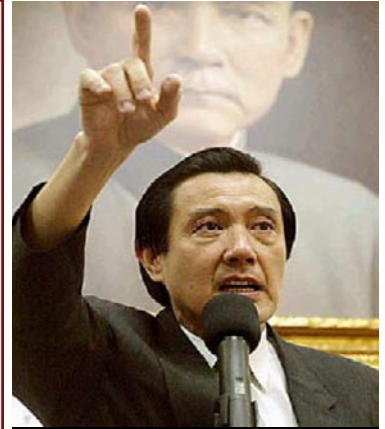




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Taiwanese President Ma Ying-jeou

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**In a Fortnight**

By L.C. Russell Hsiao

**HU CONFERS HARDLINER TOP MILITARY RANK**

Beijing instituted a new round of personnel changes among the top-ranking officers of the People's Liberation Army (PLA) and its general departments. According to official state-media, Central Military Commission (CMC) Chairman and PRC President Hu Jintao conferred three senior military officers the rank of general on July 20 (Xinhua News Agency, July 20). A raft of personnel changes that were made recently runs the gamut of the PLA's general departments: General Staff Headquarters, General Political Department, General Logistics Department and General Armaments Department (*Nanfang Daily*, July 10; China Military Online, July 10).

The three senior officers promoted to the rank of general are Deputy Chief of the General Staff of the PLA Ma Xiaotian; Political Commissar of the PLA's Academy of Military Sciences Liu Yuan; and Political Commissar of Chengdu Military Area Command Zhang Haiyang. The conferment of Ma, Liu and Zhang represents the coming of age of a generation of PLA stars, whose meteoric rise to the upper echelons of the military establishment has been closely tied to Hu.

Ma, who now directs the PLA's high-level military diplomacy and intelligence operations, has a long career in the Chinese air force, and is leading the Chinese delegation in the resumed U.S.-China defense dialogue, which had been suspended due to Beijing's objections to U.S. sale of advanced weaponry to Taiwan (*Ta Kung Pao*, July 21). Ma is noted for his critical stance toward what he sees as the expansion of [U.S.] military alliances in the Asia-Pacific (*Straits Time*, June 1, 2008).

Both Zhang and Liu are "princelings," a reference to the offspring of party elders or retired generals. Their successive appointment up the military ranks affirms Hu's tactic

of trying to build up his credentials as the commander-in-chief—Hu himself lacks personal military experience—by elevating the sons of First- and Second-Generation revolutionaries to senior PLA slots. It is interesting to note that Zhang and Liu, although coming from different branches of the Chinese military, have risen up the ranks almost lock-step with one another. Zhang Haiyang is the son of former CMC Vice-Chairman and Politburo member General Zhang Zhen.

Liu Yuan's promotion, the son of late Chinese statesmen Liu Shaoqi—purged by Mao during the Cultural Revolution—has caught considerable media attention. Liu is referred to as the leader of a faction in the PLA described by the media as the “young turks” (*shao zhuang pai*), which is composed of realists, nationalists and foreign policy hardliners (Nownews [Taiwan], July 21). Liu is known for his tough stance on Taiwan, made infamous by his statement responding to remarks in Taipei about an alleged plan to bomb the Three Gorges Dam in case of a Chinese attack by telling the media that an air strike by Taiwan “will provoke a retaliation [against Taiwan] that will ‘blot out the sky and cover up the earth’” (See *China Brief*, “The end of the Sino-American honeymoon?”, July 18, 2004).

Other personnel changes in the PLA's general departments include:

In the General Staff Department:

- Chief of Staff of the Shenyang Military Region Lieutenant General Hou Shusen was promoted to deputy chief of the PLA Headquarters of the General Staff.
- Dean of the Nanjing Army Command College Major General Chen Yong was promoted to assistant chief of staff for the PLA Headquarters of the General Staff.
- Assistant Chief of Staff for the PLA General Staff Headquarters Major General Yang Zhiqi is retiring.
- Deputy Chief of Staff of the PLA General Headquarter and Commander of the Guangzhou Military Region General Liu Zhenwu is retiring.

In the General Armament Department:

- Chief of Staff for the PLA General Armaments Department Major General Niu Hongguang was promoted to deputy director of the PLA General Armaments Department.
- Deputy Director of the PLA General Armament Department Lieutenant General Zhang Jianqi is retiring.

In the General Political Department:

- Assistant Director PLA General Political Department Major General Xu Yaoyuan was conferred the rank of lieutenant general.

In the General Logistics Department:

- Deputy Director of the PLA General Logistics Department Major General Ding Jiye was conferred the rank of lieutenant general.
- Deputy Director of the PLA General Logistics Department Major General Tai Yinghe was conferred the rank of lieutenant general.
- Deputy Director of the PLA General Logistics Department Lieutenant General Wang Qian is retiring.

(Source: *Nanfang Daily*, July 10; *Wenwei Po*, July 10; ETaiwan News, July 10)

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## The Xinjiang Crisis: A Test for Beijing's Carrot-and-Stick Strategy

By Willy Lam

Calm has been superficially restored to the Xinjiang Autonomous Region (XAR), where an outbreak of ethnic violence on July 5 led to the death of more than 197 Han Chinese and Uighurs, according to an official count (Xinhua News Agency, July 18). Chinese Communist Party (CCP) authorities have allowed domestic tourist groups to return to Urumqi and other cities in the XAR. Yet President and Commander-in-Chief Hu Jintao, who was forced to drop out of a G-8 Meeting in Italy to return to China to handle the crisis, has readied a redoubled version of carrot-and-stick tactics to tame the restive region for the past decade.

Firstly, the strength of the People's Armed Police (PAP)—a sister unit of the People's Liberation Army (PLA) that is responsible for upholding domestic stability—and ordinary police in the XAR has been bolstered considerably. Soon after his return to China on July 9, Hu, who chairs the CCP Central Military Commission, authorized an unprecedented airlift of PAP and allied security personnel to the strife-torn region. For about a week, civilian aviation traffic in cities including Shanghai and Guangzhou was disrupted due to the large number of chartered flights taking PAP officers to

the XAR, many of whose 9 million Uighur residents live in fear of reprisals from the majority Han Chinese. Estimates of PAP and police reinforcements have run into more than 50,000. Beijing authorities have admitted that 31 special public-security squads had newly arrived in Xinjiang “to render support to the work of safeguarding stability” (Xinhua News Agency, July 13; *Ming Pao* [Hong Kong], July 11; *Apple Daily* [Hong Kong], July 12).

