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In a Fortnight

By Peter Mattis

NEW POLICE CHIEF SHOWS RELIABILITY BUT NOT POWER

Following the Minister of Public Security Meng Jianzhu's ascent to chair the Central Political-Legal Affairs Committee and the Politburo of the 18th Central Committee, a little-known provincial party secretary, Guo Shengkun, stepped up to take over Meng's place at the ministry in late December (Xinhua, December 29, 2012). Guo, previously the Guangxi party secretary, may be one of the least-qualified picks to run the Ministry of Public Security (MPS)—and not because he lacks legal affairs experience. He simply has not been a part of the political milieu of China's $100 billion-plus internal security apparatus and accompanying social management issues. It appears Guo is a politically-reliable and experienced manager with a visible cap on his advancement that is more likely to keep the MPS focused on supporting the party's priorities than those of any political clique.

Guo, the twelfth minister of public security, spent most of his career in metals before becoming the Guangxi deputy party secretary in 2004 and the provincial party secretary at 17th Party Congress in 2007. This promotion to MPS chief, however, was what earned him full Central Committee membership; Guo was only an alternate member of the 17th Central Committee. He progressed through the Ministry of Metallurgical Industry, the state-owned China National Nonferrous Metals Industry Corporation, and the Aluminum Corporation of China before

making the jump to provincial government. Guo also attended the Central Party School during the 1995–1996 academic year for the young cadres' development course and later earned a doctorate in management (*Ta Kung Pao* [Hong Kong], December 28, 2012; Xinhua, December 26, 2012).

In contrast to his most recent predecessors, Guo's career is relatively monotone. For example, Meng worked in agriculture before holding various posts in the Shanghai Municipal Government and Party Committee throughout the 1990s. He then served as the Jiangxi party secretary before going to Beijing to replace Zhou Yongkang in 2007. Zhou's career began in the oil industry and started a transition in the late 1980s when he held positions on the party committee of the China National Petroleum Corporation and a municipal government (China News Service, November 15, 2012; Xinhua, March 4, 2003). He later served as minister of land and resources as well as party secretary of Sichuan Province. Zhou and Meng each had at least a decade more experience in governing. Perhaps Guo's experience in running two large state-owned enterprises will give him the organizational expertise to manage one of China's largest ministries (*South China Morning Post*, December 29, 2012).

If anything, Guo is representative of the recent political turn in the ministry's leadership selection, even if he does not appear to be a heavyweight like Zhou and Meng. From the very first MPS chief, Luo Ruihuan, through the ninth minister, Jia Chunwang, every minister with one exception had substantial experience in policing, political-legal affairs, intelligence or clandestine party work pre-1949 (Shanxi Yellow River News Network, April 22, 2007). Guo's odd background for taking up the mantle of public security chief perhaps is reminiscent of Jia Chunwang's rise to Minister of State Security in 1985. At the time, Jia was a politico serving as a Beijing deputy party secretary without intelligence or police experience. With the benefit of hindsight, it seems Jia, like the three other state security ministers, was chosen because of his political reliability with respect to the party while still without strong factional alignments or the likelihood of developing a strong, independent political position ("Assessing the Foreign Policy Influence of the Ministry of State Security," *China Brief*, January 14, 2011). If he is politically meek or heavily-reliant on a cross-factional coalition, then the 58-year-old Guo will be a relatively safe choice for all the political leaders for the next five, if not seven, years.

There is no reason, however, to think Guo will lead the MPS away from the priorities that seem to be dominating the post-18th Party Congress political discourse. At his first conference attended by all the provincial public security department chiefs, Guo noted the MPS needed to be supportive of the Xi Jinping's anti-corruption push, stating the anti-corruption drive was vital to the "overall goal of building a peaceful China." The minister also drew attention to the challenge of internal migration and urbanization as an important problem for preserving stability work—a challenge that required the MPS to participate in Premier-in-waiting Li Keqiang's emerging urbanization program (Duowei News, January 20). At the same conference, Guo also highlighted the need to deepen informatization processes and make greater use of the MPS's information networks to guide police work. The minister's speech reiterated the policy of "public security informatization" (*gong'an xinxihua*), designed to integrate MPS information across the national, provincial and local levels to support investigations and adopt the Chinese version of intelligence-led policing (China News Service, January 20; "China's Adaptive Approach to the Information Counter-Revolution," *China Brief*, June 3, 2011).

The choice of Guo suggests further diminution of the domestic security apparatus in the corridors of power—even if not for the person on the street. He shows political reliability without obviously traceable loyalties. Looking at the prospects for Guo's career, the MPS assignment punches another ticket for further advancement. With ministerial and provincial party secretary postings as well as graduate education, he seems to be well-suited for a Politburo post in five years at the 19th Party Congress at age 63. He conceivably could take over Meng's post at the Central Political-Legal Affairs Committee or move out of the security system altogether. Guo, however, is only one of several likely changes at the MPS and watching the turnover at the vice–ministerial-level in the coming months ought to give a sense of the ministry's working-level influence in Chinese policymaking.

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Manila Ups the Ante in the South China Sea

By Ian Storey

In a surprise move on January 22, the Philippine government informed the Chinese embassy in Manila that it unilaterally would submit the two countries' overlapping jurisdictional claims in the South China Sea to international legal arbitration at the United Nations (UN).

Manila's audacious move is a major development in the long running dispute as it marks the first time one of the Southeast Asian parties has resorted to legal means to challenge China's expansive claims. If the UN tribunal decides to hear the case, any ruling it issues will have wide-ranging legal, political and strategic implications.

While a final decision by the tribunal is likely to be several years away, in the short term, the Philippine gambit almost certainly will provoke an indignant response from Beijing, exacerbate strains in Sino-Philippine relations and set back efforts by the Association of Southeast Asian Nations (ASEAN) to negotiate a binding code of conduct on the South China Sea with China.

The Philippine Submission

The Philippines' submission to the UN, called the Notification and Statement of Claim, hereafter the Notification, is crafted skillfully [1]. It does not call on the arbitral tribunal—most likely the International Tribunal on the Law of the Sea (ITLOS), which is the dispute resolution mechanism established under the 1982 United Nations Convention on the Law of the Sea (UNCLOS)—to determine which of the claimants enjoys sovereignty over the disputed atolls in the South China Sea, because that determination only can be made by the International Court of Justice and with the consent of all parties. Crucially, the Notification also does not raise issues from which, in 2006, China excluded itself from compulsory arbitration by ITLOS. Those issues include sea boundary delimitations, historic bays and titles as well as disputes concerning military activities.

Instead, the Philippines seeks to challenge China's claim to sovereign rights, including to all resources and navigational rights, within the maritime space encompassed by the nine-dash line that appears on its official maps. The submission asserts that China has interfered unlawfully with the exercise of Philippine sovereign rights within its 200 nautical mile exclusive economic zone (EEZ)—illegal activities that have escalated since 2012. The Notification also accuses China of illegally occupying certain low-tide elevations (including Mischief, McKennan, Gaven and Subi Reefs), several of which are located on the Philippines' continental shelf and which, therefore, cannot be acquired by another state.

