five Years', available at <http://www.defence.pk/forums/chinese-defence/149685-china-make-100-rocket-100-satellite-launches-five-years.html>, accessed on 12 January 2012.

counterpart.¹⁰ With a mixed fleet of Z-8 or Ka-31 airborne early warning (AEW) and Ka-27 ASW helicopters, the *Shi Lang* could represent a significant shift in the balance of naval power in the Asia-Pacific.

Military Exchanges in South Asia

Nepal

The Chinese Chief of General Staff, General Chen Bingde, visited Nepal in March 2011. Leading a fifteen-member delegation, including the Chief of the People's Army Police Forces and the Commander of Tibet Military Region, General Chen promised \$18 million worth of aid to the Nepal Army, essentially in construction of a military hospital and purchase of heavy construction equipment. It was the first high-profile visit after 2001, in which General Chen signed the agreement directly with the Chief of Nepal Army and not the Defence Minister, indicating the growing relations between the two militaries. On his part, General Chattra Man Singh Gurung assured his counterpart that Nepal would support the One-China policy and crackdown on Tibetans using Nepal to cross over into Tibet. General Gurung paid a return visit to China in October 2011.

Bhutan

No significant military talks or exchanges took place between the two militaries in 2011. The nineteenth round of Sino-Bhutan

border talks took place in January 2010, in which both sides agreed to carry out a joint field survey to harmonize reference points and names of the disputed areas.

Sri Lanka

General Ma Xiaotian, Deputy Chief of General Staff of the Chinese PLA, led a seven-member military delegation on a goodwill visit to Sri Lanka on 13 December 2011. In the interaction, Lt General Jagath Jayasuriya, Chief of the Sri Lanka Army, praised the Chinese Army's unfailing support, being extended uninterruptedly to the Sri Lankan Army, in training army personnel in different PLA's training institutes in China. He also did not mince words to recall, with gratitude, the quantum of military assistance provided to the country by the PLA when terrorism was at its peak, undermining Sri Lanka's territorial integrity. China provided arms to the Sri Lankan Army in its final battle to eliminate the Liberation Tigers of Tamil Eelam (LTTE) in 2009.

Bangladesh

The Chief of the Bangladesh Army, General Muhammed Abdul Mubeen, visited China on 15–16 September 2011. During the interaction, China's Defence Minister, General Liang Guanglie, offered Bangladesh all types of military assistance and called for strengthening military cooperation. Bangladesh requested China for forty-four armoured vehicles which it will purchase

¹⁰ For more details about the *Shi Lang*, see <http://www.jeffhead.com/worldwideaircraftcarriers/varyag.htm>.

at a cost of \$ 200 million to be delivered over the next fifteen months.¹¹ Earlier in March, Vice Admiral Z.U. Ahmed, Chief of the Bangladesh Navy, visited China to attend the 'steel cutting' ceremony of two large patrol crafts, possibly F-22P frigates, being built by the China Ship Building and Offshore International Company for the Bangladesh Navy. The PLAN sent a six-member delegation led by Deputy Commander of Chinese Navy, Vice Admiral Ding Yiping, on a four-day visit to Bangladesh from 13–16 November. The delegation essentially visited Dhaka and Chittagong. Chittagong port is being developed by China as a commercial port, although its use as a naval base by the PLA is unconfirmed. China has been providing technological know-how and assistance to Bangladesh in building small ships at the Khulna Shipyard. It had earlier supplied missile capable attack boats and a Type 053 missile frigate consequent to a standoff

with the Indian Navy at South Talpatti Island in 1980.¹²

Pakistan

The Eighth Sino-Pakistani Defence and Security Talks were held in Beijing on 23 February between a Pakistani delegation led by General Khalid Shamim Wynne, Chairman Joint Chiefs of Staff of the Pakistan Army, and General Chen Bingde, the Chief of General Staff of the PLA. 'China is willing to work with Pakistan to develop the mechanism of defense and security talks, deepen strategic cooperation and contribute to the peace, stability and common development in the region and the world,' Chen said.¹³ On his part, Wynne replied that the Pakistani Army was willing to continue to strengthen friendly communication and cooperation with the Chinese Army, and make more efforts to safeguard the two countries' development and security interests.

¹¹ The Bangladesh military is largely equipped with Chinese hardware. Bangladesh's Navy inventory includes: the Jianghu-class 1,500-ton F-18 Osman frigate; four 175-ton Huangfeng-class guided-missile patrol boats (PTG); five 68-ton Houku-class PTGs; and other Chinese vessels, including a torpedo boat, patrol boat, submarine hunter, minesweeper, landing craft, tugs, and survey craft. The air force is equipped with two squadrons of Chengdu F-7Ms and Guizhou FT-7s, one squadron of Nanchang A-5Cs and Shenyang FT-6s, and one trainer squadron of Nanchang PT-6s. Army equipment includes Chinese W-531 Type 85 armoured personnel carriers, T-62 light tanks, and T-59 main battle tanks. According to its declaration to the United Nations (UN) in 2007, covering 2006, China has sold sixty-five large-calibre artillery systems, including eighteen 122 mm howitzers and sixteen rocket launchers to Bangladesh. The declaration to the UN is available at <http://www.military-quotes.com/forum/bangladesh-navy-tests-chinese-anti-t62308.html>, and was accessed on 18 January 2012.

