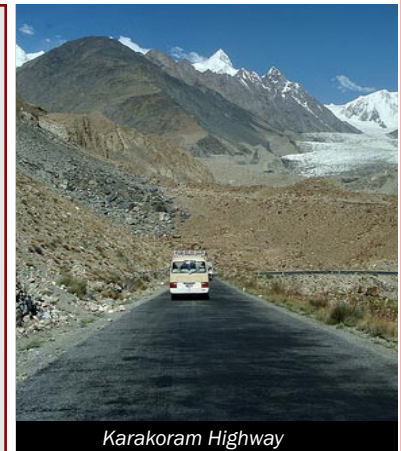




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Karakoram Highway

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**In a Fortnight**

**STRATEGIC IMPLICATIONS OF CHINA'S CONSOLIDATION OF RARE EARTH INDUSTRIES**

By L.C. Russell Hsiao

The Chinese government is stepping up control over the country's rare earth supply, key elements needed to develop advanced military technology. In early September, Beijing released guidelines to help facilitate mergers and acquisitions of the rare earth sector and enhance the consolidation of this strategic industry under Chinese state-owned enterprises ([www.gov.cn](http://www.gov.cn); No. 27 [2010]). Chinese leaders have long emphasized the strategic importance of "rare earths." As the late Chinese patriarch Deng Xiaoping famously stated, "The Middle East has oil, and China has rare earths." China currently supplies approximately 97 percent of the world's consumption of "rare earths," which includes 17 elements such as cerium, cerium, neodymium, lanthanum, yttrium and dysprosium, to name a few. Rare earth elements (REEs) have become essential components in high-tech commercial as well as military applications. REEs are used in magnets, lasers, fiber optic cables, computer monitors, cell phones, stainless steel and a number of green technologies. Moreover, REEs have extensive uses in missiles, smart weapons, jet engines, navigation instruments and other advanced military technology.

The new guidelines released by the Chinese State Council on September 6 follow in line with recent efforts by the central government to strengthen regulation and control over the country's strategic industries. Beijing reportedly plans to cut the number of rare earth firms from the current 90 to 20 by 2015 (People's Daily Online, September 10). Other measures include reducing export quotas, cracking down on illegal mining and mineral smuggling, issuing no new mining licenses and production caps and setting up a monitoring system covering production, transportation and sales in the rare earth market (People's Daily Online, September 9). Coupled by the

government's stringent restrictions on mining, production and exporting of REEs, these guidelines will likely lead to the rare earth sector being exploited by only a few select state-owned enterprises closely tied to Beijing.

While China produces 97 percent of the world's supply of REEs, it only accounts for 59.3 percent of global rare earth deposits. Furthermore, China's rare earth reserves accounted for 36 percent of the world's total in 2009, but output hit 120,000 tons (97 percent of the world's total). Yet, the resources are "very much undervalued because of over-exploitation and improper management," said Zhang Anwen, deputy secretary-general of the Chinese Society of Rare Earths (*China Daily*, June 2).

In what appears to be Beijing's first step toward the consolidation of China's rare earth industry, central government-owned enterprises have begun taking over the local state-owned rare metal and rare earth companies. For instance, the Aluminum Corporation of China (Chinalco)—a state-controlled corporation—announced on September 26 that it signed an agreement to assume a major stake in the Jiangxi Rare Earth and Rare Metals Tungsten Group (JXTC) for 10 billion yuan (\$1.5 billion). Moreover, in May, China Minmentals Corporation—another state-controlled corporation—signed a contract to invest 4.5-5.5 billion yuan (\$675.7 million-\$833.3 million) on tungsten and rare earth production in Chenzhou City, Hunan Province (*Xinhua News Agency*, September 27).

The Chinese government claim that its measures are also intended to protect the environment, according to Chinese Commerce Minister Chen Deming: "Mass-extraction of rare earth will cause great damage to the environment, that's why China has tightened controls over rare earth production, exploration and trade." "Rare earth exports should not threaten environmental protection or *national security* [emphasis added] to promote the domestic economy," he said (*People's Daily Online*, September 16).

Beijing's push to consolidate the rare earth industry dovetail a parallel effort to establish new rules for national security reviews of mergers and acquisitions (M&A) between Chinese and foreign companies. The new Plan for National Security Review Mechanism (NSR Plan) was introduced in Premier Wen Jiabao's annual Government Work Report, which was released during the annual session of the National People's Congress in March 2010. The NSR Plan will reportedly "accelerate the establishment of the National Security Review Mechanism of foreign investment." More specifically, it will create an inter-ministry committee to conduct reviews of transactions that concerns "strategic and sensitive" industries and China's national champions.

Global concerns over China's recent measures, which could potentially serve as roadblocks for foreign investments and create Chinese monopolies over strategic resources, prompted Premier Wen to refute allegations that China was trying to "lock up" the rare earth market. During a keynote speech at the Sixth China-EU Business Summit, Premier Wen stated, "China is not using rare earth as a bargaining chip," Wen said. "We aim for the world's sustainable development." "It is necessary to exercise management and control over the rare earth industry, but there won't be any embargo," he said (*People's Daily Online*, October 8).

Yet, implications of the Chinese government's growing control over strategic resources were laid bare during China's recent spat with Japan over the East China Sea. China allegedly imposed a ban on exports of certain metals to Japan, which observers believe was in response to Tokyo's detention of a Chinese fishing boat captain.

In the final analysis, as Beijing exerts more control over rare earth supply, it will give China a strategic advantage as it continues to build powerful high-technology industries and modernize the military. Indeed, over the years China has become the world's leading supplier of components crucial to U.S. defense systems. While China willingness to "lock up" these resources remains to be seen, Beijing is taking clear steps to exert more control over these strategic resources. Moreover, these measures raise concerns over the future availability of the refined products created from rare earth materials that remain critical to U.S. national security.

*L.C. Russell Hsiao is Editor of The Jamestown Foundation's China Brief.*

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## Hu Revives Quasi-Maoist Tactics to Stem Social Instability

By Willy Lam

President Hu Jintao has revived a key Maoist concept—"correctly handling contradictions among the people"—so as to more effectively tackle China's growing socio-political instability. In a speech to the Chinese Communist Party (CCP) Politburo on the eve of the October 1 National Day, Hu urged party cadres to "boost [society's] harmonious factors to the maximum degree" through implementing policies that "match the wishes of the people, that take care of the people's worries, and that can win over the hearts of the people." The supremo also vowed that the CCP would render decision-making "scientific and

democratic” and that policies would be anchored upon “the fundamental interests of the broad masses” (Xinhua News Agency, September 29; *People’s Daily*, September 30). While a number of CCP heavyweights, including Politburo member and Chongqing Party Secretary Bo Xilai, have also re-hoisted the flag of Maoism, the president’s restitution of one of the Great Helmsman’s most famous slogans carries special significance.