The Philippines requests ITLOS to issue an award that, inter alia, declares China's maritime claims based on its nine-dash line to be contrary to UNCLOS and therefore invalid; requires China to bring its domestic legislation into conformity with UNCLOS; declares China's occupation of certain reefs to be illegal and a violation of Philippine sovereign rights; declares that China has unlawfully claimed maritime entitlements beyond 12 nautical miles from certain features (including Scarborough Shoal); and requires China to desist from unlawful activities in the Philippines' EEZ, including exploiting living and non-living resources.

Why Now?

The failure of the Philippines and China to resolve their overlapping claims, Philippine perceptions of increasing Chinese assertiveness in the South China over the past few years and Manila's disappointment with ASEAN's response to Beijing's actions explain the timing of the submission.

Under international law, disputing parties are encouraged to discuss their overlapping claims bilaterally with a view to reaching a mutually-acceptable resolution. According to Manila, despite numerous exchanges and consultations since China's occupation of Mischief Reef in 1995, the two sides have failed to resolve their disputes over ownership of insular features, delimitation of maritime zones as well as rights to fishery, energy and mineral resources in the South China Sea.

Other Philippine attempts to resolve the dispute in partnership with the other claimants also have come to nought. In 2011, the administration of President Benigno Aquino put forward a proposal to transform the sea into

a Zone of Peace, Friendship, Freedom and Cooperation (ZoPFFC). The ZoPFFC called on the parties to clarify their maritime claims, designate the Spratly Islands as a disputed zone, demilitarize the atolls and establish a joint development agency to manage undersea resources ("ASEAN and the South China Sea: Movement in Lieu of Progress," *China Brief*, April 27, 2012). Beijing, however, rejected the proposal out of hand, and none of the Philippines' ASEAN partners, except Vietnam, chose to support it, effectively killing the imaginative concept.

Developments in the South China Sea last year also catalyzed Manila's decision to challenge the legal basis of China's claims.

The most serious took place at Scarborough Shoal last April and May. The eight-week crisis was sparked when China's civilian maritime agencies prevented the Philippine Navy from arresting a group of Chinese fishermen who were alleged to be fishing illegally at the shoal. Chinese vessels subsequently stopped Philippine trawlers from entering Scarborough Shoal, thereby asserting de facto control of the reef. Late last year, Chinese officials told Philippine Foreign Secretary Albert Del Rosario that its presence at the reef was now permanent (*South China Morning Post*, November 30, 2012). The Notification recognizes this important change in the status quo by referring to China's "seizure" of Scarborough Shoal.

To add insult to injury, when the Philippines raised the issue at the ASEAN Ministerial Meeting in July, then-ASEAN chair Cambodia refused to allow the discussions to be reflected in the final communiqué on the spurious grounds that the dispute was bilateral in nature. The failure to achieve consensus on this matter scuppered the release of a final communiqué for the first time in the organization's 45-year history, damaging ASEAN's credibility in the process ("China Pushes on the South China Sea, ASEAN Unity Collapses," *China Brief*, August 4, 2012).

The second development in 2012 that prompted the Philippine submission occurred in November when the government of Hainan province promulgated regulations allowing for the boarding, detention and expulsion of foreign vessels within its jurisdiction. The rules aroused anxiety across the region, as they could, in extremis, be perceived as undermining freedom of navigation rights. The Hainan government provided a more detailed explanation of the new rules when they came into effect on January 1. Although some observers have opined that the rules only apply to vessels operating within Hainan Island's 12 nautical mile territorial sea (which would be compatible with international law), Manila has interpreted the regulations as a Chinese attempt to exercise jurisdiction over navigational rights within the entire maritime space encompassed by the nine-dash line and therefore contrary to UNCLOS (*The Diplomat*, January 3).

Accordingly, the Philippines believes, not through want of trying, it has exhausted all political and diplomatic avenues with China, leaving compulsory UN arbitration as the only remaining option to resolve their disputes.

China's Response

China's immediate response to Manila's challenge was low-key. According to the state-run media, when Ambassador Ma Keqing was handed the *note verbale* by a Philippine official he simply reiterated China's long-held position that it has "indisputable sovereignty" over all the atolls in the South China Sea and that the dispute must be resolved bilaterally (Xinhua, January 23). The next day, China's Ministry of Foreign Affairs echoed this line, but added that the root cause of the problem was the Philippines' "illegal occupation" of some of the Spratlys features (Chinese Ministry of Foreign Affairs, January 23).

Clearly, the Philippine maneuver had taken China by surprise, and Chinese leaders and legal experts probably were weighing carefully their options before issuing a more considered response. Even the Chinese press, including hard-line outlets such as the *Global Times*, have remained silent as they await the government's official line.

The submission clearly poses a dilemma for Beijing. If it chooses to ignore it, China leaves itself open to criticism that it is not committed to existing international legal norms and a rules-based system of global governance. Moreover, as suggested by its actions at Scarborough Shoal last year, ignoring the submission also could show Beijing prefers might over right when it comes to settling maritime disputes. Even if China chooses to ignore it,

Beijing cannot stop the case from proceeding. Within 30 days of the Philippine submission, China must appoint an arbitrator or ITLOS will appoint one on its behalf.

Yet, if Beijing does decide to argue its case before ITLOS, it would mean reversing a decades-long policy of rejecting international legal arbitration as a means to resolve territorial and maritime boundary disputes involving China, and set a precedent for future cases. Additionally, China's legal experts are no doubts acutely aware of the uphill task they would face trying to convince the tribunal that the nine-dash line is compatible with UNCLOS.

If ITLOS decides to hear the case and rules in favor of the Philippines, its decisions are binding but cannot be enforced. Manila, however, would have seized the moral high ground and put China on the defensive.

The Philippines' decision to force China to international arbitration without its consent will have incensed Beijing. Late last year, Chinese officials specifically warned the Aquino government not to "internationalize" the dispute by discussing the problem with other countries, raising it at international forums or submitting its claims to the UN (*South China Morning Post*, November 30, 2012). The Philippines brushed aside China's admonishment and is pursuing all three. In the coming weeks and months, Beijing not only will launch a verbal assault on Manila for its temerity, but also could impose punitive economic measures, such as further restricting Philippine imports into China and the flow of Chinese tourists into the Philippines. The Aquino government seemingly anticipates a robust response from China, noting that while it hopes to strengthen economic ties with China, this should not occur at the "expense of national sovereignty" (Philippine Department of Foreign Affairs, January 22). Chinese harassment of Philippine fishing trawlers and survey vessels also could be stepped up in the coming months.

Southeast Asian Responses

The reaction from the Philippines' ASEAN partners has been cool. Singapore's response was non-committal. The Ministry of Foreign Affairs stated that while there are various options for the claimants to resolve their disputes, including "negotiations, adjudication and arbitration," it would not comment on whether the latter is the "appropriate route" (Singaporean Ministry of Foreign Affairs, January 23). Singapore did note, however, that it only came to know of the Philippines' submission through media reports, suggesting perhaps that Manila had not adequately consulted the other member states.