¹² For more details on Bangladesh-China cooperation, see <http://www.bdsdf.org/forum/index.php?showtopic=33236> accessed on 12 January 2012.

¹³ See 'China, Pakistan Pledge to Enhance Military Co-op', English.news.cn, 23 February 2011, available at http://news.xinhuanet.com/english2010/china/2011-02/23/c_13746305.htm, accessed on 13 February 2012.

In March, Pakistan Air Force (PAF) and Chinese Air Force (PLAAF) conducted a joint air exercise in Pakistan, code named 'Shaheen-1'. A contingent of PLAAF, comprising combat aircraft, pilots, and technicians, participated in the first-ever operational air exercise between the two countries. The air exercises are widely seen as the beginning of a formalized process of collaborating on a range of air combat training-related issues that include all-weather airborne battle management with the help of airborne early warning and control (AEW&C) platforms, and both within-visual-range and beyond-visual-range air combat doctrines and tactics. In addition, in March, China participated in an anti-terrorism multi-nation naval exercise called 'Peace-11' held in Karachi.

Joint Ventures

1. A keel-laying ceremony of two Pakistan Navy fast missile boats to be made jointly with China was held in China in October. As per the joint venture, one boat will be built in China and the second will be built at Karachi.
2. The largest joint programme between the two countries is the JF-17 aircraft programme in which Pakistan hopes to acquire 250 JF-17 aircrafts from China. Forty-two aircrafts have been delivered and one squadron has been raised. A second squadron is underway when fifty more aircrafts are to be delivered sometime next year. The PAF's JF-17s,

similar to the MiG 29, will be equipped with Chinese radars and SD-10A/PL-12 medium range air-to-air missiles.

3. The Pakistan Communication Satellite, Paksat-1R, was launched from Chinese satellite launching site located at Xichang city on 11 August. Paksat-1R is a geosynchronous communications satellite with thirty transponders and a fifteen-year design life, sent to replace the ageing Paksat-1.

The 'Friendship (YOUYI) 2011' China-Pakistan anti-terrorism joint training came to an end on 24 November 2011, after a comprehensive drill at Jhelum in Pakistan. Hou Shusen, Deputy Chief of General Staff of the Chinese PLA, led the Chinese military delegation for the joint training, which was also attended by General Kayani, Pakistan Chief of Army Staff. Spread over a period of two weeks, the exercise was aimed at sharing mutual exchange of experience and information through a comprehensive training programme between the special forces of both countries. It was the fourth in the series—earlier two were held in China and one in Pakistan. Pakistan Inter-Services Public Relations (ISPR) is quoted as saying that YOUYI-IV exercise will be a true manifestation to a famous Chinese phrase, 'Pakistan China friendship is higher than the mountains and deeper than oceans'¹⁴, indicating the importance it attaches to its military friendship with the PLA. While the

¹⁴ See reference to Pakistan-China Friendship in: 'Pak-China Joint Military Exercises at Jhelum', 15 November 2011, available at <http://pakistanchinafriendship.wordpress.com/category/defence/>, accessed on 12 February 2012.

exercise appears quite routine in its conduct, its importance is noteworthy due to two reasons: the presence of the Pakistan Army Chief; and the fact that PLA troops 'start from China' and parachute into Pakistan territory, indicating their long-range transportation capability and the possibility of carrying out joint operations with Pakistan Army against Muslim insurgents trained in Pakistan and Afghanistan who continue to fight for independence of the Xinjiang Autonomous Region.

India

Despite tensions between the two nations, and the cancellation of military exchanges consequent to the rejection of visa to the then General Officer Commanding-in-Chief of the Northern Command by China in 2010, there was a thaw in relations in 2011. Termed as the 'Year of Exchanges', India and China have exchanged three military delegations this year after India broke the ice by sending a delegation under a Major General in June. During the talks, India also proposed to set up a Border Personnel Meeting venue along Uttarakhand–Himachal Pradesh stretch of the Sino-Indian border as part of confidence-building measures between the two countries. So far, the two sides hold meetings at regular intervals at three such facilities in Kibithu in Arunachal Pradesh, Nathu La in Sikkim, and Ladakh in Jammu and Kashmir.