While the July 5 riots started as a protest by Urumqi’s college students and other activists against the death of two Uighur workers in a toy factory located in Shaoguan, Guangdong Province, the casualty count made this the worst case of ethnic violence since the end of the Cultural Revolution. The CCP authorities appear determined to deal a body blow to the so-called “three evil forces” of separatism, terrorism and extremism, which allegedly enjoy the backing of “anti-China forces abroad,” such as the U.S.-based World Uighur Congress (WUC). That Beijing means business this time is evident from harsh remarks made in Xinjiang by the Politburo Standing Committee member Zhou Yongkang, who is in charge of law and order nationwide. Zhou characterized the crusade against the “three forces” as a “severe political struggle related to upholding national unity, maintaining the interests of the masses, and consolidating the CCP’s ruling-party status.” XAR Governor Nur Bekri, the highest-ranked Uighur official in China, added: “The [battle] between separatists and counter-separatists is a merciless life-and-death struggle” (China News Service, July 19; Xinhua News Agency, July 13).

Reports in the Hong Kong media say crack PAP squads are swooping down on underground groups, particularly in thinly populated towns and villages in western and southern Xinjiang, which are home to the majority of Uighurs that comprise of 45 percent of the XAR’s population. This crack down was initiated in the wake of statements by Beijing authorities that unnamed quasi-terrorist Uighur units from southern and western Xinjiang had “infiltrated” Urumqi shortly before the July 5 melee. Long-time Uighur residents in Urumqi have also complained that police are indiscriminately locking up young men in the XAR capital. Activist Han Chinese lawyers who had provided free legal advice to ethnic-minority communities have been put under 24-hour police surveillance and warned not to take up their cases. Police and state-security personnel are also picking up alleged sympathizers of Xinjiang separatism all over the country. On July 6, security agents in Beijing kidnapped Yili Hamu (aka Ilham Tohti), a highly-regarded Uighur economics professor at the Minzu University of China. So far, 158 Han Chinese academics have signed a petition asking the CCP authorities to release Yili, who founded a website dedicated to promoting Han-Uighur

dialogue (*New York Times*, July 20; The Associated Press, July 14; AFP, July 9; *Apple Daily*, July 17; *Ming Pao*, July 15).

While brandishing the proverbial big stick, the authorities are boosting economic and other aid to the restive region. The central government has played up its own role in developing the XAR—and indicated that more investments and “preferential policies” are in the pipeline. For example, Urumqi’s GDP grew by 15 percent last year, much of it due to infrastructure spending by the central and regional governments. City residents’ average annual disposable income reached a record 12,328 yuan (\$1,813) in 2008. After the July 5 mishap, senior cadres have pledged more financial assistance, particularly to the XAR’s impoverished rural areas. Speaking in a public function one week after the riots, State Councilor and Minister of Public Security Meng Jianzhu said he had asked different central ministries to make available additional personnel, materials and funding so as to “enthusiastically help Xinjiang do well its task of safeguarding stability.” While officiating at a national conference on the development of areas with concentrations of ethnic minorities, Vice-Premier Hui Liangyu promised more government outlays to support agriculture, irrigation and township enterprises in Xinjiang and other western provinces (Reuters, July 10; *People’s Daily*, July 14; *Qinghai Daily* [Qinghai], July 11).

Overseas-based Uighur organizations, however, have charged that Beijing has never given Uighurs any share of the vast profits from the exploitation of the XAR’s rich resources. While Xinjiang boasts one of China’s largest oil-and-gas reserves, exploration and related businesses are controlled by the country’s national petroleum monopolies such as Sinopec and China National Petroleum Corporation. Moreover, much of the benefits of progress have been taken up by Han Chinese businessmen and workers based in Urumqi and other urban areas. The annual per capita income in rural areas, where most Uighurs live, is a mere 3,503 yuan (US\$515). In the wake of the Shaoguan-riots, Uighurs interviewed by Western journalists have complained that thousands of inhabitants of western and southern Xinjiang are obliged to work in coastal factories like the Shaoguan toy factory due to harsh conditions, such as unemployment in their home villages (*Washington Post*, July 15; Bloomberg, July 9; The Associated Press, July 9).

Moreover, many Uighurs view investment and other economic activities by the government and Han-Chinese companies with suspicion. XAR Governor Bekri has cited Xinjiang authorities’ 3 billion yuan (US\$441.18 million) redevelopment of the old sector of the famous city of Kashgar as an example of “urban renewal [of a magnitude] that is rarely seen in the rest of the world.”

The governor said that newly-constructed apartment blocs for Uighurs will have much better protections against fire and earthquake. Yet, according to Nicholas Bequelin, a respected Xinjiang expert at the New York-based Human Rights Watch, many in the Uighur community are unhappy with the sudden razing of Kashgar, a centuries-old cultural center of Uighur civilization and one of the few remaining examples of traditional Central Asian architecture. Bequelin also points out that XAR authorities have promoted the use of Mandarin Chinese in Xinjiang schools, while the Uighur language has been marginalized. In a speech last month on the introduction of “bilingual education” in the XAR, Bekri raised eyebrows when he claimed that teaching Mandarin Chinese to Uighur children could “help fight terrorism.” He asserted that “terrorists from neighboring countries mainly target Uighurs who are relatively isolated from mainstream society as they cannot speak Mandarin” (*New York Times*, July 10; Xinhua News Agency, July 19; *China Daily*, June 5).

Yet the efficacy of Beijing’s efforts at either full-throttled eradication or half-hearted pacification could be undermined by the dubious qualities of XAR cadres. Xinjiang-based officials, PAP and police units have had a track record of faulty intelligence and bungled operations. For example, Beijing and Xinjiang security officers have claimed that they had in late June and early July intercepted messages sent by the WUC to underground XAR groups with the purpose of instigating them to engineer “something really big” on July 5. And in a press conference last weekend, Bekri admitted that the authorities were aware of “relevant information” about the protests. Bekri also disclosed that on the fateful day, government officials were on hand to dissuade college students from holding demonstrations. Yet despite the formidable military and police presence in the XAR capital, the authorities were unable to prevent the political rally from degenerating into a bloody, no-holds-barred slugfest (*China News Service*, July 19; Xinhua News Agency, July 6; *Apple Daily*, July 17).