In Vietnam, deputy chairman of the Foreign Ministry's National Border Committee, Nguyen Duy Chien, responded to media queries by saying that Hanoi believes countries have the right to resolve their disputes in line with the UN Charter and international law, including UNCLOS. While Vietnam is unlikely to publicly endorse the Notification, the Vietnamese government must be applauding the Philippine submission quietly, as it too would benefit from an ITLOS ruling that declared China's nine-dash line claims invalid.

Although ASEAN members recognize it is the Philippines' sovereign right to pursue legal arbitration, there will be concerns that the submission might have negative repercussions for ASEAN-China relations. The Permanent Secretary of Thailand's foreign ministry—whose country is the current coordinator for ASEAN's relations with China—gently articulated these concerns when he said that he hoped the submission would "not affect the wider relationship" (*Straits Times*, January 25). Nevertheless, it almost certainly will and could provide China with another excuse not to begin talks with ASEAN on a code of conduct for the South China Sea.

As noted earlier, China has 30 days to appoint an arbitrator to the five-judge panel (the Philippines already has proposed a judge). The tribunal then has to decide whether it has jurisdiction over the case—a decision that could take it more than a year to reach. As the legal process unfolds, expect the South China Sea dispute to get a whole lot more fractious.

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Notes:

1. Notification and Statement of Claim, Department of Foreign Affairs, Manila, January 22, 2013, available online <http://www.dfa.gov.ph/>.

How the Southern Weekly Protests Moved the Bar on Press Control

By David Bandurski

The row over editorial control last month at one of China's most prominent newspapers briefly shoved the issue of press freedom out to center stage in China. Gathering outside the offices of *Southern Weekly* in Guangzhou after details emerged of the gutting of the paper's New Year's edition, protesters hoisted placards calling for freedom of the press and the abolishment of media controls.

The protests, which took place both online and offline, were completely unprecedented in a country where the very phrase "freedom of the press" remains rare and sensitive in the mainstream media, reserved for deprecatory remarks in state-run outlets about "so-called freedom of speech" in the West [1]. One year ago, a prominent official journal ran a series of articles roundly attacking the idea of independent media, calling freedom of the press "a signboard the West uses to praise itself, and a club it uses to attack other countries" (*Qiushi*, January 6, 2012).

This time, outside the offices of *Southern Weekly*, the signboards were in the hands of ordinary Chinese—journalists, students, academics, lawyers, rights defenders and even migrant workers—as the message of defiance thundered across social media. In the city of Ningbo, 700 miles to the north of Guangzhou, citizens posted photos of themselves standing in front of the local party mouthpiece, the *Ningbo Daily*, holding signs that read "Rescind News Controls; [We Want] Freedom of the Press."

The national drama had become a showdown between free speech and its enemies. An editorial from the official *Global Times* newspaper, which other newspapers were forced to publish under a Central Propaganda Department directive, scoffed at the idea of free media. Chinese media could not, the editorial said, become "political special zones" working by their own rules (*Global Times*, January 7).

Away from the volleys fired from either side and as newspaper brass haggled behind closed doors with provincial propaganda officials, this crisis was not really about the hope for a dazzling future of unfettered media against the injustice of news controls. It was, instead, about a negotiated return to the uneasy peace of the past, to an understanding about the way media *should* be controlled. The question was not censorship, yes or no; it was censorship how and on what terms.

If we understand the underlying causes of the *Southern Weekly* blowup, the incident tells an important story about how China's news control regime has changed and intensified as the ruling Chinese Communist Party has struggled to maintain control over a society in transition. The brouhaha that followed the blow-up, of course, provides an important (and perhaps encouraging) picture of the growing limitations facing media control.

Dancing in Shackles

The 1980s began as an era of media reforms in China. Changes in the media were largely a reaction against the "falsehood, sensationalism and emptiness" of Cultural Revolution-era news and propaganda, which served the narrow and ultimately disastrous political schemes of Mao Zedong and the Gang of Four. The official newspaper of China's Communist Youth League, *China Youth Daily*, took the lead in the early 1980s, focusing on social issues of immediate concern to its readers and running more critical stories.

In 1987 media reform was given a higher profile in the larger political agenda as the party's political report to the 13th National Congress spoke of "letting the people know and discuss the larger issues." The report also brought the first formal affirmation of the media's watchdog role—a mandate for media to conduct "supervision by public opinion" or "media monitoring of power" [2].

The unrest of 1989, culminating in the brutal crackdown on demonstrators in Beijing, brought media reform in China to a standstill. The liberal attitude toward the press encouraged by China's pro-reform general secretary, Zhao Ziyang, was singled out as one of the chief factors leading to the unrest. On May 6, 1989, Zhao Ziyang had said to his propaganda chiefs "Open things up a bit. Make the news more open. There's no big danger in that. By facing the wishes of the people…we can only make things better."

In the wake of the crackdown, Zhao was ousted as general secretary and sharply rebuked for his more tolerant press policies, which hard-liners felt had encouraged newspapers to voice solidarity with the demonstrators and had "guided matters in the wrong direction" (*China Comment*, June 1989). Six months later, this phrase became the heart of China's new regime of press controls, as the new general secretary, Jiang Zemin, spoke of the need for strong "guidance of public opinion" (*Guangming Daily*, November 26, 2006).

Jiang Zemin's policy of "guidance" marked a reassertion of press controls, which were seen as core to maintaining social and political stability. "Guidance" was enforced through daily orders and bans issued by the Central Propaganda Department and local propaganda offices. These missives essentially told editors what could and could not be covered. The principal mechanism of control, however, was fear. In order to avoid trouble, editors had to abide by the directives of the propaganda department and discipline themselves, maintaining "correct guidance." Reports that crossed the line could result in the firing of an editor or in a publication's suspension.

Despite the intensified atmosphere of control at the outset of the 1990s, broader changes in Chinese society and in the media were about to complicate the picture significantly.

The pace of economic reforms in China accelerated in 1992 following Deng Xiaoping's "Southern Tour." By the mid-1990s changes also gripped the media. As China moved toward further integration with the global economy, there was a sense that Chinese media needed to become more self-sufficient so they could eventually stand up to foreign competitors (China Media Project, July 13, 2005).

By the end of the 1990s, China's "media market"—the widespread use of this term was itself a sign of the times—was buzzing with a new generation of commercial newspapers and magazines. Most of these were commercial spin-offs of party-run newspapers. Unlike their party "mother papers" (*mubao*), which enjoyed state support, these "child papers" (*zibao*) relied entirely on revenue from advertising and circulation. They were still subject to propaganda "guidance," of course, but they also had an obligation to their readers, and that proved a powerful incentive to push controls to their limit.

