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A PLA Navy soldier watches Chinese citizens board the *Linyi* to be evacuated from Yemen.

(Source: *China Daily*)

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For comments and questions about China Brief, please contact us at  
< [beauchamp@jamestown.org](mailto:beauchamp@jamestown.org) >

1111 16th St. NW, Suite 320  
Washington, DC 20036

Tel: 202.483.8888  
Fax: 202.483.8337

## In a Fortnight

### PLA NAVY USED FOR FIRST TIME IN NAVAL EVACUATION FROM YEMEN CONFLICT

By Nathan Beauchamp-Mustafaga

On March 29, the *Linyi*, a People's Liberation Army Navy (PLAN) missile frigate, evacuated the first 122 Chinese citizens and two foreign experts from Aden, Yemen to Djibouti as the situation in Yemen deteriorated—marking the first time PLAN ships were used to rescue citizens abroad ([People's Daily Online](#), March 30; [Xinhua](#), March 30). The next day, the *Linyi's* sister ship, the *Weifang*, also rescued another 449 Chinese citizens from Al-Hodayda ([Xinhua](#), March 30). Speaking at the Boao Forum in Hainan on March 29, Chinese Foreign Minister Wang Yi said “there are 590 Chinese nationals in Yemen and the Chinese government launched the evacuation plan Thursday evening [March 26], when Saudi Arabia and its allies launched airstrikes in Yemen. The evacuation will help ensure Chinese nationals come back to China safely” ([China Daily](#), March 29).

The crisis in Yemen escalated this January when Houthi rebels took control of the capital, Sana'a, forcing the president to leave the capital in February, and by

early March they had taken large parts of the country. In response to the president fleeing to Saudi Arabia via Oman on March 26, Saudi Arabia was able to build a 10 country coalition, with a reported 150,000 troops, seemingly overnight to begin an air campaign against the rebels. Describing the scene in the capital, Xinhua said residents had fled and businesses were closed ([Xinhua](#), March 29). The instability in Yemen represents a challenge to what was a deepening relationship between Beijing and Sana'a, after Defense Minister Muhammad Nasir Ahmad and President Abdu Rabbu Mansur Hadi visited Beijing in September and November 2013, respectively, to “[seek] cooperative relations” ([Xinhua](#), September 23, 2013; [CTTV](#), November 13, 2013; [China Brief](#), July 7, 2006). However, the Chinese government had already begun pulling back on some projects in the country in January ([Yemen Post](#), January 1).

This evacuation is small compared to the 35,000 citizens China evacuated from Libya during its civil war in 2011, and another 1,000 people again last year (see [China Brief](#), March 10, 2011; [South China Morning Post](#), March 30). According to Zhang Junshe, a researcher at the PLA’s Naval Military Academic Research Institute, during the 2011 evacuation, the *Xuzhou*, a PLAN frigate, only provided “support and protection,” meaning that Yemen is “the first time that PLAN vessels have berthed in a foreign port to directly evacuate Chinese citizens” ([Xinhua](#), March 30). Although China has also evacuated its citizens from Mexico, Japan, Egypt, Iraq, Kyrgyzstan and Vietnam in recent years, Chinese media referred to Yemen as the second evacuation, likely since the others were only partial and apparently no military assets were used ([China Daily](#), March 30; [Xinhua](#), March 30). The *Linyi* and *Weifang* do have a contingent of special forces, but they apparently have not been deployed on the ground in Yemen ([South China Morning Post](#), March 30). On April 2, China evacuated 225 foreign citizens from 10 countries on the *Linyi*, including 176 from Pakistan, and several from Singapore, Italy, Germany and England, among others ([Xinhua](#), April 1; [China Daily](#), April 3).