Partly due to the fact that he had served as Tibet party secretary from 1988 to 1992, President Hu has since the late 1990s been personally involved with Beijing’s policy toward ethnic minorities. And the majority of senior cadres in both Tibet and Xinjiang, including their party bosses—Zhang Qingli and Wang Lequan, respectively—are senior members of the president’s so-called Communist Youth League (CYL) Faction. These Hu protégés, however, are also hardliners known to have neither sympathy for local culture nor sensitivity toward their charges’ sentiments. Zhang, for example, publicly labeled the Dalai Lama—the revered leader of the exiled Tibetan movement—a “wolf in sheep’s clothing.” Wang once opined that the Turkic-like Uighur language was “out of step with the 21st century”

(See *China Brief*, “Beijing’s Post Olympic Shakedown in Xinjiang and Tibet,” September 3, 2008). Since being posted to Xinjiang in 1991, Wang has relentlessly promoted a Sinicization policy aimed at making Uighurs “more like ordinary Chinese.” Wang’s performance so impressed the CCP leadership that this former head of the Shandong Branch of the CYL was awarded Politburo status in 2002. That Wang has stayed in Xinjiang for 18 years, however, goes against the time-honored CCP personnel policy of not allowing a local chieftain to remain in the same jurisdiction for more than five to six years (*New York Times*, July 11; *Ming Pao*, July 8).

Given the immense resources that are available to the central party-and-state apparatus, few doubt the ability of the Hu Jintao administration to impose ironclad control over Xinjiang through the sheer presence of troops and security personnel. As a result of the official media’s largely emotive if not biased portrayal of “indiscriminate Uighur violence” against Han Chinese, however, popular Internet chatrooms have been choc-a-bloc with hate messages about the imperative of “punishing the ungrateful and unpatriotic Uighurs” (*Christian Science Monitor*, July 9). The tenuous inter-racial fabric that has enabled the two ethnic groups to coexist—albeit under stressful conditions—for more than five decades is close to being undone. Should the leadership under President Hu and his underlings in the XAR continue to opt for the iron fist, the majority of Uighurs—who favor non-violent means to attain a higher degree of autonomy, not independence—might be turned into implacable foes of what they will see as chauvinistic Han-Chinese colonizers.

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## KMT’s Change of Guard: Ma’s Power Play in Taiwanese Politics

By Parris Chang

The Chinese Nationalist Party (KMT) in Taiwan will elect its next chairman on July 26. On that date, tens of thousands of KMT members will cast their votes for their former party chairman-turned-president, Ma Ying-

jeou, who will be the only candidate on the ballot. Ma's decision to concurrently serve as KMT chief has provoked a mixed response in Taiwan, even though Ma is following the KMT's time-honored tradition of interlocking party-state leadership (i.e. Lee Teng-hui, Chiang Ching-kuo and Chiang Kai-shek). The president's action drew sharp criticism from scholars and the mass-media for the lack of transparency with which his decision was made. Ma had to be reminded by reporters of a pledge he made while campaigning for president in 2007 that he would never serve as the KMT chairman if elected, because, as he said, "the president should be devoted full time to government affairs" (Central News Agency [Taiwan], Oct. 3, 2007). The president, however, claimed that his decision to serve as KMT Chairman was prompted by his "sense of responsibility for the nation's competitiveness and government performance" (*Taipei Times*, June 17).

Wu Poh-hsiung, the current party chairman since April 2007, was reportedly humiliated by the incident. Wu told friends that the post of KMT chairmanship would be Ma's to take, but he was never directly informed that Ma wanted his job (*China Times* [Taiwan], June 10). After months of media speculation, fed by leaks about a simmering power struggle between Chairman Wu and President Ma, Wu declared in the last week of May that he was ready to step down as party chairman, paving the way for Ma's subsequent announcement of his bid for the seat.

#### WHY MA WANTS THE PARTY POST

Since assuming office in May 2008, Ma's administration has been challenged by the lack of coordination between the ruling party, the government, and the "disobedience"—a term used by KMT officials—of the Legislative Yuan (Taiwan's parliament). The parliament failed to confirm Ma's appointees to the Control Yuan (the government watchdog) and Examination Yuan (in charge of validating the qualifications of civil servants), which are both part of the five branches of the Taiwanese government (*Taipei Times*, June 17; *Liberty Times* [Taiwan], June 28). Moreover, the president was only able to muster enough political will and votes from parliament, in which the KMT has a commanding 3/4 majority, to pass half of the 50 bills on the priority list that was submitted by the Executive Yuan (the executive branch of the Taiwanese government) during the legislative session that ended on June 16. Ma even singled out nine "must-pass" bills, only four of which were enacted before the session ended (*Taipei Times*, June 29).

The KMT caucus in the Legislative Yuan (LY—Taiwan's parliament) reportedly did not make much of an effort to support the president's legislative agenda by passing

the priority bills. Therefore, the KMT chairman, Wu Poh-hsiung, failed his responsibility to ensure that KMT lawmakers toe the president's line (*Taipei Times*, June 29). Experts believe that another reason why Ma decided to take over the party chairmanship may be because of the lack of coordination between the presidential office, cabinet, KMT headquarters and the KMT caucus at the outset of the new administration. Finally, many KMT lawmakers have their own private interests at stake, and will not necessarily see eye-to-eye with the president's broader agenda (*Taipei Times*, June 29). For instance, in the amendment to the Act for the Punishment of Corruption, which the Executive Yuan sought to amend by adding a new provision that all civil servants failing to explain the sources of their incomes should face prosecution, some KMT lawmakers demurred, and a watered down version ruled that only officials indicted on corruption charges would be subject to the new rules. Clearly, many KMT lawmakers do not consider the Cabinet's priority bills urgent and stall them for various reasons, key among them being that many KMT lawmakers are veteran politicians and policy experts, and they consider Premier Liu Chao-shiuan and other cabinet members as "newcomers" who lack necessary expertise.