A lot of factors contributed to a new sense of restiveness and purpose in China's media in the 1990s, including a growing sense of professionalism among journalists. But by the end of the 1990s, there were scores of Chinese media doing daring and sometimes groundbreaking work even within the prevailing atmosphere of control. This is what journalists in China have referred to as "dancing with shackles on" (China.com.cn, June 25, 2007).

The dance was possible because China's media landscape had become far more diverse, and because China was socially, economically and politically more complex than ever before. Chinese editors and journalists became very adept at exploiting the gaps in China's "guidance" regime. For example, it was extremely risky for a commercial newspaper in any given city—a spin-off of the local party paper run by city leaders—to break a local corruption story. Such a story probably would infuriate those party officials directly overhead, who had the paper's political fate in their hands. The paper, however, could send its reporters into a neighboring province to uncover a succulent corruption story there, a practice known as "cross-regional reporting."

The biggest advantage in the newspaper's corner was the *ex post facto* nature of censorship itself. There were no propaganda flunkies going over drafts of news stories before they went to press. Prior bans and orders did delimit coverage, and the deterring threat of punishment for a story that flagrantly crossed the line was real; however, the territory in between seemed virtually boundless.

In the 1990s, *Southern Weekly*, the paper at the center of the recent row in China, was the undisputed master of exploiting the gaps. It constantly ran afoul of censors, and it was constantly disciplined. Nevertheless, it always dusted itself off and stepped back in the fray.

The rapid development of the internet in China after 1999 further tipped the scales in the favor of Chinese media. Major internet portal sites were prohibited from having their own reporting teams, but their role in distributing newspaper content across China made them a powerful force. Suddenly, local stories exposed by commercial media could reach national audiences.

Propaganda officials constantly were playing catch-up, while commercial media and the internet were increasingly driving the agenda. It did not help that the party's own faithful newspapers, such as the *People's Daily*, were losing readership as they seemed increasingly distant from the lives of ordinary Chinese.

Changing the Rules of the Game

The changes that had been reshaping Chinese media for a decade culminated in the spring of 2003. In April and May 2003, just as China's new top leader, Hu Jintao, was struggling to deal with the first major challenge of his term, the outbreak of Severe Acute Respiratory Syndrome (SARS), Chinese media pushed harder than they ever had before. One of the biggest stories that spring was an investigative report from Guangzhou's *Southern Metropolis Daily* about the beating death of a young migrant worker, Sun Zhigang. The report was posted to China's major internet news portals on the same day of its publication, turning national attention on the evils of China's system of detention of repatriation of rural migrants. Legal scholars and other prominent academics weighed in on the Sun Zhigang case through, once again, commercial newspapers. One of the most influential editorials was by legal scholar Deng Zibin and was published in *Southern Weekly* [3].

Some Western observers thought at the time that Hu Jintao's more open handling of the SARS epidemic might herald a more open approach to domestic media. It became clear by the end of summer 2003, however, that party leaders were not interested in revisiting the media's role. In a series of meetings between June 13 and July 6, the Central Propaganda Department decided it would tighten media controls [4]. Disciplinary action was taken against media that had been more outspoken in their coverage of SARS and other stories that year, including *Caijing* magazine, *Southern Metropolis Daily* and *Southern Weekly*.

The "media spring" of 2003 was a wake-up call for party leaders, exposing the growing challenges facing media control in China. Commercial media now were challenging the party's dominance of the agenda in subtle but important ways.

From 2004 onward, China's leaders pushed actively to reassert control and reverse the gains made by commercial media. In 2005, a central-level party document effectively banned the practice of cross-regional reporting (*Boston Globe*, January 13). While the ban has not been enforced to the letter—under the right set of circumstances, media still can and do report cross-regionally—the document was a strong deterrent to all but the boldest media.

Also in 2005, the Central Propaganda Department began placing propaganda officials directly in positions of power at major newspapers (*New Statesman*, October 17, 2012). This marked a worrying turn. "Guidance" no longer relied on a combination of prior directives and ex post facto discipline; propaganda officials on the inside could now enforce guidance ahead of publication.

Enough is Enough

The recent row at *Southern Weekly* marked the cresting of tensions within Chinese media over tightening media controls in recent years, including rigorous pre-publication censorship. The direct cause of the incident was overbearing intervention by Guangdong provincial propaganda leaders in the special New Year's edition of the paper. Essentially, propaganda leaders went over the heads of the editors responsible for the edition—even after they had fought to finalize the issue through several rounds of changes—and not only made further changes but also added their own "introduction" to the front page. Adding insult to injury, that introduction contained seriously factual errors.

This crisis at *Southern Weekly* had in fact been brewing for months. In May 2012, the deputy director of Guangdong's provincial propaganda department, Yang Jian, was appointed party secretary of the Nanfang Daily Group, the media group that publishes *Southern Weekly* and other leading publications, including *Southern Metropolis Daily* (China Media Project, May 3, 2012). This move marked the first time in the group's history that an insider who appreciated and defended the group's tradition of strong reporting had not held this post. In another worrying move, Tuo Zhen, a hard-line press official from Beijing, was appointed director of Guangdong's provincial propaganda department. His job was to bring the province's restive newspapers to heel ahead of the Party's 18th National Congress last November.

These changes established a strict system of prior censorship at *Southern Weekly* and other publication's in the group. In the midst of the row at *Southern Weekly*, which erupted on January 1, journalists at the paper revealed through Chinese social media that censors had killed more than 1,000 stories since the changeover in leadership in 2012. Qian Gang, the director of the University of Hong Kong's China Media Project and a former top editor at *Southern Weekly*, called the degree of intervention at the paper "astounding" (China Media Project, January 11).

The imperious intrusion of propaganda leaders over the paper's New Year's edition was more than staff were willing to endure. What followed was an unprecedented campaign of open resistance that drew nationwide support and prompted provincial leaders to sit down in negotiations with newspaper staff.

We know now that part of the agreement struck between staff and leaders was the re-affirmation of a principle that has long held in China: that it is ultimately the Chinese Communist Party that calls the shots in the media. To some, that compromise may sound like a craven acceptance of defeat against public calls for freedom of speech in China. It is foolish to insist—as some have in the aftermath of the showdown—that Chinese journalists be held up against a revolutionary standard as though they must be open enemies of the system before they deserve our respect as professionals.

Chinese journalists should be judged on the merits of their work, and it is a fact that they have made important strides over the past two decades despite insistent and ever-changing controls. As to how Chinese media perform in the wake of the *Southern Weekly* incident, we will have to wait and see. The incident, however, did mark the latest change in the ongoing saga of media change versus media control. It sent a message to propaganda leaders that there are limits to how robust controls can be. It also demonstrated how unpopular controls on information are with an increasingly savvy and connected public.

Looking at the role social media had in shaping the *Southern Weekly* incident, analysts have a glimpse of the next major battleground in this ongoing saga. Since 2005, tightening media controls have relied upon secrecy about the control process. Today, as social media connect the manufacturers of the news to their audiences in real time, control itself is increasingly exposed. Just as SARS, Sun Zhigang and the "media spring" confronted Hu Jintao at the outset of his administration in 2003, Xi Jinping now faces his own test: what are the possibilities and limitations of information control in a growing and changing China?