The Chinese press initially revealed very limited details about the operation. After a March 27 announcement by the PLAN North Sea Fleet that it was suspending anti-piracy operations in the Gulf of Aden—for the first time since starting in 2008—without explanation, state-run *Global Times* followed up with its headquarters in Dalian and did not receive a response ([Global Times](#), March

28). Citing unnamed “military experts,” *Global Times* assumed it was to evacuate people from Yemen and that it would be a “temporary decision” to stop the Gulf of Aden patrols. Explaining Yemen’s importance to China, the paper quoted another anonymous source as saying that Yemen’s “strategic location is very important,” as it “guards” the junction of the Arabian Sea and Red Sea, connects the Mediterranean Sea to the Indian Ocean and is a passageway for Middle Eastern oil to Europe.

The Chinese media has touted this evacuation as a point of national pride. A *Global Times* editorial said “evacuating overseas citizens is a test for a country’s comprehensive national power,” and that China’s recent successes over the last several years show “the country’s ability to protect overseas citizens’ collective security.” It continued that “providing a more reliable normalized security guarantee for Chinese citizens abroad, including protecting their property,” is more difficult, and “requires China to have strong political influence, comprehensive deterrence and more tools for overseas security.” This must be coordinated with overseas citizens “improving their own self-defense capabilities.” The *Global Times* concluded that “the meaning of Chinese national security is expanding from a fixed goal of territorial waters to individuals who move overseas, so it is a never-ending mission.” The article also proudly noted that China evacuated its citizens much faster than India, adding that it “was not a coincidence” and shows how far China has advanced past India. Xinhua added that the evacuation “[demonstrated] responsibility and humanistic care toward its citizens” ([Xinhua](#), March 30). Another article noted that the evacuation represented “three firsts”—the first evacuation using PLAN vessels at a foreign port, the first evacuation of foreigners and the first pause in China’s patrols in the Gulf of Aden ([Global Times](#), April 3). Zhang Junshe said the evacuation of non-Chinese citizens “showed the spirit of China playing a responsible great power” ([Global Times](#), April 3).

Li Shaoxian, an expert on the Middle East at Ningxia University, told China National Radio that Saudi Arabia’s intervention may cause Yemen to break out in civil war and become a “proxy war,” since “on one side is Iran in the background, and on the other side is Saudi Arabia—it’s becoming a new tinderbox in the Middle East” ([China National Radio](#), March 28). *China Youth Daily* echoed Li by describing the conflict as a proxy war between the Saudi-led Sunnis and Iranian-led Shiites ([China Youth](#)

*Daily*, March 28). Xinhua said it was hard for Saudi Arabia to “tolerate the Yemen regime becoming closer to Iran,” as “analysts have pointed out that in order to preserve its important position in the Middle East, Saudi Arabia is taking actions to support the Yemen government” after “Iran has been accused of supporting the Houthi’s attempt to overthrow the Yemen government” ([Xinhua](#), March 29).

The Chinese press has so far refrained from directly criticizing Saudi Arabia’s intervention but has quoted several foreign experts and foreign media reports that discuss the risk of further destabilization. China News cited one Russian expert who said that the Saudi-led coalition “cannot accomplish its goal” and that they will only expand the conflict and kill more people, possibly launching a “large-scale Sunni and Shiite civil war” ([China News](#), March 27). *People’s Daily* has taken the Yemen conflict as another opportunity to criticize the United States’ involvement in the Middle East, publishing an op-ed by three academics entitled “How Can America Be Helpful Without Causing Trouble in the Middle East,” and a 2013 article in *Seeking Truth* cited Yemen as an example of how the “Arab Spring” has turned to the “Arab Winter” in an article against “universal values” (*People’s Daily*, March 19; *Seeking Truth*, October 16, 2013).

Austin Strange, a Harvard Ph.D. student and co-author with Dr. Andrew Erickson of Jamestown’s upcoming book on China’s anti-piracy efforts in the Gulf of Aden, explained: “The Yemen evacuation is the latest of several examples, including Syrian chemical weapons destruction and MH370 search efforts, of how China’s protracted anti-piracy operations afford it valuable reach in international maritime security. These modest but important cases make it intriguing to ponder how China’s ability to do participate in a wide range of Far Seas security activities could change after its Gulf of Aden mission ends” (Author’s interview, March 30).