To fully understand the import of Hu’s message, it is instructive to compare the background of the Great Helmsman’s 1957 landmark address—“On the correct handling of contradictions among the people”—and the situation unraveling today. The late chairman’s speech on fomenting unity among the nation’s disparate sectors was made in the wake of the Hungarian Incident of 1956, an early climax of Eastern Europe’s rebellion against the Communist yoke. In China too, intellectuals were beginning to have misgivings about the dictatorial rule of Mao and his comrades. By and large, Mao proposed reconciliatory measures to iron out differences among social groupings. He indicated that while there were signs of disaffection with the authorities, these were “contradictions among the people” because even oppositionists shared “the fundamental identity of [all] the people’s interests.” He recommended that the CCP “use the democratic method of persuasion and education” to woo the disgruntled elements (*Ming Pao* [Hong Kong], September 30; [chinareviewnews.com](http://chinareviewnews.com), September 29).

Hu is invoking Mao’s authority at a special juncture in his career—and in the country’s development. The 18<sup>th</sup> CCP Congress—which will witness the wholesale changing of the guard—is just two years away, and Hu wants to ensure his legacy of having brought prosperity and stability to the country. Moreover, the President admitted that owing to “unbalanced, uncoordinated and unsustainable development,” contradictions among the people—in particular friction among different blocs of vested interests—will become exacerbated in the foreseeable future. Several slogans raised during the first term of Hu’s tenure (2002 to 2007)—especially “putting people first”—have clear Maoist roots. “Correctly handle the contradictions among the people” could become the leitmotif of the CCP leadership’s domestic policy at least until the 18<sup>th</sup> Party Congress.

In his Politburo address, Hu laid out multi-pronged tactics to attenuate society’s contradictions. Foremost are improving people’s livelihood, safeguarding people’s rights and privileges, and “upholding social equality and justice.” Secondly, Hu instructed officials “to acquit themselves well with masses-oriented work.” This is shorthand for being close to the masses particularly with a view to promoting

reconciliation. Hu pledged that grassroots officials would spend more time talking to the masses and handling their petitions so that cadres can “hear the people’s voice in good time.” Thirdly, Hu proposed “strengthening social management and rendering social management innovative.” This included boosting “social coordination and participation by the public” under effective party-and-government supervision.

Compared to the mid-1950s, Beijing has substantially more funds and other resources to tackle social conflicts. In his Politburo talk, Hu indicated that fast economic growth in the past two decades had “laid down a solid materialistic foundation” for raising living standards and ensuring social equality. Last month, Politburo member and vice-head of the Central Commission on Political and Legal Affairs Wang Lequan cited a new emphasis in the leadership’s efforts to promote stability: *puhui*, or “spreading benefits among the people.” Wang, who won notoriety for his harsh crackdown on dissidents and “splittists” in Xinjiang, indicated that “a terminal solution” to the issue of social stability would be “devoting more financial resources to solving practical problems in which the masses are interested, such as housing, employment, education, health care and social security” (Xinhua News Agency, September 12; [zhifu.gov.cn](http://zhifu.gov.cn), October 2).

In the first half of 2010, minimum wages in dozens of cities were raised by up to 28 percent. New social-security benefits including old-age pension for farmers were introduced for the first time. In select cities, education and social-welfare provisions for migrant workers and their children have been augmented (*China Daily*, March 20; *People’s Daily*, July 14). The government has also rolled out measures to cool down real-estate speculation. This is in view of the fact that runaway property prices have been cited as the number one problem facing members of the working as well as middle classes. Anti-speculation measures have ranged from tightening criteria for mortgages to preventing property developers from hoarding land. Last week, central authorities issued a circular warning regional officials that they will be penalized if housing prices in their areas of jurisdiction continue to rise (Xinhua News Agency, September 29; *China Daily*, September 30).

Even the official media, however, has criticized the authorities for failing to spread wealth more evenly. The major beneficiaries of two decades of uninterrupted prosperity have been the central government and 130 state-held conglomerates. For example, state coffers are expected to rake in some 8 trillion yuan in taxation and other incomes this year, or four times that of 2003 (See *China Brief*, “Beijing’s Record Revenue Haul Exacerbates Central-Local Tensions,” July 9). Despite the global



financial crisis, the 130 government-run corporations realized revenues of 815 billion yuan (\$121.64 billion) last year, up 17.1 percent from 2008. The four state-controlled banks made profits of 1.4 billion yuan (\$208.95 million) per day in the first half of this year. *People's Daily* pointed out that "the people are paying more attention to how the profits [of giant state firms] are being distributed and used." "When can the entire people enjoy the profits reaped by these enterprises?" asked the CCP's mouthpiece. Indeed, laborers' salaries as a percentage of GDP have been declining for the past 20 years. At the same time, property prices in a number of coastal cities have continued to rise in spite of the government's cooling-down measures (*People's Daily*, August 30; Finance.eastmoney.com, August 13; *New York Times*, August 29; *Ming Pao*, October 3).

What is lacking, then, are clear-cut mechanisms and institutions to foster what Hu called "social equality and justice." This is despite the fact that in his remarkable Politburo speech, Hu cited the word "innovation" four times when talking about building institutions and systems to "safeguard the rights and privileges of the masses." Given that the CCP leadership has ruled out political reform, at least in the near term, it is not surprising that there was no mention of radical steps such as elections. Yet no concrete ways and means have been introduced for attaining non-controversial goals such as a fairer distribution of the economic pie. Take labor rights for example. At the height of the rash of industrial unrest in the spring, scholars and government advisers advocated adopting Western-style collective bargaining. Yet Beijing still shies away from allowing workers to choose representatives to negotiate salaries and other benefits with employers. Also deficient are institutionalized methods to prevent real-estate speculation, which is partly due to collusion between developers and central- and local-level officials (*Wall Street Journal*, June 14; *Financial Times*, June 11; *Los Angeles Times*, June 9).