David Bandurski is the editor of the China Media Project website and a frequent commentator on Chinese media. He is an award-winning journalist whose writings have appeared in the Far Eastern Economic Review, Wall Street Journal, Index on Censorship, South China Morning Post *and other publications.*

Notes:

1. For example, "Jiexia xifang 'xinwen ziyou' de zhexiubu [Tearing Off the Loincloth of Western 'Freedom of the Press']," *Jiangxi Daily*, July 30, 2011.
2. *Political Report to the 13th National Congress of the Chinese Communist Party*, October 25, 1987, available online <http://cpc.people.com.cn/GB/64162/64168/64566/65447/4526369.html>.
3. Qian Gang and David Bandurski, "China's Emerging Public Sphere," in Susan Shirk ed., *Changing Media, Changing China*, Oxford: Oxford University Press, 2011, p. 63.
4. David Bandurski and Martin Hala, *Investigative Journalism in China*, Hong Kong: Hong Kong University Press, 2010, p. 158.

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China and Venezuela: Equity Oil and Political Risk

By Matt Ferchen

Referring to the evolving political crisis in Venezuela, a Shanghai Academy of Social Science scholar, Zhang Jiazhe, recently remarked, if Hugo Chavez dies, "the diplomatic effect on China won't be large because China-U.S. competition is in Asia not Latin America. Economically, China-Venezuela relations are based on

oil and weapons sales" (*Global Times*, January 6). Back in 2006 Beijing University Professor Zha Daojiong, however, sounded a more skeptical note when he wrote "The search for overseas oil supplies has led Beijing to pursue close diplomatic ties with Iran, Sudan, Uzbekistan and Venezuela—all countries that pursue questionable domestic policies and…foreign policies" [1]. These two different Chinese foreign policy perspectives highlight an ongoing debate—and not only inside of China—about how Chinese state-owned enterprise (SOE) pursuit of global energy supplies was or was not leading China into unwanted and unhealthy foreign entanglements.

The logic of Chinese SOE energy investments in all these "questionable" countries is straightforward: China needs more energy than it can produce domestically and its SOEs are "going out" to help supply domestic demand. In Sudan and Iran, however, Chinese national oil companies' (NOCs) investments exposed Beijing diplomatically to internationally controversial political regimes. Chinese state-to-state energy ties to such "pariah states", including more recent examples in Libya and Burma, have mostly been based in the Middle East, Africa or closer to China in Central and Southeast Asia [2]. The geographic focus, however, has now for the first time shifted to China's presence in the Western Hemisphere as Venezuelan president Hugo Chavez' health crisis evolves into a broader political crisis not only for Venezuela but for his regional allies and potentially for China. Today, it is in Venezuela that another Chinese state firm, this time the China Development Bank (CDB) has led China into another potential foreign policy quagmire.

China's ties to Venezuela highlight a crucial, but often overlooked issue: the questionable logic that Chinese NOC "equity oil" acquisitions in controversial but energy-rich countries are justified by energy security needs. Indeed, Venezuela's evolving political crisis may further expose the flaws in China's state-capitalist approach to energy security. This is because Chinese firms have used the justification of energy security to expand investments and financial ties to Venezuela, but a significant portion of the oil is not actually going to China. If Chinese equity oil from Venezuela or other controversial countries is acquired by Chinese state firms in the name of energy security but then resold on global markets for profit, this begs the question of whether Chinese SOEs are unnecessarily exposing China to excessive political risk.

China-Venezuela Oil Accounting: Where's The Oil Flowing?

The conventional wisdom about the China-Venezuela relationship, propagated most forcefully by Chinese officials keen to emphasize their country's non-political interests in Venezuela, is that it is based on oil. Simply put, China needs oil and Venezuela has it. The CDB's point-man on Venezuela, Li Kegu, summed up the logic of relations when he said "We [China] have lots of capital and lack resources, they have lots of resources and lack capital, so it's complementary" (*Bloomberg*, September 27, 2012). China is the second largest oil importer in the world (after the United States) and its oil demand growth is the fastest. Venezuela recently was declared to have the world's largest petroleum reserves, surpassing Saudi Arabia (*BP Statistical Review of World Energy*, June 2012). Lauding the rapid development of China-Venezuela oil ties, the Chinese press recently reported that Chinese imports of Venezuelan oil may reach 1 million barrels per day (b/d) by 2015 from a starting point of only 59,000 b/d as recently as 2005 (*China Daily*, December 1, 2012). By all outward indications, then, Venezuela-China oil ties should be a straightforward example of China's self-declared win-win, complementary trade and investment relations with Latin America.

Such an assessment, however, would be premature and misleading. Because while oil is certainly the key link in China-Venezuela ties and while the amount of oil that "China" receives from Venezuela has certainly expanded rapidly from a low starting point in the last decade plus, there are a number of puzzling results that emerge from a closer analysis of official Venezuelan and Chinese trade statistics [3]. The most important of these is that official PDVSA (Venezuela's state oil company) export statistics are consistently higher than official Chinese import statistics. Table 1 below lays out these official statistics and the percentage that Venezuelan exports exceed Chinese imports in every year since 2006 (full 2012 statistics, however, have not yet been published).

These figures indicate, in every year from 2006 through 2011 during the boom in Venezuela-China oil trade and investment ties, PDVSA has consistently claimed an average of around one third more oil exports to China than China has claimed in imports. As the figures also

Table 1: Venezuela to China Oil Exports (barrels per day equivalent)			
Year	PDVSA Exports to China	Chinese Imports from Venezuela	Difference
2006	97,000	84,000	13%
2007	95,000	82,000	14%
2008	321,000	129,000	60%
2009	370,000	105,000	72%
2010	178,000	151,000	15%
2011	319,000	230,000	28%
			AVG: 34%

Sources: *Informe de Gestión Anual de Petróleos de Venezuela S.A.* (PDVSA), 2006-2012; "Zhongguo shiyou he tianranqi jin chukou zhuangkuang fenxi [Analysis of Chinese Oil and Natural Gas Imports and Exports]," in *Zhongguo shiyou jingji*, March 2012. The standard accounting measure for oil is in thousands of barrels per day equivalent, but China measures imports in millions of metric tons. The industry standard of 20,000 b/d equivalent to 1 million metric tons was used for the conversion.

show, however, in some years (e.g. 2008 and 2009) China's official import figures were well under half and even closer to only one fourth of Venezuela's official export figures. Other recent studies also corroborate the higher percentage disparities, showing a gap of 55–70 percent in both 2010 and 2011 [4].

What is the explanation for this consistent disparity and why does it matter? Although neither the Venezuelan nor the Chinese authorities have commented on these discrepancies in their official oil accounting statistics, a number of explanations come to the fore. Key among them are geography and chemistry. On the former, Venezuela is far away from China as well as the majority of its international oil transport routes (most of which are in the Middle East and Africa). On the latter, Venezuela's heavy-grade oil is not well-suited for Chinese refining capacity.