The situation in Yemen likely reinforces Beijing’s worldview that U.S. action in the Middle East over the last 15 years, coupled with the Arab Spring, has not benefited region’s stability or China’s overall development. However, China’s evacuation of its citizens also brings into focus the tensions it will increasingly face as it plays a greater role on the world stage—balancing its international responsibilities in patrolling the Gulf of Aden versus pausing those patrols to protect its citizens by evacuating them out of Yemen. This may be seen by

some in Beijing as yet another example of why China, and especially the PLAN, needs a larger and more permanent presence in the region.

*Nathan Beauchamp-Mustafaga is the Editor-in-Chief of China Brief.*

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## The Generals’ Growing Clout in Diplomacy

By Willy Lam

A recent foreign policy debate in the Chinese media has thrown into sharp relief the extent of the People’s Liberation Army (PLA) generals’ influence on the country’s diplomacy. Wang Zhanyang, a liberal academic at the Central Institute of Socialism, caused a stir when he argued in a late 2014 article in *Global Times* that “it is impossible for Japan to go down the old road of militarism.” Professor Wang argued that “both the ‘Japan threat’ theory and the ‘China threat’ theory do not tally with reality.” He added that believers in Japan’s remilitarization, including the country’s hawkish military officers, had “strayed into the realm of methodological fallacy” (*Global Times*, October 9, 2014). Lieutenant-General Wang Hongguang harshly disputed Professor Wang’s point in a *Global Times* article last November. General Wang, a retired deputy-commander of the strategic Nanjing Military Region, cited efforts by the Shinzo Abe administration to reinterpret the Japanese Constitution and to develop state-of-the-art weapons as demonstrating that “Japan’s 1,000-year-old ambition of conquering China remains unchanged.” General Wang hinted that a new war with Japan was a distinct possibility (*Global Times*, November 14, 2014).

Supporters of the professor and the general have clashed vociferously in China’s social media. Senior Colonel Xu Sen seemed to back the PLA’s heightened involvement in foreign policy when he argued that “soldiers have every right to make public statements about issues of national defense and national security.” Xu, a veteran researcher at the National Defense University, denied accusations that the generals were “stoking the flames of nationalistic feelings.” “If soldiers don’t talk about war, what else should they talk about?” he asked rhetorically in a commentary in the *Global Times* (*Global Times*, August

28, 2014; [Chinaaiiss.com](http://Chinaaiiss.com) [Beijing], August 28, 2014). Xu's remarks provoked the bigger question of whether, apart from raising eyebrows, the generals' increasingly frequent comments on diplomatic and national-security issues mean that President and Commander-in-Chief Xi Jinping, China's No. 1 foreign-policy formulator, is giving them a bigger say in this key arena.

### Avenues for PLA Influence Over Foreign Policy

Military personnel largely exert influence on foreign and national security policies in two ways. The first is through *junshi waijiao* ("military diplomacy"), meaning officers in China's labyrinthine defense establishment actively engage in activities ranging from boosting military-to-military contacts with foreign governments and defense forces to PLA staff joining international conferences or taking part in global peace-keeping missions. The second way for the top brass to weigh in on diplomacy is through offering advice to the top leadership—President Xi and members of the Politburo who have a diplomatic portfolio—in official and unofficial capacities. Generals sit on the Chinese Communist Party's (CCP) two highest-level diplomatic decision-making bodies: the Foreign Affairs Leading Small Group (FALSG) and the Central National Security Commission (CNSC). Senior PLA staff who are good friends of President Xi, who served as a junior secretary in the policy-setting Central Military Commission (CMC) from 1979 to 1982, also contribute to the nation's national-security policies in informal conversations with the putative head of the Gang of Princelings (a reference to the offspring of Party elders). [1]