Despite Hu's oft-repeated instructions about hearing the people's voices, Beijing has also failed to come up with mechanisms to handle petitioners, the legions of lower-class Chinese who seek to redress injustices they have suffered at the hands of corrupt or callous officials. On the contrary, central authorities seem to have acquiesced in brutal tactics adopted by regional administrations to prevent petitioners from reaching Beijing. Even the official media have reported about so-called "security companies" employed by local governments to abduct petitioners, who are often illegally detained in "black jails" (*China Daily*, September 27; *New York Times*, September 27). It is partly due to such illegal activities that the number of petitioners dropped by 2.7 percent last year compared to that of 2008 (*Ming Pao*, September 27; Huanqiu.com, September 27).

Indeed, central and local officials seem most adept at using the government's "solid materialistic foundation" to beef up the numbers and equipment of the police and state-security agents as well as the People's Armed Police. The 2010 national budget for police and other security units is 514.01 billion yuan (\$76.72 billion), 8.9 percent over that of last year. This law-enforcement outlay is a mere 18 billion yuan (\$2.69 billion) below that for the People's Liberation Army. Security-related expenditures in many localities have gone up dramatically. For example, the police budget in Xinjiang this year is set at 2.89 billion yuan (\$431.34 million), or 87.9 percent over that of 2009 (*China Daily*, January 13; *Ming Pao*, March 5). The Party Secretary of Lianjiang City, Guangdong Province, caused a stir when he proclaimed in August that senior officials "should not spare any expenses to buy stability." In 2009, the city spent 31 million yuan (\$4.63 million) on police forces—as well as special squads to handle petitioners—or more than similar outlays for the previous five years combined (*Nanfang Daily*, August 25; Sina.com, August 26).

Here, disturbing parallels between Hu's and Mao's approaches to upholding social stability become apparent. In his 1957 address, the Great Helmsman made a distinction between contradictions among the people and "contradictions between enemies and ourselves." While Mao advocated "the democratic method of persuasion and education" with regard to critics who shared the CCP's ideals, he indicated that so-called people's foes—unreconstructed capitalists and "exploiters" as well as elements bent on sabotaging the socialist order—should be put behind bars or otherwise liquidated. It seems evident, however, that the late chairman often lumped together these two types of contradictions in accordance with political expediency. Just a few months after his "contradictions" speech, Mao launched the infamous "Anti-Rightist Movement," one of Communist China's harshest campaigns against liberal intellectuals. Victims of the movement included early advocates of free-market reforms such as former premier Zhu Rongji (Eastasiaforum.org, October 1, 2009; *Washington Post*, July 18, 2007).

President Hu never mentioned "contradictions between enemies and ourselves" in his Politburo talk. Given the number of dissidents—in addition to other "destabilizing elements" such as human-rights lawyers and NGO activists—who have been harassed or detained in the past year, however, it seems clear that the Hu leadership is using quasi-Maoist tactics against its detractors. In the past few weeks, the CCP's relentless attitude toward dissent was evidenced by its high-decibel reaction to the nomination of Liu Xiaobo, China's best-known dissident, for the Nobel Peace Prize this year. Given Mao's residual

appeal, Hu's re-hoisting of Great Helmsman's standards can be interpreted as a stratagem to win over still-powerful conservative party members. Yet unless viable measures are spelled out to better the lot, particularly of disadvantaged sectors, the resuscitation of the late chairman's "theory of contradictions" can hardly solve the increasingly serious problem of social instability.

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## The Karakoram Corridor: China's Transportation Network in Pakistan

By Vijay Sakhuja

In China's quest to secure raw materials, resources and markets, Beijing has laid out a sophisticated blueprint to develop a region-wide transit corridor throughout the subcontinent. In the Himalayas, it has built rail, road and air networks that can support the Chinese military's logistic supply chains and showcase its capability to overcome the tyranny of geography. The transportation network through the Karakoram mountain range is particularly noteworthy. Notably, the corridor provides Chinese access to Pakistan that can be extended in the future to provide connectivity to the Indian Ocean and to the energy rich Persian Gulf, particularly Iran. Furthermore, the modernization of the regional transit infrastructure will be conducive to stronger connectivity between South Asia and the Central Asian Republics, yet at the same time it will expose China's borders to the region's growing security challenges.

### BACKGROUND

Islamabad has wholeheartedly supported China's infrastructure development projects. In 1963, Pakistan ceded more than five thousand square kilometers of territory in Pakistan Occupied Kashmir (POK), which is claimed by India [1]. This culminated in the construction of the Karakoram Highway that links China with Pakistan.

During his most recent visit to China in July 2010, Pakistan's president Asif Ali Zardari sought Chinese assistance to augment infrastructure and improve connectivity between landlocked Xinjiang and Pakistan (*Indian Express*, July 7). The proposals reportedly included upgrading the existing Karakoram Highway and building a rail link along the route connecting Pakistan with Xinjiang via Gilgit-Baltistan. Pakistan also urged China to capitalize on the potential of Gwadar port as a transit point for trade between Xinjiang and the Arabian Sea (*Srilankaguardian.org*, July 10). In essence, the above transportation infrastructure projects would result in greater connectivity from which both countries would accrue the benefits.

### KARAKORAM HIGHWAY

The 1,300 kilometer-Karakoram Highway (National Highway 35 or N35), also dubbed "Friendship Highway," links Islamabad with Kashgar in Xinjiang. It is the highest metal road in the world and it took nearly two decades to build, during which there were several casualties including 810 Pakistani and 82 Chinese deaths due to adverse weather conditions, landslides and accidents (*Pakistanpaedia.com*, January 20, 2009). In 2006, Pakistan Highway Administration and China's State-owned Assets Supervision and Administration Commission (SASAC) agreed to widen the highway from 10 to 30 meters and upgrade it to make it accessible by motor vehicles during extreme weather conditions (*News3.xinhuanet.com*, July 8, 2006). China completed the widening of the highway on its side but Pakistan could not raise the funds, which delayed the project. As a result, China agreed to give Pakistan a soft loan for the project (*Southasiaanalysis.org*, September 5).