The Chinese reciprocated by sending a delegation of eight members, headed by the Tibet Military Region Commander, in early November and a twenty-nine-

member military delegation under a Major General on a four-day visit to defence installations in India in December 2011.

Annual Defence Dialogue (ADD)

The ADD was held after a two-year break on 9–10 December 2011 at New Delhi, the last being in January 2010. Led by Indian Defence Secretary, Shashikant Sharma, and General Ma Xiaotian, the Chinese Deputy Chief of General staff, the two sides decided to take incremental steps in improving their military contacts, rather than aiming for big ticket announcements. Accordingly, two mid-level delegations will visit each other in successive months starting in January. India also proposed that some of the border posts along the 4,000 km line of actual control be relocated for administrative and logistical convenience. While there is a fillip to trade between the two Asian giants, border transgressions and incursions continue to remain a major irritant in the relations. China views India's developing ties with countries around the South China Sea and the development of Agni-5, a 5,000 km range missile capable of hitting deep into Chinese territory, with suspicion. India regards China's assistance to Pakistan, Chinese footprints in Pakistan-occupied Kashmir, and military support to countries in the region as a deliberate attempt to 'encircle' India.

POWER PROJECTION

Anti-Piracy Mission in Gulf of Aden

The PLAN deployed its first task force or flotilla of three warships to protect its

interests and shipping which are threatened by the menace of piracy in the Gulf of Aden in December 2008. The flotilla, which normally comprises two destroyers/frigates and a supply ship, is commanded by a Rear Admiral, and reports directly to PLAN Headquarters in view of the importance and sensitivity of the mission. A PLA task force has a tour of duty of four months. During this period, it is dependent on ports in Aden, Yemen, and Djibouti for its resupply.

The eighth, ninth, and tenth task forces were deployed to the Gulf of Aden in 2011. According to *Xinhua*, the PLAN carried out its 400th escort mission in December 2011 and provided escort to 4,347 merchant ships of all nationalities.¹⁵ In this period, it has rescued two ships from pirates, salvaged four, and saved forty ships in twenty-nine attacks. The PLA task force has refused to serve under any coalition task force¹⁶ and prefers to 'go it alone', a departure from its United Nations peacekeeping policy where its troops are placed under command of foreign armies. According to a US report, the anti-piracy operation provides an ideal chance for the PLAN to practice and evaluate various blue water tactics, techniques, and procedures in an environment far from the Chinese

periphery, without generating significant political or military alarm.¹⁷

Recently, during the visit of General Chen Bingde to the Seychelles, the Seychelles government offered PLAN use of its port as a resupply base for the flotilla operating in the Gulf of Aden. While China is yet to confirm acceptance of the offer, it raised deep concerns in India confirming India's belief that China is ultimately seeking a permanent base in the Indian Ocean for its blue water navy and poses a threat to the Indian peninsula. Recently, China opened its embassy in Male in the Maldives and has shown increased interest in this tiny nation located strategically in the Indian Ocean, reinforcing India's concern of Chinese presence in the region.

Evacuation from Libya

In February–March, the PLA executed the first-ever operational deployment to Africa and the Mediterranean, as also the largest non-combatant evacuation operation (NEO) of 35,860 People's Republic of China (PRC) citizens from Libya. The bulk of Chinese nationals in Libya were evacuated by sea on chartered merchant vessels (primarily from Benghazi), in addition to chartered aircrafts (primarily from Tripoli), military aircrafts (Sabha to Khartoum,

¹⁵ *PLA Daily*, 14 December 2011.

¹⁶ The coalition task forces operating in the Gulf of Aden are: CTF 151 under the US control; NATO-led Op Allied Protector; and EU-led Op Atlanta.

¹⁷ Department of Political Science, Massachusetts Institute of Technology, *Explaining China's Participation in Anti-Piracy Operations in the Gulf of Aden*, May 2009, p. 15.

Sudan), and overland (buses to Tunisia and Egypt).¹⁸ The mission also marks the first use of long-range military transport aircraft to rescue Chinese citizens from a foreign conflict zone when four IL-76 transport aircrafts were dispatched to Libya and had moved 1,700 Chinese from Libya to Khartoum, Sudan. In addition, PLAN deployed the Xuzhou (Type 54), showcasing its capability to project force well beyond its shores and sending a strong message that China will not hesitate to use military force should its citizens be subjected to harm across the globe. The mission also earned goodwill as it evacuated

about 2,100 foreign nationals from twelve other countries.¹⁹

CONCLUSION

The PLA is well on track to achieve its aim of modernisation and capacity building to fight 'local wars under conditions of informationalisation'. With adequate budgetary support and a growing indigenous R&D, the PLA is implementing the RMA in a deliberate and calibrated manner. More importantly, it has realised the significance of military diplomacy and military exchanges as a valuable tool to further its foreign policy goals.