Tied to these fundamental challenges is what is already known about Chinese national oil companies (NOCs) and their use of global equity oil acquisitions. A wide range of reports from international oil organizations like the International Energy Agency (IEA) to policy think tanks to academic publications have all indicated that frequently the majority of Chinese NOC's equity oil is actually resold on local or international markets [5]. For example, one 2007 study showed that in 2006 Chinese NOCs resold close to 70 percent of their overall global equity oil production [6].

Combining the general pattern of Chinese NOC reselling of their equity oil with the specific geographic and refining challenges China faces in Venezuela, a logical conclusion is that the accounting discrepancies in Table 1 can largely be explained by Chinese NOC's reselling of their Venezuelan oil. Further, it is likely that such resale is happening much closer to Venezuela (and the United States) than to China [7]. Indeed, in a 2005 interview, the Chinese ambassador to Venezuela noted "the natural markets for Venezuelan oil are North and South America" (*El Universal*, August 28–29, 2005). Ultimately, then, a significant portion, sometimes the majority, of oil that "China" receives through the CDB-led loans-for-oil deals with Venezuela is most likely in fact resold by its NOCs, never physically arriving in China. Such oil resales (at least of oil products) may be standard behavior for other international oil companies, but for China's state-owned firms it has political consequences.

China and Venezuela: The CDB and Risk Socialization

Why does it matter if Chinese NOCs are reselling a significant percentage of their Venezuelan (or other) equity oil on the international market? In Venezuela, the CDB-led multi-billion dollar financing and investment relationship with the Chavez government constitutes the CDB's largest financial presence anywhere outside of China itself and is nominally based on China's need for oil [8]. If some significant percentage of the oil acquired through the CDB deals does not go to China and in the process the CDB, Chinese NOCs and other Chinese firms involved with the CDB deals earn a profit, then the CDB effectively has exposed China's diplomacy and image to the full extent of Venezuelan political and economic risk for its own corporate gain. Of course, the CDB and other Chinese state and non-state firms involved in Venezuela still could face economic losses themselves in the wake of Chavez's demise, but this is perhaps less serious than the potential political consequences.

For all practical purposes, this essentially amounts to CDB's socialization, or nationalization, of its own corporate risk. If the CDB were not a Chinese state-owned "policy bank" at the leading edge of its own financing and other Chinese SOE investment in Venezuela and were instead a private firm, it would not represent state-to-state ties in the way it currently does. Because the CDB, however, is one of China's three state-owned policy banks, its actions—including purely economic ones like providing financing for Venezuelan oil deals and for other Chinese firms to invest in Venezuela—have political consequences for China itself.

Through the CDB, "China" has become the largest source of foreign financing for Chavez, who is by far the most controversial and polarizing leader in Latin America. The CDB's massive build-up of loans-for-oil deals have thus been seen by many of those who both love and hate Chavez, inside and outside of Venezuela, as symbolizing official Chinese backing for Chavez [9]. For a Chinese government that has a policy of non-interference in other countries' domestic politics and is particularly concerned not to ruffle U.S. feathers in its own "backyard", even the perception of such political support for Chavez is problematic. Moreover, if much of the oil acquired through the CDB deals is simply being resold, China's new leadership may want to ask itself whether this constitutes a sound economic or political foreign policy strategy in Venezuela.

China and Post-Chavez Venezuela: Managing the Hangover

Neither Chavez nor PDVSA have necessarily been easy partners for China and many former PDVSA officials and opposition figures have been critical of the loans-for-oil deals with China (*Perspectiva*, November 2, 2012; *La Nacion*, October 7, 2012). China has had to work to parry Chavez's efforts to involve it more closely in his own ideological and anti-U.S. agenda. Whether inside or outside of Venezuela, Chavez has been the kind of polarizing leader who you are either for or against. So in the case of the CDB-led build-up of financing and investment in Chavez's Venezuela, China's actions have spoken louder than words. For better or for worse, Chavez has been Beijing's man and in return China has continued to supply Chavez with scarce foreign financing and investment. With Chavez ill in Cuba, possibly never to return, Venezuela has entered into a constitutional and political crisis that may drag China in as well.

For well over a year concerns have been raised that if, in a post-Chavez scenario, the opposition were to come to power that it would seek to alter the loans-for-oil deals with China ("China's Cautious Economic and Strategic Gamble in Venezuela", *China Brief*, September 30, 2011). Ultimately, no one knows the answer to those concerns. The CDB may have secured long-term access to Venezuelan oil for China's NOCs, or alternately the CDB and other Chinese firms may face loss-making revisions to current agreements [10]. What is clear is that the CDB's decade plus of binging on state-to-state deals with the Chavez government has now exposed Beijing to a painful diplomatic hangover tied to Venezuela's slow-motion crisis.

Whether at home or abroad, Chinese leaders hate nothing more than instability, but instability is what they face in their relations with Venezuela. As in Sudan and Iran before, an unwanted crisis may yet serve to focus Chinese leaders' minds to help build a healthier and more stable Venezuela, but doing so will probably require a

willingness to rethink the governance of China's SOEs abroad. Since the vast majority of China's imported oil continues to be supplied by basic long-term trade contracts and not through its equity oil acquisitions, the crisis in Venezuela may prove the perfect opportunity to move away from a pattern of Chinese equity oil ties to controversial governments. If a major portion of China's equity oil is not going to China anyway, the new Chinese leadership should ask itself whether the diplomatic and image costs to China are worth the risks.

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Notes:

1. Zha Daojiong, "China's Energy Security: Domestic and International Issues," *Survival*, Vol. 48, No. 1, Spring 2006, pp. 179–190.
2. For more on the geopolitical implications of China's energy ties to such "pariah" regimes, see Andrew B. Kennedy, "China's New Energy-Security Debate," *Survival*, Vol. 52, No. 3, June-July 2010, pp. 137–158 and Wojtek M. Wolfe and Brock F. Tessman, "China's Global Equity Oil Investments: Economic and Geopolitical Influences," *Journal of Strategic Studies*, Vol. 35, No. 2, April 2012, pp. 175–196.
3. As a percentage of total global oil imports, Chinese customs figures show that Venezuela accounted for less than .5 percent as recently as 2004, up to 4.5 percent in 2011. See, *Zhongguo shiyou jingji* [China's Oil Economy], March 2012.
4. See, Kevin Tu, "Chinese Oil, An Evolving Strategy," *China Dialogue*, April 24, 2012, for 2010, and Michael Forsythe and Henry Sanderson, *China's Superbank*, Singapore: Bloomberg Press, 2013, for early portions of 2011.
5. See, for example, Julie Jiang and Jonathan Sinton, "Overseas Investments by Chinese National Oil Companies," *International Energy Agency*, February 2011; Mikkal Herberg, "China's Energy Rise and the Future of U.S.-China Energy Relations", *New American Foundation*, June 21, 2011; and John Lee, "China's Geostrategic Search for Oil", *The Washington Quarterly*, Vol. 35, No. 3, Summer 2012, pp. 75–92.
6. Erica S. Downs, "The Fact and Fiction of Sino-African Energy Relations", *China Security*, Vol. 3, No. 3, Summer 2007, pp. 42–68.
7. Jiang, and Sinton, p. 18.
8. See, Forsythe and Sanderson, *China's Superbank*, pp. 123–146.
9. Vladimir Rouvinski, "China Through the Eyes of Latin American Media: 2001-2011", Conference Paper presented at Javeriana University, "China and Latin America: Strategic Partners in a Multipolar World?" Bogotá, Colombia, September 3–4, 2012.
10. The very limited Chinese academic analysis of "risk" related to Chinese investments in Venezuela focuses almost exclusively on financial or economic factors, not political risk. See, for example, Zhang Kang, "Weineiruila shiyou zoushi he wo guo de fengxian duice [Venezuelan Oil and China's Risk Policies]," *Zhongguo Nengyuan Wang*, December 13, 2011, available online <http://www.china5e.com/show.php?contentid=202696&page=4>.