In January 2010, the Karakoram Highway was submerged due to a severe land slide in the Hunza valley in the Northern Areas of Gilgit-Baltistan. This resulted in the formation of a 20 kilometer-long artificial lake over the highway that contained over 132 million cubic meters of water, causing a major disruption of traffic between China and Pakistan (*Desicritics.org*, March 13). By June, the lake had overflowed and according to the Indian Army, "it could take one-and-a-half years for normalcy to be restored to the functioning of the highway" (*Deccan Chronicle* [India], July 18). Pakistan's National Centre of Excellence in Geology at the University of Peshawar has assessed that there are several uncertainties about the Karakoram region due to landslides and the formation of artificial lakes, which could result in floods (*Thenews.com.pk*, May 22).

In late July 2010, northern areas in Pakistan witnessed heavy rains, causing major flooding in Gilgit-Baltistan

region. China dispatched rescue and medical teams to the region and deployed helicopters that ferried medicines and relief materials (Rediff.com, September 26). The Chinese engineering teams, which included military personnel, carried out repairs to the Karakoram Highway and restored the movement of vehicles. By September 1, over one hundred Chinese trucks carrying food materials from Xinjiang reached Sust Dry Port in Pakistan via the Khunjerab Pass. Notwithstanding the vulnerability of the region due to natural causes, the melting of glaciers and adversarial impacts of climate change resulting in floods, China has exhibited its capacity to maintain connectivity to the region.

#### THE KARAKORAM RAIL CORRIDOR

The joint China-Pakistan project to link Kashgar in Xinjiang to Havelian near Rawalpindi in Pakistan through the Khunjerab Pass in the Karakoram Range through a rail corridor is indeed ambitious (Rupeenews.com, July 7). It has been noted that the rail track running nearly 700 kilometers “will transform the geopolitics of western China and the subcontinent” and “while the technical aspects of the trans-Karakoram rail link are daunting, there is no denying the Chinese audacity in embracing projects that are grand in conception, challenging in their execution, and consequential in their impact” (*Gilgit Baltistan Tribune*, July 10). The rail project is likely to be undertaken by a joint consortium of Pakistan and China Railways. The details of financing, routing and construction of the railway line are yet to be finalized.

#### CONNECTING GWADAR AND XINJIANG

At the southern end of the Karakoram corridor is the Gwadar port overlooking the Arabian Sea. The port offers several strategic advantages to China. In economic terms, it can potentially link Xinjiang to the global trading system through the Karakoram Highway. Pakistan has urged China to use and “take maximum benefits from the Gwadar port” (C3sindia.org, September 20). The Gwadar port was built with Chinese financial assistance (80 percent of its initial \$248 million development costs) and was offered to the Port of Singapore Authority (PSA) to conduct shipping operations in February 2007 for 40 years. The port performance has been unsatisfactory; only 72 ships have brought government cargo to Gwadar Port and PSA was reluctant to make a further investment of \$525 million in next five years (*Daily Time* [Islamabad], January 3)

Pakistan is keen that China constructs oil/gas pipelines from Gwadar to Xinjiang ostensibly to transport Iranian gas that was earlier part of the Iran-Pakistan-India pipeline

project, which was shelved by India. Earlier, in 2008, Yang Jiechi, the Chinese foreign minister, had stated that China was “seriously studying Pakistan’s proposal to participate in the IPI gas pipeline project” (*Asia Times*, May 9).

Besides economic opportunities, there are several strategic gains that China can accrue to protect its interests in the Indian Ocean. Gwadar has received international attention and is characterized as an important node in the Chinese “string of pearls” strategy. Gwadar offers China a “forward facility” for staging the PLA Navy in the future to protect Chinese flagged shipping transiting through the Straits of Hormuz, a critical choke point in its energy supply chain strategy.

#### SECURITY THREATS AND PROLIFERATION RISKS

China is concerned about the possibility of these transport networks in the POK serving as a conduit for the movement of Islamist/terrorist elements that could establish links with separatist movements in the Xinjiang (Ict.org.il, January 21). China has urged Pakistan to crack down on anti-Chinese extremist groups operating from Pakistani territory. During President Asif Ali Zardari’s visit to Beijing in July 2010, President Hu Jintao noted that “To strengthen Sino-Pakistani anti-terrorism cooperation and strike at terrorism, separatism and religious extremism is in the fundamental interests of the peoples of both nations” (AFP, July 7). Further, Wu Bangguo, chairman of the Standing Committee of the National People’s Congress, has noted that “We should work together to deepen bilateral cooperation in defense security and other sectors” (*The Times of India*, June 17).

China is also concerned about the insurgency in the restive Baluchistan province. Chinese engineers working on infrastructure projects have been kidnapped in the past. In a recent attack in July 2010, unidentified assailants fired rockets at a five-star hotel where Chinese engineers working on an oil refinery were staying (*Daily Times*, July 8). Significantly, the rockets were fired “from the sea” and Baloch Liberation Front (BLF), an insurgent group, claimed responsibility for the attack and warned foreign investors not to invest in Balochistan. The BLF also threatened to attack the Pakistan navy and coast guard ships (Balochwarna.com, July 7). Currently, there are about 10,000 Chinese in Pakistan working for 120 companies engaged in different sectors like mining, energy exploration and infrastructure building (*Daily Times*, July 20) and China has expressed concern for their safety.

These transit corridors could pose potential proliferation risks, as well. Already, the Karakoram has been identified as an artery for transferring illicit materials. For instance,

in 2003, American satellites detected the movement of 12 consignments of Chinese missiles to Pakistan via Karakoram Highway (*India News Online*, September 1, 2003). The Chinese silkworm missiles to Pakistan followed the Karakoram route. Also, North Korea reportedly received Uranium enrichment equipment from the A Q Khan network through this route [2].

#### CHALLENGES AHEAD

The Chinese leadership has visibly transformed its frontier regions and extended its economic influence across borders. By converting strategic assets into economic opportunities, China's trans-border infrastructure build-up is not just for military leverage but and also an instrument for the expansion of Chinese economic influence into the Subcontinent (*Indian Express*, July 6).

The above developments have caused anxiety in India and there is a firm belief among Indians that whatever China does in Pakistan is quintessentially targeted against India. Although both sides have attempted to keep their political and economic transactions buoyant through regular high level political exchanges and enhanced bilateral trade, which is expected to reach \$60 billion by the end of 2010 (*Chinadaily.com*, August 19), there are open wounds in their relationship, particularly in the security domain.