#### REMOVING POTENTIAL RIVALS

Ma's apparent power grab is interpreted by political insiders as an attempt to subdue or remove potential rivals and challengers inside the KMT. One alleged target is LY Speaker Wang Jin-pyng, who lost the KMT chairmanship in July 2005 to Ma, but still commands considerable power and influence as the speaker of the parliament and is able to hold Ma's power in check.

Take, for instance, the control over the Taiwan Foundation for Democracy (TFD), a publicly-funded organization established under the Democratic Progressive Party (DPP) government in 2003 with bipartisan support to promote democracy and human rights worldwide. Since its founding, the TFD's chairman has been Speaker Wang, and a board of directors composed of government officials, lawmakers from both the pan-green (DPP) and pan-blue (KMT) coalitions, independent scholars and business executives.

Not long after President Ma took office in May 2008, Foreign Minister Francisco Ou approached Wang at Ma's behest to suggest a change in TFD's personnel. Chairman Wang reportedly rebuffed and thwarted the demand, since it is widely believed that he supports the present TFD management team headed by Executive Director Wen-cheng Lin, and is committed to the independence and bipartisanship of the TFD. President Ma was compelled to compromise, but renewed his push to reshuffle the TFD

in June, allegedly under the National Security Council's directive (*Taipei Times*, June 24). Yet, as a result of U.S. criticism and pressure from organizations like Freedom House and the National Endowment for Democracy, as well as the U.S. House of Representatives, President Ma again conceded and delayed TFD personnel change to a later date. Although Chairman Wang has tried hard behind the scene to keep the TFD free of complete KMT control, Wang kept noticeably silent over the current controversy in what seems like an effort to hide his diminished influence.

Ma's first move to erode Wang's base of support and engineer the defection of his political allies in the parliament through co-opting and "divide and rule" tactics was to appoint Deputy LY Speaker Tseng Yung-chuan to head his campaign office for KMT chairmanship. The media speculates that Tseng could replace Wang as the next LY Speaker (*Formosa Weekly*, July 16).

As KMT chairman, Ma will be in a key position to nominate candidates for elections to the parliament and other posts, and decide the next LY speaker and deputy speaker, as well as appoint dozens of KMT's LY members-at-large. LY speaker Wang may be appointed to be one of the KMT vice-chairman, in which case he must defer to the chairman and will have much less power and influence afterward. As Ma incorporates the legislative body into his power base with the KMT Central Standing Committee dictating the legislative agenda, the room for independent political thinking and actions by KMT lawmakers will also likely be drastically curtailed.

#### CONTROL OVER POWER AND POLICY

In a meeting with KMT Chairman Wu Poh-hsiung at the Presidential Office on May 24, President Ma said the KMT-CCP (Chinese Communist Party) platform would no longer set the agenda for cross-strait dialogue. Ma told Wu that "today political parties can no longer dictate government policies" (*Taipei Times*, May 25) [1]. The occasion that Ma chose to deliver this ultimatum was right before Wu embarked on a trip to China to attend a KMT-CCP Forum on May 25.

Ma appears keenly aware of Beijing's "united front strategy," which skillfully tries to manipulate political forces inside the KMT and Taiwan's young democracy. In April 2005, CCP General Secretary and President Hu Jintao invited Lien Chan, the KMT chairman and its unsuccessful presidential candidate in 2000 and 2004, to visit China and set up the KMT-CCP Forum. This platform gave Lien, the KMT's honorary chairman and leader of the conservative faction (or "old guards") within the party since July 2005 and Chairman Wu Poh-hsiung opportunities galore to

fraternize with Hu in China and set the tone for cross-strait rapprochement (*China Times*, July 7). Even after Ma took over the presidency, Beijing's plot to use Lien and Wu through the CCP-KMT Forum to advance Beijing's Taiwan agenda has continued.

The following episode of the 2008 Asia-Pacific Economic Cooperation (APEC) summit in Peru clearly illustrates the aforementioned point. China has blocked Taiwan's heads of state from attending such international gatherings since 1993—so Ma had to send a proxy. The president's first choice was Dr. Fredrick Chien, who held such high-ranking positions as Minister of Foreign Affairs, speaker of the National Assembly and President of the Control Yuan. To Ma's chagrin, Beijing vetoed the choice of Chien and, according to politicians, had a say in naming its own candidate—Lien Chan. Ma had to swallow the "bitter pill" as it would be politically difficult to oppose Lien, who served as Taiwan's premier and vice president, and would therefore be the highest ranking official that Taiwan ever sent to the APEC summit. This year, the APEC summit will take place in mid-November in Singapore. It will be interesting to see who President Ma's Envoy will be.

#### A GRAND DESIGN?

When the news surfaced in May that President Ma wanted to serve concurrently as KMT chairman, *Liberty Times* and several TV networks polled their audience, and the majority of the respondents expressed their disapproval. The majority also expressed their view that if he takes over the party's reign, reforming the KMT—notably returning the party's ill-gotten assets to the public—should take precedence over a meeting with his Chinese counterpart (*Taipei Times*, June 23).

Ma's latest renewed promise of party reform is ringing hollow in Taiwanese society, yet the president believes that the voters do not care about nor remember his record of flip-flopping and abandoned pledges (see "Taiwan Presidential Election 2008: Choosing the Path Less Traveled?", March 14, 2008), and that his supporters' only care for cross-strait détente and stability. Opposition leaders believe that as party chairman, Ma will try to set the agenda and maneuver to meet with Hu, his disclaimers notwithstanding. Ma will try to persuade China to sign an ECFA by early 2010.

Hu's term as party general secretary will end with the 18<sup>th</sup> CCP Congress in October 2012, Hu is therefore considering his legacy, and believes that accomplishing the grand national goal of reunifying Taiwan—a goal that was far from sight for his predecessors PRC leaders Mao Zedong, Deng Xiaoping and Jiang Zemin—before he steps

down will undoubtedly help him leave his mark in history. Hu will need President Ma's active and close cooperation and Ma's hat as KMT Chairman will help facilitate their collaboration through the KMT-CCP Forum and other platforms.