¹⁸ Gabe Collins and Andrew S. Erickson, 'Implications of China's Military Evacuation of Citizens from Libya', *China Brief*, Vol 11 No. 4, 10 March 2011, available at [http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews\[tt_news\]=37633&cHash=7278cfd21e6fb19afe8a823c5cf88f07](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews[tt_news]=37633&cHash=7278cfd21e6fb19afe8a823c5cf88f07), accessed on 12 February 2012.

¹⁹ *Xinhua*, 3 December 2011.

CHINESE SOCIETY IN 2011

SOME OBSERVATIONS

GUNJAN SINGH

The Chinese economy and society have undergone major transformation since the reform and opening up under Deng Xiaoping. China has moved from being a predominantly agrarian society to becoming the 'factory of the world' in a short time frame. These economic changes have helped the People's Republic of China (PRC) to move a large section of their population out of poverty and provide them employment and better living conditions.

The Chinese government released a White Paper on poverty reduction efforts in November 2011. The paper stated that the 'poverty affected rural population of China fell from 94.22 million at the end of 2000 to 26.88 million at the end of 2010, a number equivalent to the whole population of France'.¹ However, things are not as 'rosy' as the white paper portrays.

Though the PRC has brought about development and economic prosperity to a large section of the population, there are issues that continue to plague the society at large. The major factor behind this is the increase in the level of problems which the people are facing in their daily lives. Some of these issues are migration, pollution, land acquisition, etc.

Against this backdrop, this chapter will attempt to highlight and discuss some of the developments in 2011 which showed that all is not well with the Communist Party of China (CPC). There has been a steady increase in the 'mass incidents', a term given by the CPC to the people's demonstrations and protests. According to reports, 'the number of mass incidents rose from 10,000 with 730,000 participants in 1994 to 74,000 with 3.8 million participants in 2004'.² As noted by Jianrong

¹ 'White Paper on Rural Poverty Reduction', *China Daily*, 16 November 2011, available at http://www.chinadaily.com.cn/china/2011-11/16/content_14104874.htm, accessed 31 January 2012.

² 'Protests and Demonstrations in China; The Tensions and Methods behind Them', available at <http://factsanddetails.com/china.php?itemid=305&catid=8&subcatid=49>, accessed 1 February 2012.

Yu, a researcher at the Chinese Academy of Social Sciences (CASS), 'the number of mass incidents decupled from 8,709 in 1993 to 87,000 in 2005'.³ This number has been on the increase and according to reports, the number of mass incidents in 2010 was around 180,000.⁴ This data clearly reveals that the effects of the economic reform have not been all that positive. The year 2011 witnessed a great number of such incidents which showed that there is an increase in the overall discontent in the society.

One of the primary landmark events of the year 2011 was the ninetieth anniversary of the CPC, which was celebrated in July 2011. Although the CPC has maintained its control over power in China since 1949, an impressive and rare achievement, major challenges to its authority and position have developed in society in recent times. This chapter will highlight some of the areas which have developed as major challenge to the CPC in the year 2011. It will also attempt to discuss some major incidents which can be seen as hinting at

major changes within the Chinese society. It will also discuss how the media and communication technologies played an important role during the course of these incidents.

Zhejiang Railway Accident

In July 2011, there was a major train accident in the Zhejiang province in China in which almost thirty-three people died and 190 got injured.⁵ As was expected, the initial reaction of the PRC was to control information about the accident, primarily because of the fact that it would have affected the peace and stability within the society and would have lead to anti-Party feelings. However, some pictures and videos were leaked online and this resulted in a major public movement on the Internet. As a result, the CPC had to succumb to the pressure from the people and issue a notice to undertake a 'swift, open and transparent' investigation of the problem⁶—something which is quite improbable in the communist China. The government had to undertake this action

³ Justine Zheng Ren, 'What is "Mass Incident"? The Categorization and Deconstruction of a Dangerous Concept', *China Elections and Governance Review*, Issue 4, November 2009, p. 12, available at <http://www.cartercenter.org/resources/pdfs/peace/china/CEG-review-issue4.pdf>, accessed 3 February 2012.

⁴ Tom Orlik, 'Unrest Grows as Economy Booms', *The Wall Street Journal*, 26 September 2011, available at <http://online.wsj.com/article/SB10001424053111903703604576587070600504108.html>, accessed 3 February 2012.

⁵ 'At Least 33 Dead, 190 Injured in East China Train Crash', *Xinhua*, 24 July 2011, available at http://news.xinhuanet.com/english2010/china/2011-07/24/c_131004951.htm, accessed 1 February 2012.