The Indian military has noted that the aforementioned transport networks serve as a conduit for supply of Chinese military hardware to Pakistan (*Deccan Chronicle*, June 13) and China could deploy troops during periods of tension that could act as a pressure point on India [3]. Reacting to reports on the building of highways in the disputed Gilgit-Baltistan region in POK, the Indian minister of state for defense, M M Pallam Raju, has stated, "we are taking our counter measures and we are doing our own preparation" (*News.rediff.com*, July 9).

China has identified several pressure points against India; Arunachal Pradesh in the east, which has witnessed regular intrusion by the PLA and augmentation of military infrastructure along the Himalayas; Pakistan in the west, which enjoys "all weather friendship" with China and receives generous assistance of nuclear technology and supply of military hardware; Nepal in the north with suspected support of the Maoists who are seeking political control of the state; and POK can be added to this list.

Yet, there are several challenges for Beijing in its drive to build infrastructure in POK. While China may be able to overcome the tyranny of geography and absorb the financial cost of infrastructure projects, Islamabad's apparent inability to control Islamic groups, and above

all the unpredictability of the security situation, as well as the impact of climate change in the Himalayas, will be daunting—even for the Chinese.

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1. *Kashmir: The True Story*, External Publicity Division, Ministry of External Affairs, New Delhi: 2.
2. Richard Bond, *The Proliferation Security Initiatives: Targeting Iran and North Korea*, Occasional Paper on International Security Policy, Number 53, January 2003, British American Security Council.
3. Author's discussions with retired Indian Army officers.

[The views expressed in the above article are the author's own and do not reflect the policy or position of the Indian Council of World Affairs.]

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## China's Growing Clout in the SCO: Peace Mission 2010

By Richard Weitz

The People's Republic of China (PRC) engages in a variety of military exchanges and activities with the other members of the Shanghai Cooperation Organization (SCO). The most recent major exercise, "Peace Mission 2010," was held from September 9-25 in southern Kazakhstan. All the member states of the SCO (China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan) contributed at least one military unit to the war games except Uzbekistan, which pulled out at the last minute. The five national armed forces sent approximately 5,000 combat troops and hundreds of pieces of military hardware including tanks and armored personnel carriers as well as warplanes and helicopters (*Itar-Tass*, September 10).

The People's Liberation Army (PLA) sent a major contingent, consisting of a ground force of approximately 1,000 soldiers, an air force combat group and a logistics group, under the command of General Ma Xiaotian, PLA deputy chief of the PLA General Staff (*Xinhua News Agency*, September 7). For Beijing, these exercises serve a number of purposes besides enhancing the collective military capacity of the member states. These benefits include improving the proficiency of the PLA, demonstrating new combat skills, learning about other militaries and their capabilities, reassuring the Central Asian members that Beijing respects their security needs, cultivating bilateral contacts with other SCO members, and signaling to outside powers that



the SCO region is a zone of special security concern for Beijing.

#### PEACE MISSION 2010

“Peace Mission 2010” consisted of three phases. The first stage involved consultations among senior political officials and military officers in Almaty. The defense ministers, general staff chiefs, and others involved discussed how to employ SCO troops to resolve emergencies as well as the global and regional security environment, defense cooperation within the SCO, and other shared interests among the member states. The Chiefs of the General Staffs then issued instructions to start the drills (Itar-Tass, September 10).

The next two phases involved combat exercises among the forces that had deployed to the Matybulak air base near Gvardeisky in Kazakhstan. Stage two, which began on September 13, focused on joint maneuvers and drills in which the SCO contingents practiced making preparatory fire, mobilizing reserves, besieging residential areas, conducting breakouts, and using suppressing fire at night. During the main hour-long drill on September 15, the forces employed more than 1,000-armed vehicles, artillery pieces, rocket launchers, and other ground equipment as well as more than 50 military aircraft (Xinhua News Agency, September 16). Phase 3, which started on September 24, saw some live-fire drills, and then ended with a display of combat equipment from the member states, which included some of the equipment that the PLA had displayed on 60<sup>th</sup> anniversary National Day military parades in Beijing (People’s Daily Online, September 13).

Russia sent the largest amount of military equipment: some 130 tanks, self-propelled artillery systems and infantry fighting vehicles as well as over 100 trucks and about a dozen aircraft from its nearby base in Kant, Kyrgyzstan, including Su-24 Fencer tactical bombers, Su-25 Frogfoot close-support aircraft and Mi-8 transport helicopters (RIA Novosti, September 9). The PLA sent some of its most sophisticated indigenous weapons systems including T-99 tanks, H-6 strategic bombers and J-10 fighters as well as aerial tanker and early warning aircraft (Xinhua News Agency, September 19). The H-6 and the J-10 warplanes were deployed on their first foreign exercise (*Beijing Review*, September 21).

“Peace Mission 2010” more closely resembled the multinational 2007 exercise than the 2005 and 2009 drills, which formally occurred under the rubric of the China-Russia bilateral friendship treaty, though given a SCO gloss through the invitation to the other four full members—Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan—to

send military observers to the exercise (UPI, July 23, 2009). In the end Uzbekistan, traditionally uneasy about Russia’s military presence in Central Asia, declined to send troops. At times, Uzbek officials have been leading the effort to resist expanding the SCO’s military functions. They have criticized SCO exercises for resembling a Soviet-era military drill that does not meet the contemporary security needs of the SCO’s Central Asian members (See “Sino-Russian Military Exercises Conceived as a Show of Unity,” *Eurasia Daily Monitor*, May 5, 2009).

With 5,000 troops and considerable advanced military equipment, “Peace Mission 2010” was the largest SCO military exercise outside of Russian and Chinese territory. With a duration of 15 days, Peace Mission 2010 was one week longer than the previous multinational SCO war games in 2007.

Several reasons might explain the varying size and length of the exercises over time. After the enormous 2005 exercise, the two armed forces might have wanted the drills to correspond to their actual experience fighting small groups of mobile terrorists with major military units (Interfax, July 11, 2009). Russian analysts interpreted this as applying the lessons learned by Russian forces in the North Caucasus and the Chinese military in Xinjiang (*Nezavisimaya gazeta*, July 21, 2009). Other reasons for the smaller scale of the 2007 and 2009 drills might include operational considerations (the shorter amount of time for preparation and the more genuine focus on counterterrorism), the cost constraints imposed by diminishing revenue due to the global economic recession, the desire not to alarm and the belief of Russian defense leaders of the futility of showcasing weapons for sale to China now that the Chinese have made clear their interest in purchasing only a few of Russia’s most advanced weapons systems, most of which Moscow is not eager to sell. Conversely, 2010 has grown somewhat larger due to the reviving health of the Chinese and Russian economies as well as the reviving fortunes of the regional security threats—as manifested by the Taliban resurgence in Afghanistan, the continued political instability in Kyrgyzstan, as well as the Islamist violence in Chechnya, Xinjiang, and some Central Asian countries—both of which have helped refocused the SCO on responding to troubling regional security trends.