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The Bumpy Path to Sino-Mongolian Cooperation in the Mining Sector

By Alicia Campi

The kabuki-style dance of trade partners Mongolia and China began again in earnest when on January 15 the third meeting of the Mongolia-China Cooperation Commission on Mineral Resources and Energy met in Ulaanbaatar. Mongolia's Minister of Mining Davaajav Gankhuyag led the Mongolian side and Deputy Director of China's National Development and Reform Commission Zhang Xiaoqiang headed the Chinese delegation. According to Zhang, "boosting co-operation in mineral resources and energy, which account for the bulk of China-Mongolia economic and trade relations, is in the interests of both countries and can help Mongolia turn its advantages in resources into economic

development" (www.business-mongolia.com, January 16). Although China and Mongolia see great benefits in continuing their vibrant trade in minerals, each side has a different vision on how to proceed. This has led to a tense relationship that often, mistakenly, is described by global financial commentators as resource nationalist sentiment in the Mongolian parliament and populace.

Mongolia exported a total of $4.38 billion worth of products in 2012, 89 percent of these being minerals that represented 20 percent of the country's GDP (Mongolian National Statistics Office, www.nso.mn). All of Mongolia's coal, iron ore, copper, zinc and tin concentrate as well as much of its gold are exported to China. Chinese state-owned enterprises (SOEs) and private corporations in 2011 were the largest investors in Mongolia's mineral sector with $2.3 billion FDI—five times the amount China invested in 2006 (*The Mongol Messenger*, January 18). This close reliance is hardly the definition of resource nationalism.

Two of the prime goals of the Mongolian side during the consultations were to renegotiate upwards the prices the Chinese pay for Mongolian raw minerals and lessen transit tariffs for Mongolian shipments destined for third nations, such as South Korea and Japan. The Mongols also raised the issue of the failure of Chinese mining operations to obey all Mongolian environmental and safety laws, demanded the employment of more Mongolian mine workers and discussed plans for construction of mineral processing plants inside Mongolia. China pressed for more stability in the legal environment regulating bilateral trade and foreign investment. Deputy Director Zhang also suggested that the two countries focus on developing large mining projects and constructing a highly connected railway transportation and coal transport border infrastructure.

One area both sides agreed has potential for expansion is in oil products. PetroChina's investment of $1.4 billion in the oil sector made it the biggest investor in Mongolia last year. This oil production is exported to China for refining. Minister Gankhuyag told the Chinese side that Mongolia considered it necessary to make the border checkpoint where the crude oil crosses into China (Bayankhooshuu-Uvdug) a permanent one, to process the raw Mongolian crude in China and return the product, and to make an agreement on implementation of a 2008 memorandum between PetroChina and the Oil Authority of Mongolia to supply 10,000 tons of oil products monthly as well as purchase additional volume (*The Mongol Messenger*, January 18). Mongolia imports all its refined oil and diesel with more than 90 percent coming from Russia. To overcome this lopsided dependence the government has set a goal of building a state oil refinery with Japanese technology that would be functional in 2015. In the interim, it wants to cooperate with China to diversify its oil imports.

The Mongols expected the consultations would be open to the public; however, at the request of the Chinese, it was held behind closed doors. Midway through the discussions, Zhang and Gankhuyag issued a joint statement, but refused to take questions from journalists. In their statement they noted that bilateral trade volume in 2012 reached $6.6 billion and announced that negotiations would continue over infrastructure and railroad projects as well as oil cooperation (*www.english.news.mn*, January 16).

Changes to Mongolia's Foreign Investment Law Complicate Picture

These bilaterals were influenced by the fact that 2013 began with the foreign investment picture in Mongolia again in turmoil, because of President Tsakhia Elbegdorj's proposals for revising Mongolia's Strategic Entities Foreign Investment Law (SEFIL) of May 2012 that imposes tight regulations on investments in mining, banking, finance and media communications. Passed in a rush by Mongolia's Parliament after the Chinese state-owned Aluminum Corporation of Corporation (Chalco) attempted to acquire majority stake in a privately-held coal mine controlled by South Gobi Resources (owned by Canadian company Ivanhoe, now renamed Turquoise Hill), the law requires Mongolian governmental review of all assets in the affected sectors with foreign state-owned FDI or cross the value threshold of MNT 100 billion (about $70 million). While Chinese mineral assets are hit the hardest by these new regulations, China and western investors are on the same side—although apparently not working together—to counter the SEFIL and moderate its provisions.

Investor complaints about the law in recent months were not unnoticed by President Elbegdorj. On the day

after Christmas, he went on Mongolian television to give support to respecting the controversial 2009 Oyu Tolgoi (OT) agreement wherein Rio Tinto and its partner Turquoise Hill hold 66 percent to Mongolia's 34 percent of a huge deposit in the Gobi projected to contain 31 million tons of copper, 1,328 tons of gold and about 7,000 tons of silver. He cautioned that Mongolia must respect legal documents and warned that the nation's "reputation for having a favorable investment environment is being tarnished as domestic demand is growing for the government to hold more shares in the project" (Xinhua, December 26, 2012). One day later, the president's 91-page draft proposals (published on December 5, 2012) to Parliament for amending the 2012 Mineral Law were discussed in a news conference by Minister Gankhuyag, who while serving as a Parliamentarian was known for his demand that Mongolia renegotiate the OT agreement and hold a larger stake in all major strategic mineral resources. The minister announced the government is seeking to revise upward the threshold of FDI that triggers automatic government review to as high as MNT 300-400 billion (approximately $210-280 million) (Xinhua, December 28, 2012). Gankhuyag speculated such changes could be introduced for parliamentary debate in mid-February around the recess for the traditional lunar New Year holiday.