⁶ 'Wen Urges Swift Wenzhou Train-Crash Probe', *Global Times*, 28 July 2011, available at <http://www.globaltimes.cn/NEWS/tabid/99/ID/668398/Wen-Urges-Swift-Wenzhou-Train-Crash-Probe.aspx>, accessed 1 February 2012.

primarily because it realized that it cannot control the sentiments of the people and it was too late to try and cover-up the whole incident, though it did attempt to do so initially. The call for investigation and the distribution of compensation showed that the CPC realized that it may be detrimental for it to take the people's emotions for granted. This incident is a clear indication of a situation where the new communication technologies (cell phones and Internet) played a major role in transmitting the voice of the people to the CPC and forcing the Party to take people's wishes into consideration.

The Wukan 'Uprising'

There has been an increase in the amount of land which the CPC has been taking away from villagers in order to provide for construction of housing or industries. This is increasing the level of discontent of the people towards the Party as the compensation is usually low and the rehabilitation is inadequate. This is also an area where a large amount of corruption exists, especially at the level of provincial and city Party leaders. In a recent such event in September 2011, the villagers of Wukan, which is near Guangdong

province, protested against the government's decision to sell a village-owned pig farm. People took to roads to protest.⁷ However, the government decided to use force in spite of promise of negotiation, and one butcher, Xue Jinbo (who was a protester and also the part of the negotiating team on the behalf of the villagers), was apparently killed in custody. This behaviour further agitated the people and they forced the authorities out of the town for about two weeks. Thus, it was a major defeat for the CPC as it lost its authority and control over this town.⁸ The CPC has been always too conscious of its 'image' and this incident greatly harmed the CPC's international face. It brought to the forefront that there was a consistent increase in the level of anger within the Chinese people.

However, the CPC was able to gain control and has called for fresh elections for local authorities.⁹ This clearly shows that there is a growing discontent amongst the people against the policies of the CPC. The level of economic development which China is witnessing is not benefiting the masses. This also shows that the members of the CPC are only concerned with filling their coffers and are not undertaking

⁷ Andrew Jacobs, 'Village Revolts over Inequities of Chinese Life', *The New York Times*, 14 December 2011, available at http://www.nytimes.com/2011/12/15/world/asia/chinese-village-locked-in-rebellion-against-authorities.html?_r=1&pagewanted=all, accessed 2 February 2012.

⁸ 'A Village Uprising in China Flashes Risk of Instability', *First Post World*, 17 December 2011, available at <http://www.firstpost.com/world/a-village-uprising-in-china-flashes-risk-of-instability-158539.html>, accessed 2 February 2012.

⁹ 'Village has New Party Branch after Protests', *China Daily*, 15 January 2012, available at http://www.chinadaily.com.cn/usa/china/2012-01/15/content_14449559.htm, accessed 2 February 2012.

projects which benefit the people at large. Such incidents have been on a rise since China adopted its policy of economic reform and opening up. However, after this, the CPC has promised to look into the problem and formulate a better policy of land acquisition, as announced by Xu Shaoshi, China's Minister of Land and Resources.¹⁰ Meanwhile, the call for elections has also led to a lot of debate on the Internet in China regarding whether this will pave the way for democracy eventually. The news about the rebellion had reached the people through twitter and other communication tools.¹¹ The growth of new communication technologies has come to play an important role in helping the people organize demonstrations in a society where information is heavily controlled and monitored.

In June 2011, there were protests by people in Taizhou, Zhejiang province. This row between the people and the authorities was also on the issue of compensation.¹² (According to reports, this was due to compensation amount to be paid by a petrol pump owner to the villagers). In a similar incident in the same month, there

were protests in Lichuan, in the central province of Hubei. This was also based on land acquisition and the death of a local city council member in police custody.¹³

Protests against Environmental Degradation

In the last few years, environmental degradation has become an important cause of concern for the Chinese people. This affects the people directly as their livelihood and other income sources get affected. There is also an increase in the level of health issues which the Chinese people are facing as a result of increase in pollution, especially due to contact with toxic waste.

In the year 2011, China witnessed a number of protests based on the environmental issue. There has been an increase in the pollution levels even as the government presses on with its agenda of industrialization for increasing economic growth. Most of them have been seen to flout environmental concerns and rules as profit has been the primary driving factor. The gravity of the situation can be gauged by the fact that China has twenty of the world's thirty most polluted cities. And

¹⁰ 'China to Step Up Land Reform this Year' *China Daily*, 10 January 2012, available at http://www.chinadaily.com.cn/usa/business/2012-01/10/content_14414785.htm, accessed 2 February 2012.

¹¹ 'Wukan Elections the Spark to Set the Prairie Ablaze?', *China Real Time Report*, 1 February 2012, available at <http://blogs.wsj.com/chinarealtime/2012/02/01/china-wukan-elections-the-spark-to-set-the-prairie-ablaze/>, accessed 2 February 2012.