President Xi's assessment of the way in which *junshi waijiao* should be waged has thrown light on the bigger issue of the generals' foreign policy clout. In late January, the CMC and the Ministry of National Defense held a rare national conference on PLA-related diplomacy. Xi saluted the role played by the defense establishment in "pushing forward the country's comprehensive diplomatic goals [and] upholding national security." But he also told the generals, as well as dozens of military attachés based in Chinese embassies around the world, that they should improve the tone and quality of their diplomatic endeavors. Xi indicated that military personnel must "unswervingly uphold the Party's absolute leadership over *junshi waijiao*." He added that PLA officers active

in diplomacy must "resolutely implement the policy directives of the Party leadership and the CMC, and that they must resolutely uphold a correct political orientation when they undertake observations, considerations and operations regarding [diplomatic] issues" (*Liberation Army Daily*, January 30; *Xinhua*, January 29).

Last year, the Chinese military was active in international humanitarian activities, including searching for the missing Malaysian Airlines Flight 370, dispatching a large medical team to fight the Ebola epidemic in West Africa and taking part in multiple peace-keeping missions mandated by the United Nations. PLA authorities also held two major international conferences: the Western Pacific Naval Symposium and the Xiangshan Forum, which covered issues including confidence-building measures with other defense forces in the Asia-Pacific Region. Moreover, members of the senior brass participated in regional security conferences, such as the Shangri-La Dialogue held in Singapore every year. A PLA naval taskforce last summer visited eight African countries, which testified to the global power-projection capacities of the fast-rising quasi-superpower (*Xinhua*, December 26, 2014; *People's Daily*, December 26, 2014).

Various outspoken generals, however, seem to have muddied the waters regarding China's efforts to defuse diplomatic crises and play down the "China threat" theory. Both serving and retired generals often resort to incendiary rhetoric when they hold forth on China's sovereignty disputes with countries such as Japan, Vietnam and the Philippines. Retired Major General Luo Yuan and "Long Tao," reportedly a penname for Dai Xu, have talked about "teaching a lesson"—code word for limited warfare—to Vietnam and the Philippines ([Junshi.xilu.com](http://Junshi.xilu.com) [Beijing], March 2, 2012; [Chinaaiiss.com](http://Chinaaiiss.com), October 28, 2011). And while engaging in military-to-military diplomacy with the United States during the Beijing visit of Secretary of Defense Chuck Hagel last year, Defense Minister General Chang Wanquan appeared to rattle the saber when he told Hagel that "the Chinese military can assemble as soon as summoned, fight any battle and win." General Chang had this to say about sovereignty disputes in the South China Sea and the East China Sea: "[China would] make no compromise, no concession, no treaty" (*Xinhua*, April 8, 2014; *China Daily*, April 8, 2014).

Given the opaqueness of Chinese politics, it is difficult to

ascertain in which areas Commander-in-Chief Xi wants *junshi wajiao* to be improved. It is also not easy to make out whether the fiery expressions of PLA commentators represent the real intentions of the CCP leadership—or whether their rhetoric serves the time-honored practice of psychological warfare. It is perhaps through directly exerting influence within high-level policy-making organs that the generals' impact is most clearly felt. While PLA personnel—and the quasi-military People's Armed Police (PAP), whose major role is maintaining domestic stability—number no more than 3.5 million, senior staff from the two units are always guaranteed 20 percent of the 200-odd seats in the CCP Central Committee. Two among the top brass—usually the two CMC Vice-Chairmen—are invariably assigned seats on the powerful Politburo. By comparison, no diplomats from the foreign policy establishment have made it to the Politburo since 2002. State Councilor and Defense Minister Chang Wanquan sits on the FALSG; several military intelligence experts from the PLA General Staff Department (GSD) are represented in sub-groups under the FALSG. More members of the top brass have been inducted into the two-year-old CNSC. Both CMC Vice-chairman General Fang Changlong and General Chang are Standing Committee members of the Commission, while PAP Commander General Wang Ning and GSD intelligence specialist Major-General Meng Xuezheng are ordinary members ([Sina.com.cn](http://Sina.com.cn), June 23, 2014; [Ta Kung Pao](http://Ta Kung Pao) [Hong Kong], April 15, 2014). Military officers' confidence in their contribution to foreign policy is fully reflected in this oft-cited saying in PLA media: “It is unrealistic to expect that diplomats can acquire while exercising their eloquence at negotiation tables what soldiers fail to get with their guns in warfare” ([Liberation Army Daily](http://Liberation Army Daily), July 28, 2014).