#### COUNTER REGIONAL SECURITY THREATS

The most recent exercise occurred against the backdrop of continuing ethnic-religious minority unrest in Xinjiang and Tibet, newly resurgent terrorist activity in Tajikistan and Kyrgyzstan [1], and the deteriorating security situation in Afghanistan and the Russian-controlled territories of the North Caucasus. Hundreds of people had died the previous



year in vicious street fighting between Uyghurs and Han Chinese in Xinjiang, which shares a porous border with various Central Asian republics, as well as other parts of China. The Chinese authorities, who used the military to suppress the disorders after the police and other internal security forces lost control of the situation, blamed the ethnic rioting on foreign-backed terrorists seeking to create a separate state of East Turkestan [2].

The timing of this year's exercises was especially opportune for reinforcing the confidence of the Central Asian states in particular that China and Russia would help them manage their security challenges. The deteriorating regional security situation, combined with the surprising failure of the SCO to accept the appeal of the Kyrgyz government to intervene to help suppress the June 10-14 riots in Osh—in which hundreds of people were killed and half a million ethnic Uzbeks fled from a ethnic-Kyrgyz pogrom—sparked concerns by many Central Asians over whether they can rely on the SCO to guard against emerging external and domestic security threats. In a public press conference in mid-August 2010, the deputy head of Kyrgyzstan's government, Azimbek Beknazarov, attacked the SCO because it “ignored us” when “the tragic events started ... and we appealed through official channels for help” (RFE/RL, August 11). Indeed, the SCO also stood aside during the April 2010 overthrow of Kyrgyz President Kurmanbek Bakiyev, as well as during the large-scale terrorist ambush that killed 25 soldiers in Tajikistan's mountainous Rasht region in September 2010. Chinese and Russian officials have expressed alarm at the violence and stated their diplomatic support for the governments of these states, but their main, concrete assistance has been the continued provision of bilateral economic and other non-military aid.

The importance of this particular function for the SCO, as seen by some Central Asian countries, was evident in an interview by Ikram Adyrbekov, Kazakhstan's ambassador to China, published by *China Daily* on September 11. Adyrbekov told Chinese readers that “Peace Mission 2010” provided a “timely” demonstration of the SCO's contribution to combat terrorism, separatism and extremism. “The capacities and financial assets of international terrorists remain sufficient enough to carry out destructive actions. Unfortunately, in their illegal activities, the terrorist and extremist organizations use the latest technology and modern propaganda methods” (*China Daily*, September 11). By reassuring the Central Asian governments that they can depend on Russia and China to protect them, the drills also weaken Western influence in the region by helping persuade their SCO allies that they need not rely on NATO and the United States for their defense [3].

As part of this reaffirmation process, on September 23, the SCO Regional Anti-Terrorist Structure Council pledged to assist the Kyrgyz authorities by providing them with intelligence regarding possible threats from terrorism, separatism and extremism (24.kg news agency, September 23). Still, despite their concern for stability, neither China nor Russia, the dominant states in the SCO, seem especially enthusiastic about rescuing the divided political leadership of one of the poorest and unstable SCO members, and have readily followed the lead of Kazakhstan, which has sought to exploit its chairmanship of the OSCE this year to empower that body as the lead international institution seeking to promote stability in its Kyrgyz neighbor.

Chinese representatives especially emphasized the counterterrorist dimensions of the most recent exercise. Although the member governments most often described “Peace Mission 2010” as an “anti-terrorist” exercise, their representatives and media acknowledged that the capabilities on display could be used to deal with other forms of “internal armed conflict” as well as a “mass terrorist attack” (RIA Novosti, September 9). According to Rear Admiral Yin Zhuo, a senior researcher at the Chinese Navy's Equipment Research Center, “The strategy behind the SCO anti-terror military drill is to unite countries in Central Asia and help them crack down on extremists who conduct terrorist activities through international organizations that may pose a threat to the safety of a legitimate government” (*Global Times*, September 26).

In principle, SCO members might come to one another's defense in case of an external invasion, but the organization's charter does not formally authorize collective defense operations, so all the observations regarding the SCO's having more than half of the world's landmass and a quarter of the world's population are inapposite in that, lacking even a collective command structure like NATO as well as divided by various competing interests, the SCO members will never fight as an integrated unit. There is also no evident aggressor state eager to attack one of the Central Asian members, while China and Russia—both possessing nuclear weapons as well as powerful conventional forces—are sufficiently powerful to defend themselves without foreign support. In practice, China would prove reluctant to make such a defensive commitment since Beijing has shunned formal military alliances, while the other five governments belong to the Moscow-led Collective Security Treaty Organization, whose explicit function is to provide for the mutual defense of its members from external attack.

#### INCREASED PLA PROFICIENCY

The PLA forces involved in these drills have demonstrated

increased proficiency over time, though it is unclear whether this improvement results from the exercises themselves or the strengthening capabilities of both sides' conventional forces in recent years due to other initiatives. The PLA has proved especially apt at using these exercises to enhance its capabilities. For example, the 2007 live-fire drills in Chelyabinsk allowed the Chinese armed forces to practice deploying and supporting a large military force at a considerable distance from mainland China [4].

The same was perhaps even more apparent in "Peace Mission 2010," when the PLA demonstrated improved logistics, command and control, and more sophisticated weapons and tactics. Before the exercise began, the PLA forces undertook extensive pre-deployment theoretical, basic, and combined combat training, optimized for joint counterterrorist training (Xinhua News Agency, September 19). In early September, hundreds of PLA soldiers traveled by train from a PLA training military base at Zhurihe, located in North China's Inner Mongolia Autonomous Region, to Matybulak air base in Kazakhstan. The total distance covered during the week-long trip was 5,000 kilometers, after which the PLA soldiers immediately began preparing for their drills (Xinhua News Agency, September 7). One Chinese writer boasted that this represented "a big test for PLA's comprehensive transportation capability" (*Beijing Review*, September 21).