¹² 'China Unrest as Hundreds Protest against Taizhou Land Grabs', *The Guardian*, 16 June 2011, available at <http://www.guardian.co.uk/world/2011/jun/16/china-riots-taizhou>, accessed 2 February 2012.

¹³ 'China Unrest: 25 Arrested after Clashes with Police', *BBC News*, 12 June 2011, available at <http://www.bbc.co.uk/news/world-asia-pacific-13741074>, accessed 2 February 2012.

almost 90 per cent of China's rivers and lakes are polluted.¹⁴ The situation is worse also because the provisional-level Party members push for more profit, without major concern for the environmental effects, as monetary gains are necessary for their overall promotion in the Party hierarchy. The following are some examples of protests by the people because of environment issues.

In August 2011, there were protests in the city of Dalian against a chemical plant which manufactured paraxylene, a crucial ingredient in the production of polyester. The government had to heed to the call of the people and shut down the plant. The reports suggested that the decision of the Party to go with the call of the people and shut the factory may highlight the increasing influence of the Internet.¹⁵ In September 2011, there were protests by people outside a solar plant in Zhejiang province which was contaminating water of a nearby river. Five hundred people demonstrated outside the plant.¹⁶ In

December 2011, there were protests in the southern Chinese city of Haimen against a solar power plant on concerns related to pollution and environmental degradation. The government had to postpone the construction plan.¹⁷

These protests highlight that the people are wary of the way the CPC has been undertaking the economic policies. The sheer neglect for the health and life of the people has damaged the image of the Party as the party of the people. Even though the protests are generally staged against the local and provisional-level party officials, there is a growing discontent amongst the masses which the top leadership will not be able to ignore.

Jasmine Revolution

The year 2011 witnessed a wave of protests around the Arab world against the government policies and authoritarian regimes. The popular term used to describe these developments is the 'Jasmine Revolution'. Most of the issues which the

¹⁴ Eve Cary, 'Li Keqiang and Green Growth', *The Diplomat*, 1 February 2012, available at <http://the-diplomat.com/china-power/2012/02/01/li-keqiang-and-green-growth/>, accessed 2 February 2012.

¹⁵ Keith Bradsher, 'China Moves Swiftly to Close Chemical Plant after Protests', *The New York Times*, 14 August 2011, available at <http://www.nytimes.com/2011/08/15/world/asia/15dalian.html>, accessed 2 February 2012.

¹⁶ Sharon LaFraniere, 'Chinese Protesters Accuse Solar Panel Plant of Pollution', *The New York Times*, 18 September 2011, available at <http://www.nytimes.com/2011/09/19/world/asia/chinese-protesters-accuse-solar-panel-plant-of-pollution.html>, accessed 2 February 2012.

¹⁷ Dina Spector, 'Violent Riots in Southern China Force Authorities to Halt Construction on Power Plant', *Business Insider*, 22 December 2011, available at http://articles.businessinsider.com/2011-12-22/news/30545617_1_chemical-plant-southern-chinese-town-baton-wielding-riot-police#ixzz1186IGAX9, accessed 2 February 2012.

Arab people protested against were inequality, inflation, and bad governance. The masses organized and communicated about the protests with the help of Internet and cell phones. The news of these developments greatly scared and worried the Chinese government. The CPC was aware that there is an increasing level of discontent amongst the masses and it was worried that a similar level of movement within China can prove to be fatal; something which the Party may not be able to control as it already has a fertile base.

As the Jasmine movement swept the Arab World similar calls were made within China as well. There was increased number of security forces deployed after an anonymous call for protests in Beijing. According to reports, 'more than a dozen other journalists who went to this part of Beijing to report had problems, including being manhandled, pushed, detained and delayed by uniformed police and others'.¹⁸ There are also media reports which suggest that the CPC controlled the Internet access and search in order to control the inflow of information about the Jasmine Revolution.¹⁹

This clearly shows that the CPC is worried about its control of authority and knows

that there is a large section of population which is not very happy with the government's policies.

EMPHASIZING THE ROLE MEDIA AND COMMUNICATION TECHNOLOGIES IN 2011

A major catalyst in the strengthening of the outcomes of the incidents has been the changes in the media. These changes in the Chinese media are a direct outcome of the economic development of the Chinese economy. The introduction of new communication tools has also added to this transformation. The media has changed its role from being only the propaganda organ of the CPC to the role of a responsible stakeholder in the society and a space for the voices of the people. As a result of this, the media today is reporting about events which go against the policies of the Party. This argument is highlighted by Susan Shirk when she argues that the cover up ordered by CPC during the severe acute respiratory syndrome (SARS) in 2003 harmed the credibility of the official media. The cover up led to an increase in the total number of deaths. This has forced the people to look for other sources of information and news.²⁰

¹⁸ Tania Branigan, 'China's Jasmine Revolution: Police but No Protesters Line Streets of Beijing', *The Guardian*, 27 February 2011, available at <http://www.guardian.co.uk/world/2011/feb/27/china-jasmine-revolution-beijing-police>, accessed 3 February 2012.