Likewise, President Ma will run for re-election in March 2012, and to get re-elected, will need China's help through the ECFA process to revive Taiwan's lagging economic growth. Ma's plan of action appears to take on the clothing of Hu's earlier proposal and, in collaboration with Hu, work out measures to strengthen peace and security in the Taiwan Strait, the removal of Chinese missiles pointed at Taiwan, establish a military confidence-building mechanism, and sign a peace accord. According to KMT insiders who are close to Ma, the president has a plan to also make a bid for the Nobel Peace Prize with Chinese President Hu. If former South Korean President Kim Daejung could get the award through a summit in Pyongyang, the cross-Strait peace and detente would have much greater international impact with candidates on both sides of the Taiwan Strait and would be a more compelling case for the Nobel Peace Review Committee come November 2011.

There will be enormous political opposition from the Democratic Progressive Party; there will be massive street protests and rallies, and a call for a plebiscite on the so-called "peace agreement," because many people in Taiwan now see the plan as a sellout to China. On the other hand, a Nobel Peace Prize for President Ma could disarm and severely weaken the opposition, which may encourage Ma to finally nail the coffin on Taiwanese self-determination for the sake of making history. Yet, Taiwan's democracy is dynamic, volatile and difficult to predict; and no one can rule out the possibility that Taiwanese voters would vote Ma out of office in the 2012 presidential election. In the meantime, the situation looks grim.

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#### NOTES

1. Ma exerted considerable political pressure on Lien to step down from the KMT Chairmanship in 2005, then he ran and was elected in July 2005 to succeed Lien. During Ma's stint as KMT Chairman 2005-2007, he did not visit China nor attend the KMT-CCP Forum, since he was planning to run for President and tried to keep a distance from China.

In 2007, Ma resigned from the KMT Chairmanship due to a corruption scandal lawsuit, and was replaced by Wu.

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## China Makes Strides in Energy "Go-out" Strategy

By Wenran Jiang

In recent months, Chinese National Oil Companies (NOCs) struck four major overseas energy deals with Russia, Kazakhstan, Brazil and Venezuela for a combined value of nearly \$50 billion in Chinese capital (*Dow Jones News*, February 17). The growing footprint and outreach of these NOCs have stoked concerns that Beijing is maneuvering to lock-up global energy assets [1]. Indeed, China has grown to become the world's second largest consumer and importer of oil, and the government has been pushing its NOCs to implement a "go-out" strategy to secure overseas energy supply. Yet this new strategy is taking the shape of a formula of "loans-for-energy," which involves a mix of state-owned and private actors. These complex arrangements indicate that China's expansion of overseas-energy assets is a long term goal and that it is increasingly interested in securing Chinese outward investments from its international partners.

#### FOUR MAJOR DEALS IN ONE MONTH

In February, CNPC signed a raft of agreements with Moscow, in which China would provide \$25 billion in soft loans to Russia in return for a long-term commitment to supply China with oil. In the same month, China and Venezuela agreed to double their joint investment fund to \$12 billion by injecting an additional \$4 billion from China, in return for Venezuela's state-run oil company PDVSA's commitment to sell CNPC between 80,000-200,000 barrels of oil per day (bpd) by 2015 (*Asia Pulse*, March 11). On February 19, China Development Bank, a financial institution under the State Council primarily responsible for raising funds for large infrastructure projects, sealed a similar deal with Petrobras—the Brazilian state-owned oil major—for a Chinese loan of \$10 billion in exchange for a 10-year oil supply memorandum. This agreement will allow China's Sinopec and CNPC to receive up to 150,000 bpd beginning this year, increasing to 200,000 bpd in the next nine years (*Dow Jones Chinese Financial Wire*, May 19). China's fourth "loans-for-oil" deal, which was also signed in February, was with Kazakhstan. Under the terms of the contract, Kazakhstan will receive \$10 billion in financing for its oil projects. China's Export and Import Bank (Exim Bank), the official export credit agency of the Chinese government, lent the state-owned Development

Bank of Kazakhstan \$5 billion, while CNPC extended a \$5 billion loan to its Kazakh counterpart KazMunaiGas (*Reuters*, April 17).

#### COMPLEX “LOANS-FOR-OIL” FORMULA

The four aforementioned deals all entail extensive and complicated negotiations between the parties involved, and they all involve arrangements in what the Chinese call “loans-for-oil” (*daikuan huan shiyuo*).

China’s \$25 billion deal with Russia, for example, is comprised of four separate core agreements—two loan agreements between China Development Bank and Russian oil firms Rosneft and Transneft, respectively; one oil supply agreement between CNPC and Rosneft; plus one oil pipeline construction and operation agreement between CNPC and Transneft. Under the provisions of the two loan agreements, Russian firms must use Chinese loans for projects related to oil supplies that are going to China, but Rosneft is also permitted to use part of the loan to repay its debts to other non-Chinese financial institutes (*Caijing*, February 20). These agreements could potentially secure oil supplies amounting to 300 million tons over 20 years. The supplies are worth almost \$90 billion at current prices.

Yet it would be inaccurate to presume that China is buying \$90 billion worth of oil with \$25 billion of loan. Instead, China is expected to buy the oil at market price at the time of delivery, and Russia will pay back the loans separately in cash, under an adjustable interest rate. In other words, it may be somewhat misleading to describe the deals as “loans-for-oil.”

These arrangements also mean that the construction of a 300,000 bpd link from the Eastern Siberia–Pacific Ocean (ESPO) oil pipeline to China can now be materialized (*Platts Commodity News*, February 17). The long-awaited 1030 km pipeline starts from Skovorodino in the Far East of Russia, and ends at the Daqing oilfield in China’s Heilongjiang province (*China Chemical Reporter*, June 6). Once finished at the end of 2010, the pipeline has a capacity to transport 15 million tons of oil to China every year, enough to meet around four percent of China’s current oil needs (*Interfax*, February 17). Rosneft expects to send crude to China under the new deal beginning in January 2011 (*Xinhua News Agency*, April 23).