According to Li Zhujun, deputy chief of the exterior liaison of the Chinese command of the military exercises, the PLA moved a total of six contingents of almost 1,000 troops, 1,000 tons of materials and additional quantities of military equipment. PLA logicians also had the opportunity to load and unload carriages as they passed from the 2.98-meter gauge used in China to the 2.87-meter gauge employed in Kazakhstan. "By improving the quality of service and logistics in various links," Li declared, "we have created conditions for the soldiers and officers to devote themselves to the exercises in high spirits and full of vitality" (Xinhua News Agency, September 22).

Perhaps the most interesting capability demonstrated by the PLA was how the Chinese Air Force conducted its first simulated long-range air strike. Four H-6 bombers and two J-10 fighter jets took off from air bases in China. They then divided into two groups that, following mid-air refueling, each rehearsed bombing ground targets in Kazakhstan. Having the capacity to conduct long-range air strikes and coordinate air-ground battle maneuvers could prove useful for attacking insurgents in Afghanistan as well as combating Indian ground forces further north. A Chinese analyst claimed that the H-6 bombers hit their target every time and that the helicopters were able to fly only 40 meters above the ground in a valley (*Beijing*

*Review*, September 21).

#### POLITICAL SIGNALING

According to an interview that Russian president Dmitry Medvedev gave to *Renmin Ribao* on the eve of his recent visit to China from September 25-27, the SCO has "consolidated itself as an inseparable institute of security in the region" (Itar-Tass, September 26). The Xinhua News Agency heralded that, "The [Peace Mission 2010] drill advanced the cooperation in defense and security under the SCO framework to a higher level" (Xinhua News Agency, September 25). These statements appear to reflect a convergence over the broader strategic outlook of the two dominant powers of the region, Russia and China. Indeed, in terms of political signaling to third parties, especially the United States, the SCO exercises affirm to other powers that Central Asia falls within their sphere of security responsibility. Chinese officials, like those of the other states, have always stressed that the SCO neither is a military alliance nor directed against another country. On this occasion, Major General Ci Guowei, the deputy director of the PRC Defense Ministry's foreign affairs office stressed that, "the SCO is not a military alliance, and its joint anti-terror military drill will not be aimed at or threaten any specific country" (Xinhua News Agency, September 23, 2009). Nonetheless, the maneuvers also communicate to extra-regional audiences, such as those in Washington and Brussels that Moscow and Beijing consider Central Asia as falling within their overlapping zones of security responsibility.

#### BALANCING CHINA

Central Asian governments also generally appear to prefer working within the SCO framework, which is not dominated by a single country like the Collective Security Treaty Organization or the Commonwealth of Independent States, Eurasian institutions without formal Chinese participation in which Russia is the primary player. In the words of an anonymous Central Asian diplomat, "With the Chinese in the room, the Russians can't resort to their usual tricks" [5]. Despite the possible emergence of a Sino-Russian condominium, China's balancing presence presumably reduces fears of external subordination and gives Central Asian states more room to maneuver. Conversely, another reason for the SCO's popularity among Central Asian governments is that the organization allows them to manage China's growing presence in their region multilaterally—backstopped by Russia—rather than deal with the China colossus directly on a bilateral basis. Chinese officials may even want to encourage this perception as a form of reassurance to Russians and Central Asians alike that China is not seeking a major security role

in Eurasia despite its expanding economic presence in the former Soviet Union

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#### NOTES

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## New Twists over Old Disputes in China-Japan Relations

By Wenran Jiang

Sino-Japanese relations took a decisive turn for the worse in the past month. At issue, Japan's seizure of a Chinese trawler and its crew, and then the continuous detention of the captain after the crew and the boat were released. Tokyo accused the Chinese fishermen of illegally entering Japanese territorial waters and causing damage to two Japanese coast guard ships in the subsequent confrontation and chase. Tokyo declared that the captain would be tried according to Japanese laws. Beijing angrily denounced such actions and demanded the skipper's immediate and unconditional release. When Japan refused, China took a range of retaliatory measures that forced Tokyo to capitulate and release the captain to go home without charge. Although there were signs of improvement when Chinese premier Wen Jiabao and Japanese prime minister Naoto Kan met briefly at the recently concluded Euro-Asia Summit, the damage to bilateral ties is severe, the reconciliation process will be complicated and the strategic implications are profound.

#### TROUBLED WATERS IN EAST CHINA SEA

The territorial disputes between the world's second and third largest economies are not new. Japan asserts that Senkaku islands have been part of its territory since 1895 while China insists that these islets, called *Daoyu* or *Daoyutai* in Mandarin, have been part of Chinese territory since ancient times but only occupied by the Japanese through force after Japan defeated the Qing Dynasty in the 1894-95 Sino-Japanese War. Taiwan also claims these islands as its territory. All sides have produced their own evidence to support their respective sovereignty claims.

While neither China nor Taiwan have challenged Japan's *de facto* administrative control of the Daoyu/Senkaku area over the years, there have been regular skirmishes between Chinese and Taiwanese fishermen and Japanese coast guard ships. There were also occasions that protest boats organized by Chinese activists from Hong Kong, Taiwan and the mainland tried to land on these islets, causing media attention and shining the spotlight on the ongoing disputes.

Both the Chinese and Japanese governments, however, had handled such situations with relative restraint. Neither side had made any dramatic moves to impose their own version of ultimate control other than some symbolic measures from time to time. In almost all major bilateral diplomatic events, such as during the negotiations for establishing diplomatic relations in the early 1970s, the Japanese emperor's visit to China in 1992 and other key summit meetings, both sides agreed to shelf the sovereignty issue rather than "settle" it.

Following the enactment of the United Nations Convention on the Law of the Sea (UNCLOS) in 1994, which calls for establishing joint resource management, Japan and China signed a fisheries agreement in 1997 (which took effect in 2000) to coordinate fishery activities in the East China Sea. With the increasing need for energy in both Japan and China in recent years, both sides have been talking about joint exploration and development of potential oil and gas fields in the disputed waters around Senkaku/Daoyu islands.