¹⁹ Xiao Long, 'China Plays Down "Jasmine" Protests', *Eurasia Review*, 22 February 2011, available at <http://www.eurasiareview.com/22022011-china-plays-down-jasmine-protests>, accessed 3 February 2012.

²⁰ Susan Shirk, 'Changing Media, Changing China', in Susan Shirk (ed.), *Changing Media, Changing China*, Oxford: Oxford University Press, 2011, p. 23.

As it greatly affects the control of the CPC over the flow of information, the CPC has placed a number of filtering processes and firewalls in order to prevent the inflow of news and information to the people. In spite of this, a number of communication technologies like mobile phones and Internet are making it tougher for the CPC to control the flow of information. Consequently, the CPC is still worried that a free flow of information may prove to be detrimental to the internal/domestic stability and subsequently, for the Party. In the year 2011, media played the role of an important catalyst. The increase in these protests is also because of the fact that there has been a steady rise in the number of Internet users in China over the years. According to reports, the number of Internet users in China had reached 505 million by November 2011.²¹ The consistent rise in the number of Internet users in China highlights that the Chinese people are looking at the Internet as providing a better avenue for information dispersion. This has got the Party worried and in December 2011, the PRC came out with the decision that the people and companies using the Internet will have to

register with the concerned authorities with their real names²²—a clear indication that the Party is still not able to control the flow of information as it may wish.

AN ANALYSIS

The path of economic development has not been very smooth for the CPC. There has been an increase in the level of discontent amongst the people as a result of failing policies. The government is aware that protests are due to an increase in the level of inequalities in the Chinese society and changing social values. This was showcased in the case of Yue Yue, a two-year-old girl, who was left on the road to die and none of the passers-by came to her rescue.²³

The other important factor behind these protests is the increase in the level of corruption. Even in his speech on the ninetieth anniversary of the founding of the CPC, Hu Jintao accepted that

...grave challenges and daunting tasks remain in fighting corruption. If not effectively curbed, corruption will cost the Party the trust and support of the people. The whole

²¹ 'China's Internet Users Breach Half Billion Mark', *Reuters*, 11 January 2012, available at <http://www.reuters.com/article/2012/01/11/us-china-internet-idUSTRE80A0LD20120111>, accessed 3 February 2012.

²² 'Beijing Tightens Control over Microblogs', *Taipei Times*, 17 December 2011, available at <http://www.taipeitimes.com/News/world/archives/2011/12/17/2003520977>, accessed 3 February 2012.

²³ Richard Hartley-Parkinson, 'Yue Yue, the Girl Who Shamed China, is Dead: Two-year-old Run over TWICE as Dozens of People Ignored Her Lying in the Road Succumbs to Her Injuries', 5 November 2011, available at <http://www.dailymail.co.uk/news/article-2051679/Yue-Yue-dead-Chinese-girl-Wang-Yue-2-run-bystanders-watch-dies.html>, accessed 6 February 2012.

Party must remain vigilant against corruption, be fully aware that fighting corruption will be a protracted, complicated and arduous battle, and give higher priority to combating corruption and upholding integrity. The Party must demonstrate greater confidence and resolve and take more forceful measures to improve the institutions for punishing and preventing corruption and unswervingly fight corruption.²⁴

Though there has been a massive rise in economic development and China has been recording almost double-digit growth figures for the last two decades, there has been an increase in the overall number of unemployed. This has been primarily the result of the closing of the public sector industries. The situation has further aggravated after the economic downturn. According to media reports, about 26 million migrant workers had shifted back to their villages as they were not able to find

employment. It further states that in the first half of 2010, per capita income rose 13 per cent in the countryside, to \$935 a year, and 10 per cent in the cities, to \$2,965 a year. This, in addition to other factors, can be a major source of social instability.²⁵ In addition to this, China has also witnessed an increase in the number of slums around larger cities like Beijing, Shanghai, and Guangzhou.²⁶ As has been argued by Susan Shirk, 'the worst nightmare of China's leaders is a national protest movement of discontented groups—unemployed workers, hard pressed farmers and student—united against the regime by the shared fervor of nationalism'.²⁷

Minxin Pie argues that 'mass social protest has become a permanent feature of the Chinese political system. Although such protest, by itself, won't dethrone the Communist Party, it does weaken the party's rule in subtle ways. Trying to maintain control over a restive population is forcing the party to expend ever-more resources on domestic security.'²⁸ On the

²⁴ 'Full Text of Hu Jintao's Speech at CPC Anniversary Gathering', *Xinhua*, 1 July 2011, available at http://news.xinhuanet.com/english2010/china/2011-07/01/c_13960505_9.htm, accessed 6 February 2012.