The Business Council of Mongolia (BCM) with some 250 members (although apparently no Chinese ones) sent a letter on January 7 to the Office of the President commenting on the president's draft law proposals. The BCM's strongly-worded document, based on an analysis by firm member Hogan Lovells , had five macro-conclusions:

(1) "The significant increase in regulation and intruding State control" would deter greater growth and prosperity;
(2) "The impact of the Draft Law on the minerals industry will be to halt current minerals exploration and development in Mongolia and greatly discourage any future investment"—citing in particular, the development of Tavan Tolgoi coal deposit;
(3) the draft law would be "over politicized" in the upcoming June presidential election;
(4) Mongolia's "brand as an investment destination" would be damaged, resulting in repelling not attracting FDI; and
(5) the draft needed at least six months of debate before a vote (www.bcmongolia.org, January 7, 2013; www.hoganlovells.com, December 31, 2012).

Slow Down in Mongolian Coal Exports to China

Mongolia's overall exports in 2012 fell 8.99 percent—a decrease of $430 million from 2011. The main reason was the drop in mineral exports to China. In 2012, Mongolia exported 20.9 million tons of coal, 574,000 tons of copper concentrate, 6.4 million tons of iron ores, 3,570 barrels of crude oil, 2.8 tons of semi-processed and unprocessed gold and 140,000 tons of zinc concentrate. Coal represented 43.2 percent of the country's exports, copper concentrate 19.1 percent, and iron ore 12.1 per center. Iron ore exports increased by 10 percent and crude oil exports grew by 40 percent (www.business-mongolia.com, January 17). Despite the downward trend and the slowing of China's economy, it was predicted by Mongolia's Mineral Resource Authority that Mongolian coal exports would grow 32 percent this year (www.news.mn, January 16).

During the consultations, it is likely that the Mongols informed the Chinese that development of Mongolia's 7.5 billion ton coal project of Tavan Tolgoi—300 km from the Chinese border and operated by the state company of Erdenes Tavan Tolgoi (E-TT)—would be further delayed until after 2013. CEO Yaichil Batsuuri, appointed to E-TT last October, had announced in mid-January that E-TT was suspending all coal deliveries to its client, Chalco, because it had run out of funds for overland trucking service fees (it owes $3.6 million) and wanted to renegotiate its supply contract with Chalco (www.news.mn, January 14). E-TT's finances were drained in 2012 when it was forced to pay $310 million into the Mongolian government's Human Development Fund, so it could disburse promised monies to each citizen just prior to the June 2012 parliamentary elections.
Chalco had paid Mongolia $250 million in July 2011 for an unannounced amount of coal, but at a price Batsuuri claimed was close to $53 per metric ton—a price analysts agree is considerably lower than international standards. When the bankrupt E-TT recently sought government

assistance, it was promised in January $355 million from Mongolia's Development Bank to resume work, repay its debts and possibly refund in cash to Chalco the contract's coal obligations. Batsuuri explained that Mongolia wishes to maintain a relationship with Chalco, but change the nature of their cooperation and price formula. Claiming that E-TT loses over $5 on every ton under the present arrangement, he indicated that the government wanted to sell its coal at world prices to other nations if it can dissolve the Chalco agreement: "Paying by coal is not profitable for the company. We are losing on coal trade. That's why the government made the decision to pay out the remainder. We will pay the remaining $180 million in cash" (www.english.news.mn, January 24). Chalco in a written response to Bloomberg's Mongolian office regarding the news that E-TT was stopping delivery of its coal maintained the "fundamental terms of the agreement should not be changed," separately and reportedly including "secret terms" (english.news.mn, January 28; January 24; www.bcmongolia.org, January 24).

The January consultations with the Chinese covered the topic of expanded Sino-Mongolian rail construction for Tavan Tolgoi to replace the present truck transport of coal. Zhang said "the Chinese side will give support to construct a railway to be built in southern Mongolia and pay attention to transporting products at cheaper prices after the railway is constructed. The Chinese side is willing to render support to construct a railway from Tavan Tolgoi to Sainshand [the linkage point to Mongolia's rail south] based on an economically profitable basis" (*The Mongol Messenger*, January 18).

A finalist bid list, consisting of China's Shenhua Group Corp. Ltd, Peabody Energy Corporation of the United States, and a Russian Railway-Mongolian consortium, for foreign investment rights to Tavan Tolgoi's western section has been held up for two years by protests over the selection process, particularly from Japanese and South Korean companies. Shenhua had put up $200 million as a good faith gesture to secure its finalist position. Shenhua Energy has not made a statement on the situation but the Mongolian Ambassador to China, Tsedenjav Sukhbaatar, revealed discussions are ongoing (english.news.mn, January 28). How to proceed with this western field bid list has delayed Mongolia's plan this year to raise up to $3 billion in funds in an initial public offering (IPO) for development of Tavan Tolgoi's eastern field, to be handled by BNP Paribas, Deutsche Bank, Goldman Sachs and Macquarie. Batsuuri explained the IPO cancellation by saying "We decided to wait until the market recovers, the price of coal increases, and until E-TT starts regular construction of its wash plant. Plus we need to increase our exports" (english.news.mn, January 24).

Strategies Going Forward

The Chinese government has been very circumspect in commenting on recent trade disputes with the Mongols. This posture is far different from the 1990s when rail freight traffic often was severed to punish Mongolian actions or influence Mongolian decision-making. This change in strategy may reflect the realization that a hard-line approach with Mongolia politically was counterproductive and that Inner Mongolian factories have become more dependent on Mongolian minerals with each year. The Chinese have used Mongolian news outlets to voice disappointment during this third round of Sino-Mongolian consultations about what they see as Mongolia's uncertain legal regime and changeable mineral sector regulations. These same media sources claim that the Mongols had "high expectations" for negotiations on the big issues, such as the unprocessed coal price that were not met and concluded that "many questions are still left without answers" (english.news.mn, January 17).

Meanwhile, the Chinese could not fail to note that on the same day as the Sino-Mongolian consultations, Mongolian Minister of Foreign Affairs Lu Bold started his official visit to India with meetings in Mumbai with Indian Chamber of Commerce businessmen to encourage more investment in the already burgeoning Indo-Mongolian mineral relationship (www.news.mn, January 16). On January 24, it was announced in Beijing that after attending the 21st Annual Meeting of Asia-Pacific Parliamentary Forum in Vladivostok, Wu Bangguo, chairman of the Standing Committee of the National People's Congress, will pay an official goodwill visit to Mongolia from January 27 to February 1 at the invitation of Mongolian Parliamentary Chairman Zandaakhuu Enkhbold (china.org.cn, January 24). These visits are signs that Sino-Mongolia relations will continue to be played out in Asia at the very highest levels as 2013 progresses. The lack of clarity on how bilateral mineral

trade will proceed, however, reflects both Mongolian domestic political sensitivity over Chinese predominance among foreign investors and a growing Mongolian desire to develop mineral deposits more slowly under their own auspices. China has been mostly reactive, trying to parry Mongolian moves. It seems to understand that with Mongolia's new assertiveness, political and strategic factors are as important as economic ones, so for now Beijing remains calm and relatively tolerant.

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