Thus, the implicit arrangement for the status quo around the troubled waters of the East China Sea is that China, Japan and Taiwan claim sovereignty over Daoyu/Senkaku; Japan exercises administrative control over the area; when incidents occur involving Chinese or Taiwanese fishing boats, or protesters, the Japanese coast guards drive them away; after some exchanges of sovereignty rhetoric from each side following such clashes, things go back to the way they were. At the same time, after many rounds

of negotiations, Beijing and Tokyo are not even close to reaching an agreement on joint exploration of the natural resources in the region. Yet, China has not gone ahead with production of the gas fields it has been working on near the disputed area, nor has Japan pursued its own drilling activities in nearby waters.

#### TOKYO'S MISCALCULATIONS AND BEIJING'S ESCALATED REACTIONS

Beijing perceived the arrest of the Chinese fishing crew on September 7 and later the prolonged detention of the captain by Japan as a unilateral break from the status quo, an escalation of Tokyo's assertion of sovereignty other than *de facto* control of the Senkaku/Daoyu area, and an open call of China's bluff by Japan when Tokyo planned to try the skipper according to Japanese domestic law.

The Chinese leadership, however, appeared to have chosen a more measured approach in the beginning, mainly through diplomatic channels. The Chinese Ministry of Foreign Affairs issued a series of strongly worded demands for the crew's release. Within a span of six days, the Chinese side had summoned the Japanese ambassador in Beijing, Uchiro Niwa, five times, including a summon at 2:00 am on September 12 by China's state councilor, Dai Bingguo (Kyodo News, September 25). Beijing also called off planned East China Sea gas field negotiations. Even after Japan released the trawler and its crew on September 13 but continued to detain the captain for another 10 days, the Chinese authorities were cautious. In leading up to the 79<sup>th</sup> anniversary of Japan's invasion of the Northeast part of China on September 18<sup>th</sup>, the government discouraged public protests against Japan through its controlled media. The outburst of anti-Japanese demonstrations on the sensitive day was only scattered around a few Chinese cities.

It may well be that Beijing expected that a well-controlled September 18 anniversary would lead to Japan's release of the skipper. Yet that did not happen. Instead, the next day the local Japanese court announced that the Chinese captain would be detained for an additional 10 days.

This decision marked a turning point in the Chinese approach on how to respond to Japan's actions in the incident. The Chinese side immediately announced that it would take retaliatory measures against Japan in wide-ranging areas. On September 23, some Japanese companies discovered that their imports of rare earth from China were stopped by the Chinese customs, even the Chinese Ministry of Commerce denied issuing an official ban. China currently produces 97 percent of the world's rare earth and half of its import goes to Japan for processing

to be used in high-tech products such as superconductors and highbred cars. The report of Chinese action sent shock waves around Japan and the world. And on the same day, four Japanese company employees working in China were arrested on the pretense of entering forbidden military zones.

When the local Japanese court released the Chinese captain on September 25, it cited consideration for the overall health of Japan's relations with China. It was clear that Tokyo could no longer bear the mounting pressure from Beijing and caved in (the pressure asserted on the local judicial offices from the Prime Minister's office was reported by Kyodo on September 26).

The interesting question is what led Prime Minister Kan's administration to handle the situation as it did? First, it is puzzling why the Japanese coast guards broke with normal practice (e.g. chasing the fishing boat away, and arrested the crew in the first place). If it was due to the damage the Japanese ships received in the collision, then Japan had two other occasions when it could have let the captain return home while still making a point of imposing sanctions against the Chinese crew. One was to release the captain with the rest of the crew, and the other was to free him on September 18, citing Chinese government's moderate behavior for not fanning anti-Japanese feelings. The Japanese government could have reiterated its sovereignty claim yet pronounce that for the overall well-being of the broader "strategic and mutually beneficial relationship with China," release the captain. It missed these opportunities and proceeded apparently without a plan on how to respond to potential Chinese escalations.

#### IMPLICATIONS FOR SINO-JAPANESE RELATIONS AND REGIONAL SECURITY

It would be mistaken to conclude that China has come out of this confrontation the ultimate winner. Yes, the Japanese government appeared to be humiliated when it had to succumb to Chinese pressure. It is also true that the new cabinet of PM Kan paid a heavy price for such mismanagement, with the latest opinion polls showing his support rate at 47.6 percent, a 17 percent drop over one month ago (Kyodo News Survey results, October 6). Yet, China's heavy-handed measures, ranging from suspension of bilateral talks in areas unrelated to the crisis to stopping a number of local-level and people-to-people exchanges that were planned long before the incident, have left a very negative image in Japan.

Opposition parties in the parliament, while criticizing the Kan cabinet for its incompetence, also rallied to condemn China. Even the Japanese Communist Party demanded that



the government must deal with Beijing more “resolutely” on territorial issues. In the public sphere, 72 percent of the Japanese thought the decision to release the Chinese captain was inappropriate, and 90 percent thought China was not justified to ban the exports of rare earth as retaliation against Japan. With Japan’s trade relations with China occupying 20 percent of Japan’s total trade volume (in contrast to the share of 13 percent by the United States), there is growing concern of overdependence on the Chinese market, especially what China may potentially do in the economic realm when future disputes between the two countries occur.

These factors will make future negotiations over the Senkaku/Daoyu sovereignty issues and potential joint explorations more complicated and difficult. Both sides feel a sense of injury from the latest crisis. Constructive feelings of cooperation and mutual trust that have been building between the two countries since former Japanese prime minister Junichiro Koizumi stepped down four years ago have now evaporated.

In the regional context, China’s punitive reactions against Japan were witnessed and observed by other countries with increasing alarm, especially those countries that have territorial quarrels with China in the South China Sea. China is a top trading partner, if not the largest to most of the East and Southeast Asian neighbors. While Beijing may feel it was forced to respond to Japan’s unacceptable actions over the status of Daoyu/Senkaku islands, its capacity and willingness to use its economic leverage for border disputes may lead to countermeasures by other countries, which may not be in China’s long-term strategic interests.

While neither Japan nor China came out of the crisis unhurt, the United States is by default a beneficiary, even if its intention is not to see a worsening relationship between Tokyo and Beijing. In the past year, Washington’s ties with Japan have come under serious strain due to the discord over the Futenma Air Base relocation issue in Okinawa. U.S.-China relations have also been experiencing a low period over a number of strategic and economic issues. Yet, the confrontation between China and Japan served as a reminder to Japan that its military alliance with the United States still has a strong rationale in case of a potential conflict with China. The deterioration of Beijing’s relations with regional partners may give more momentum to a U.S.-led regional containment network that is targeted at China.

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