²⁵ 'Economic Downturn Leaves 26 million Unemployed in China', *The Telegraph*, 2 February 2009, available at <http://www.telegraph.co.uk/news/worldnews/asia/china/4438965/Economic-downturn-leaves-26-million-unemployed-in-China.html>, accessed 4 February 2012.

²⁶ Dexter Roberts, 'China's Growing Income Gap', *Bloomberg Businessweek*, 27 January 2011, available at http://www.businessweek.com/magazine/content/11_06/b4214013648109.htm, accessed 4 February 2012.

²⁷ Susan Shirk, *China: Fragile Superpower*, Oxford: Oxford University Press, 2007, p. 7.

²⁸ Minxin Pie, 'Occupy Beijing?', *The Diplomat*, 30 December 2011, available at <http://thediplomat.com/2011/12/30/occupy-beijing/2/>, accessed 3 February 2012.

other hand, Yu Jianrong argues:

China today has too many 'sensitive' topics, like 'sensitive' things, 'sensitive' people, 'sensitive' moments etc. Everyone averts their eyes, not daring to look them straight on or discuss them. In fact, this is just an excessive response on the part of the government, and it is a sign of a serious lack of confidence. There is a need for the government to get rid of 'sensitivity'.²⁹

The problem is also becoming aggravated as the new media comprising of Internet and other communication technologies is making it tougher for the Party to control the flow of information, a complete shift from earlier times. The CPC has had a good control over the media apparatus till date and thus was able to control the information which it wanted the people to know. However, with the opening up of the economy, it had to relinquish some control over the media houses as a result of the withdrawal of the subsidies. Today, the papers have to finance themselves on the basis of revenues earned from advertising. As a result, the media houses are working towards reporting events and incidents which the general public is interested in reading about. Thus, the media houses are writing and talking about things which affect the people directly and are not very

keen on reprinting the messages of the CPC. This has led to an increase in the number of commercial media and encouraged the rise of investigative journalism in China. Consequently, journalists want to report on issues and developments which affect the people. As the judiciary system is not totally free and it is the Party which dictates the terms, the Chinese people are getting closer to the journalists as they believe that it will be the media which will be able to help them get justice. In most of the incidents mentioned in the chapter, it was because of the intervention of the media that there was acceptance by the Chinese government of mishaps and misappropriations.

The level of discomfort which this development is causing the CPC is clear from the fact that 'before the Olympics in 2008 the propaganda department started working on tightening its control over the media houses, as it did not want any negative news to be reported. This was also because of the presence of large number of international media in China'.³⁰

CONCLUSION

In conclusion, it is evident that media is playing a very important role as a bridge between the Party and the people. The CPC is working hard to control the flow of information in order to maintain the

²⁹ Yu Jianrong, 'China's Violent Push for "Stability"', *China Media Project*, 2 November 2011, available at <http://cmp.hku.hk/2011/11/02/16989/>, accessed 3 February 2012.

³⁰ Richard McGregor, *The Party: The Secret World of China's Communist Ruler*, UK: Penguin Books, 2011, pp. 184–5.

stability within the society. However, the development and introduction of new media and communication technologies is making the task tougher for the CPC. The CPC has always been uncomfortable with the rising free flow of information within Chinese society.

New technologies have been a result of the increase in economic prosperity and income among the people. The better the people are financially, the more they can access developing technologies. Thus, economic opening up and reform, which today provides the 'legitimacy' to the Party to rule as communist ideology is no more the uniting factor- rather it is impacting on

the control of the Party. With better connectivity, the people are communicating better about their issues and grievances. Even though the control of the Party over the media is quite strong, there have been incidences where Party has been challenged and forced to accept the people's verdict.

With a consistent increase in these incidents, it would reasonable to conclude in the near future the CPC may have to succumb to the pressure of the increasing 'mass incidents'. However, though not fully free, the media has managed carve a niche for itself where it is becoming the voice of the people.

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An annual publication from the Institute for Defence Studies and Analyses (IDSA), the *China Year Book 2011* is a round-up of events and issues of significance that occurred in China during the past year and covers foreign relations, the economy, military, media, and politics in the country.

The *Year Book* seeks to promote a better understanding of contemporary issues affecting China and their impact on India. This first edition of an annual series of year books is a compilation of incisive chapters focussing on China's relations with the US, South Asia, ASEAN, Japan and East Asia, Central and West Asia, and the SCO. India-China relations of considerable interest and significance to India are discussed as are the Chinese economy, media, the People's Liberation Army, and the political landscape inside the country.

A one-stop reference for significant events in China during the past year, the *Year Book* has been compiled by IDSA scholars and China specialists. It would be useful for scholars and researchers, diplomats, journalists, strategic affairs experts as well as the interested general reader who seeks to know more about China.



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