The Petrobras-CNPC/Sinopec deal departs from the former’s usual practice of not entering into contracts committing future production and supply in its new agreement with China. It demonstrates that Petrobras is

eager to keep financing on track for its pre-salt exploration in newly found oil reserves (for 8 billion barrel potential) deep beneath the ocean floor off Brazil’s southern coast. The entire project requires a \$174.4 billion investment, and \$28.6 billion input for this year alone (*LatinFinance*, April 29; *Reuters*, May 19). On the Chinese side, the 150,000 bpd that Petrobras has promised Sinopec for 2009 would be equivalent to around 4.2 percent of China’s overall intake in 2008 (*Platts Oilgram News*, May 21).

The agreement with Venezuela is the least definite in contrast to the other three, as it contains no firm commitment of increasing its supply of oil, but only based on loosely-phrased terms “calling for” PDVSA to sell CNPC between 80,000-200,000 barrels of oil per day” (*The Associated Press*, May 13). During his April 2009 visit to China, Venezuelan President Hugo Chavez announced that the country aims to increase oil shipments to China to one million barrels per day by 2010, as grand a scheme as it may sound, and it is worth noting that Caracas’s petroleum shipments to China only reached 168,000 bpd by December 2008, which fell way short of Chavez’s original target of 400,000 bpd for 2008 (*Bloomberg*, January 27).

China’s new venture with Kazakhstan deviates from the “oil-for-loans” formula. The \$5 billion loan from CNPC will give Chinese oil firms a 50 percent stake in the joint purchase of MangistauMunaiGaz (MMG), Kazakhstan’s biggest private oil and gas company (*Reuters*, April 17). This deal is more like a “loan-for-oil assets” transaction than one of “loan-for-promised-oil supply,” which characterizes the previous three contracts, and CNPC will receive half of the oil that will be produced by the jointly owned MMG (the other 50 percent will be owned by the Kazak state-owned firm KazMunaiGas). This model is more in line with the Chinese government’s preference for financing acquisitions, since it gives Chinese NOCs direct ownership of resources. In contrast to the other three deals, Chinese NOCs could only extend loans to foreign NOCs for guaranteed oil supplies or possible special access to future exploration projects.

China’s inability to obtain outright equity oil assets stems mainly from the oil exporters’ mailed grip of their national resources. The increasing nationalistic sentiments evoked by oil-producing countries and the use of energy as a national foreign policy tool suggest that—at least in the short term—these deals far from signal a major breakthrough in China’s energy security. Since China was only able to secure 50 percent interest from Kazakstan’s MMG, and uncertainty remains as to whether the promised oil supplies are sustainable on a long-term basis without occasional disruption.



## UNDERLYING CONDITIONS

**The global financial crisis** -- The “loans-for-oil” deals are unfolding against the backdrop of the global financial crisis and abated global oil consumption. Take Russia for example. Rosneft, 75 percent controlled by the government, was burdened with \$21.2 billion in debt and Transneft with \$7.7 billion (*Xinhua News Agency*, May 19). For Rosneft, its \$15 billion share of the \$25 billion loan from China will comfortably cover its \$8.5 billion debt maturing this year (*Financial Times*, February 18). In addition, China’s capital injection complements the emergency capital needs of national oil firms in Venezuela and Brazil, allowing them to further expand their market shares and turning resources into capital. As for Kazakhstan, Xue Li from the Chinese Academy of Social Science points out that China’s \$10 billion loan could help the Central Asian country initiate its \$14.6 billion dollar economic recovery policy (*Xinhua News Agency*, April 19).

**Put more of China’s \$2 trillion foreign reserves into hard assets** -- Zhang Guobao, vice minister of the National Development and Reform Commission and head of the NEA, had pointed out in a signed article published in December 2008 in the *People’s Daily* (a strong indication of being authoritative statements of government policy) that China should seize the timing of the oil price slump on the international market to increase imports and Chinese enterprises are encouraged by the government to expand overseas (*China Daily*, March 9). Accompanying such appeals is a call to take advantage of China’s fast-accumulating foreign reserves. The global economic crisis has presented China with a rare opportunity to trade its abundant foreign currency reserves for oil, mineral and other resources around the world. China now has roughly \$2 trillion in foreign exchange, ranking number one in the world, and many state firms are also flush with funds (*The Associated Press*, February 18). Beijing is considering setting up an oil stabilization fund to support purchases of overseas resources by Chinese oil companies. The plan was submitted at NEA’s National Work Conference on Energy held in March 2009 (*Xinhua News Agency*, March 2).

**Oil-producing nations trying to diversify export-markets** China offers oil-producing nations, especially Russia and Venezuela, an alternative to Western and U.S. markets, thereby giving them more political clout in the international community and reducing potential vulnerability from their existing buyers. The Russian government plans to increase its crude oil exports to the Asia-Pacific region from three percent in 2000 to 30 percent by 2020, amounting to 100 million tons a year [2]. Similarly, Venezuela regards China as a key link in its strategy of diversifying oil sales away from the United States, which still buys about half of its oil

despite years of political tensions. The rationale also applies to Kazakhstan. In addition to pipelines extending to Russia and Europe, sustainable oil supplies through the existing China-Kazakhstan oil pipeline can enhance Kazakhstan’s energy transit potential by diversify its exporting routes, thereby reducing political and commercial risks.

## ASSESSMENTS AND PROSPECTS

The recent large energy activities are not the first time Chinese NOCs have entered “loans-for-oil” deals. In 2004, Chinese banks financed Rosneft’s acquisition of Yuganskneftegaz with a \$6 billion loan and CNPC received a pledge of long-term supply contracts via rail in exchange (*Platts Community News*, February 19). Beijing’s continuous efforts to secure long-term oil supplies demonstrate that Chinese national oil firms are increasingly using a powerful tool to obtain overseas assets: loan from government banks to resource-rich but cash-strained nations in maintaining access to oil supplies.

Yet even under economic pressure, oil-producing countries have kept Chinese oil companies at arms’ length during the negotiation. For the former, these four deals represent an optimal outcome—let China provide the financing while they maintain the control of the energy assets. The terms of the agreements only give China the “right to purchase” the oil, but not the “right to own” the oil through equity purchase.

These “loans-for-oil” activities will remain an active component of the Chinese overseas resource acquisition strategy given the current global economic and energy conditions. They are accompanied by Chinese NOCs other commercial and acquisition, such as the latest commitment of \$7.2 billion by Sinopec to buy Toronto listed Addax which has large holdings in West Africa and Iraq (*Wall Street Journal*, June 25). The Sinopec-Addax transaction, if finalized, will be the single largest energy asset purchase by the China’s NOCs, demonstrating the dynamic nature of China’s overseas energy security drive.

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## NOTES

1. Chinese NOCs normally refer to the China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec), China National Offshore

Oil Corporation (CNOOC), and their subsidiaries.

2. Shoichi Itoh, "Russia's Energy Diplomacy toward the Asia-Pacific: Is Moscow's Ambition Dashed?" Slavic Research Center, Sapporo, Japan, 2008.

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## China-Bangladesh Relations and Potential for Regional Tensions

By Vijay Sakhuja

The geographic area encompassing South Asia and its contiguous maritime spaces are of growing strategic importance to China, as reflected in China's web of partnerships and coalitions with states in the region. The dynamics of these relationships appear on the surface to be based on interdependence, but are actually driven by long-term political, economic and strategic interests. Among the South Asian states, Bangladesh is an important player in Beijing's political-military calculus and provides China with added leverage to check Indian forces. This is evident from the regular political exchanges and enhanced military cooperation between the two countries. According to Munshi Faiz Ahmad, Bangladesh's ambassador to China, Bangladesh and China have enjoyed a "time-tested, all-weather friendship" (*China Daily*, March 26).

During their meeting on the sidelines of the U.N. Conference on the World Financial and Economic crisis in June 2009, Chinese Foreign Minister Yang Jiechi assured his Bangladeshi counterpart Dipu Moni that it was China's policy to "strengthen and develop the relations of friendship and cooperation with Bangladesh." For her part, Moni said that "Bangladesh sees China as its close friend and cooperation partner" (Xinhua News Agency, June 26).

China and Bangladesh established diplomatic relations in 1975, although Beijing initially did not recognize Bangladesh as a separate state in 1971. Since then, the friendship between the two countries has grown to cover a wide spectrum of bilateral relations. At the onset of official relations, the Chinese leadership has consistently advised Bangladesh to pursue an independent foreign policy and encouraged it to move away from India's sphere of influence. According to discussions (March 2009) that this author had with some retired Indian army officers, they believe that Chinese leaders may have even given Bangladesh security assurances that Beijing would stand by Dhaka and help it defend its national sovereignty and territorial integrity should it be threatened by India.

Bangladesh maintains a very close relationship with China for its economic and military needs (*Daily Star* [Dhaka],

February 19, 2006). Over the years, the two sides have signed a plethora of bilateral agreements that range from economic engagements, soft loans, social contacts, cultural exchanges, academic interactions, infrastructure development and military sales at "friendship" prices. Top-level state visits, both by the ruling party and the opposition leaders to China have increased markedly [1]. Bangladesh sees China not only as its close friend, but also as a counter-weight when dealing with India. This is notwithstanding the fact that China and Bangladesh have not established a strategic partnership, and according to Bangladeshi analysts, have kept their relationship "unarticulated, flexible and ambiguous" thus allowing Dhaka "to reap the benefits of a strategic partnership with a nuclear power without involving itself in any formal defense arrangement" (*Daily Star* [Dhaka], February 19, 2006).

### ARMING THE MILITARY

China has emerged as a major supplier of arms to the Bangladeshi armed forces. In 2006, China supplied 65 artillery guns and 114 missiles and related systems (*The Assam Tribune*, October 9, 2007). Most of the tanks (T-59, T-62, T-69, and T-79), a large number of armoured personnel carriers (APCs), artillery pieces and small arms and personal weapons in the Bangladesh Army are of Chinese origin [2]. There are plans to acquire 155mm PLZ-45/Type-88 (including transfer of technology) and 122mm Type-96 as well MBRLs from China by 2011 (Defence.pk/forum, March 19).

Admiral Zhang Lianzhong, the erstwhile Commander of the PLA Navy, had reportedly assured his Bangladeshi counterpart of cooperation in the sophisticated management of the navy [3]. The Bangladeshi Navy is largely made up of Chinese-origin platforms. These include the 053-H1 Jianghu I class frigates with 4 x HY2 missiles, Huang Feng class missile boats, Type-024 missile boats, Huchuan and P 4 class torpedo boats, Hainan class sub chasers, Shanghai class gun boats and Yuchin class LCUs [4]. The BNS Khalid Bin Walid has been retrofitted with HQ-7 SAM from China. (FM-90 Surface-to-Air Missile System, bdmilitary.com). In 2008, BNS Osman successfully test fired a C-802 ASM in the presence of the Chinese Defense Attaché Senior Colonel Ju Dewu (*The Daily Star*, May 13, 2008).

China began supplying fighter aircraft to the Bangladesh Air Force in 1977 and, over the years, has delivered F7 and Q5 fighter aircraft and PT 6 Trainers [5]. In 2005, 16 F-7BG were ordered and the deliveries began in 2006 (Scramble.nl, July 5).

Although Dhaka has argued that its relations with Beijing

are based on mutual understanding and political and economic interests, New Delhi is anxious about Bangladesh's growing military contacts on several fronts. First, concern arises from India's vulnerability in the Siliguri corridor, often referred to as the 'chicken neck'. This 200 kilometers (km) long and 40 km wide corridor links mainland India by rail, road and air with its Northeast region, a part of which (90,000 sq km in Arunachal Pradesh) is claimed by China and is a significant source of tension for bilateral relations. At present, there is significant PLA deployment along the borders. To its north is Bhutan, and in the south is Bangladesh. The Siliguri corridor figures prominently in the Sino-Bangladesh friendship and the two sides, according to Indian military experts, have a sophisticated strategy to sever India from the Northeast region. It is also noted that 'China wants to get Tawang [an administrative district in the state of Arunachal Pradesh] to come closer to the Siliguri corridor' so that it can link up with Bangladesh from the north (Sify.com, November 10, 2008).

The corridor also contains elements that can destabilize the region. Illegal migrants from Bangladesh and Indian insurgent groups such as the United Liberation Front of Asom (ULFA), who have safe heavens in Bangladesh, crisscross through porous borders that can act as catalysts for social disorder, unrest and insurgency. According to one analyst, the ULFA leadership has shifted its base to China, and the investigations relating to the March 2004 offloading of a weapons consignment from China at Chittagong seaport revealed the complicity of government agencies (Sspconline.org, May 27). In that context, then-Bangladeshi Foreign Minister Morshed Khan's warning in 2005 that if India surrounds Bangladesh, Bangladesh also surrounds India, has many implications.

#### SNOOPING AND SPYING

Firstly, there are fears among the Indian military establishment that Dhaka may grant military basing rights to China, thus complicating India's security in the Northeast. This could result in the monitoring of Indian military movements, particularly of the Indian Army that is deployed in the region. There are several strategic Indian Air Force bases such as Bagdogra (with MiG-21 fighter jet deployed), Hashimara (with MiG-27 fighter jet deployed), and Tezpur (with Su-30 fighter jet deployed). These bases and military aircraft could easily come under a Bangladesh-China electronic and radar surveillance network during a crisis or impending hostilities.

Second, there are concerns that Bangladesh may offer Chittagong port for development to China, ostensibly for commercial purposes, but which could also be used for staging Chinese naval assets. This is to be expected and can

be reasonably tied to the Chinese development of Gwadar port in Pakistan and Hambantota port in Sri Lanka. Third, China will be able to monitor Indian missile testing conducted at Chandipur-at-sea near Balasore, Orissa, and also naval activity in the Andaman and Nicobar Islands in the Bay of Bengal.

#### CHINA'S BAY OF BENGAL ENERGY TRIANGLE

At another level, China has cultivated its relations with Bangladesh and has emerged as a mediator in the latter's international disputes. In November 2008, Bangladesh and Myanmar (Burma) deployed their navies in a standoff in the Bay of Bengal over Myanmar's decision to issue licenses to oil companies to undertake survey activity in disputed waters. Among the several oil companies engaged in offshore exploration in Myanmar's waters, China National Petroleum Corp (CNPC) was awarded a block that falls into those belonging to Bangladesh. Dhaka requested Beijing, their common friend, to mediate, and after his meeting with Zheng Qingdian, the Chinese ambassador in Dhaka, Bangladesh's foreign minister, Iftexhar Ahmed Chowdhury, noted "I have explained our peaceful intentions to our Chinese friends and hope that Myanmar stops activities on the disputed waters" (Reuters, November 5, 2008). The standoff ended after Bangladesh and Myanmar agreed to resolve the issue through negotiations.

Both Bangladesh, which has a reserve of 15.51 trillion cubic feet (tcf) and Myanmar, which has a reserve of 81.03 tcf, have the potential to satisfy the increasing energy requirements of Asia—particularly, China and India [6]. Chinese oil and gas companies are aggressively engaged in the Bay of Bengal in exploration and production activities to push the gas through pipelines linking offshore platforms in Myanmar to Kunming in China and also to feed the new refinery in Chongqing municipality. According to the *China Securities Journal*, work on two new pipelines will commence in September 2009 (Reuters, June 17). The 2,806 km long natural gas pipeline with a capacity of 12 billion cubic meters annually to Kunming will be ready by 2012. The second 1,100 km pipeline for oil with a capacity of 400,000 barrels per day (bpd) would run between Kyaukphyu in Myanmar to Kunming and would be extended to Guizhou and Chongqing municipality.

Likewise, China is also interested in a Malaysian pipeline and refinery project estimated to cost about \$14.3 billion. This 320 km west-east pipeline has the capacity to transfer 800,000 bpd and the refinery's capacity to process 200,000 bpd would help China overcome the oft-mentioned Malacca Dilemma.

Besides the oil and gas pipelines, China and Bangladesh,

along with Myanmar, have decided to build the 900 km Kunming Highway linking Chittagong with Kunming through Myanmar to facilitate greater trade [7]. This would not only overcome the long sea passage from the east coast of China through Singapore (for trans-shipment) to Bangladesh, but would also lower transport costs and add to the economy of Yunnan province. This also fits well in their joint initiative of improving Chittagong port infrastructure that can now be put to dual use for merchant vessels and also for the navies of the two countries.

3. R. Chakrabarti, "China and Bangladesh", *China Report*, Volume 30, No. 2, 1994, p.155.
4. *Jane's Fighting Ships 2008-09*, pp.46-55.
5. *All the World's Aircraft 2008-09*, pp.94-95.
6. Sudhir T. Devare, (ed), *A New Energy Frontier: The Bay of Bengal*, (Singapore: ISEAS,2008).
7. Sharif M. Hossain and Ishtiaque Selim, "Sino – Bangladesh Economic Relations: Prospects and Challenges", *BISS Journal*, Volume 27, No 4, October 2006, pp.354-355.

#### CHALLENGING INDIA

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The Chinese approach of systematically nurturing and promoting diplomatic linkages with Bangladesh provides it with a number of strategic advantages against India. Likewise, there are also several related strategic fallouts for Bangladesh. As far as China is concerned, it will be in a position to link its electronic listening systems at Coco Island in Myanmar and the staging/listening systems in Bangladesh and monitor Indian naval and missile activity. Given the wide disparities in the India-Bangladesh naval order of battle, Bangladesh would be under pressure to open its facilities to the PLA Navy as a countervailing force against the Indian Navy. The prospect of Chinese ships and submarines operating in the North Andaman Sea would have serious repercussions for India's projection capabilities. This is sure to result in some aggressive counter-maneuvering by the Indian Navy, and the Indian naval response would be to execute a blockade and entanglement of Chinese naval assets in Chittagong.

China's quest to establish a regional power profile is based on sustained and dedicated engagements with India's neighbors for access and basing. It has adeptly reinforced its alliances with these countries through political-military support and challenging India in its backyard. China-Bangladesh military cooperation has the potential to exacerbate regional tensions along the Himalayas and result in high-intensity competition. The Chinese are quite clear that they have a peer competitor and a rival who they must contend with to enhance their influence in South Asia.

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#### NOTES

1. Sreeradha Datta, "Bangladesh's Relations with China and India: A Comparative Study", *Strategic Analysis*, Volume 32, No.5, September 2008, p.761.
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