### PLA Princelings Serve as Xi's Private Think Tank

Packing a bigger punch are perhaps a dozen or so princeling generals who are deemed members of President Xi's informal and personal think tank. General Liu Yuan, the son of China's first state president Liu Shaoqi, is a key advisor to Xi regarding internal PLA affairs. It was General Liu, currently Political Commissar of the General Logistics Department (GLD), who kicked off the anti-corruption campaign within the PLA in 2011 when he exposed the economic crimes of then deputy commander of the GLD, Lieutenant-General Gu Junshan

([Phoenix TV](http://Phoenix TV), November 3, 2014). General Liu Yazhou, a much-published author who is Political Commissar of the PLA Academy of Military Science, is among several military princelings who periodically brief Xi on national security strategy. General Liu, who is the son-in-law of the late president Li Xiannian, published *Victories Based on Control of the Skies* in mid-2014. “Space will definitely be the last frontier for warfare,” Liu wrote. “Control of space is the premise of control of the air, control of the seas and control of information technology” ([Nanning Evening News](http://Nanning Evening News) [Nanning], June 9, 2014). Coincidentally, Xi began to advocate “the synthesis of air and space” in the same period. During a visit to the headquarters of the PLA Air Force (PLAAF) in April 2014, Xi urged PLAAF personnel to “speed up the construction of a powerful people's air force based on the premise of the synthesis of [the control of] the air and of space... so as to provide a forceful underpinning to the Chinese Dream and the Dream about a Strong Army” ([Xinhua](http://Xinhua), April 14, 2014).

### Generals Support Xi's “Strong Army” Dream

Compared to predecessors Deng Xiaoping, Jiang Zemin and Hu Jintao, Xi seems more ready to use military force to back up China's global power projection. One of Xi's first dictums on national security is that the Party-state-military apparatus “must ensure that the troops are ready when called upon and that they can fight effectively and win wars” ([People's Daily](http://People's Daily), August 7, 2014). He has repeatedly called upon the generals to “devote utmost effort to expanding and deepening preparations for military struggle,” repeating a common call since the early 1990s ([China News Service](http://China News Service), March 12, 2013; [Xinhua](http://Xinhua), February 6, 2013). In an unprecedented show of loyalty to Xi's military thinking last April, 18 senior generals published *biaotai* (“airing support”) articles in the *Liberation Army Daily*. The top brass summarized the commander-in-chief's views on national security as “daring to brandish the sword and to deploy the sharpest sword” ([Liberation Army Daily](http://Liberation Army Daily), April 2, 2014). Given growing expectations of military forces becoming a preeminent actor in realizing the country's goals in diplomacy and national security, it seems logical that Xi should allow the generals a bigger voice in foreign affairs.

Indeed, the generals' influence is felt in not only national security issues but also the overall reshaping of Chinese politics and civilization in accordance with the “Spirit of

Xi Jinping” (see [China Brief](#), March 6). While ruminating about the “Chinese Dream,” Xi often posits a “strong army” as a prerequisite for “the renaissance of the Chinese people” ([Beijing Youth Daily](#), April 16, 2014). Or as princeling General Liu Yuan put it, “without a strong national defense, rich countries will become a fat sheep that is liable to be slaughtered” ([Xinhua](#), March 16, 2013). Perhaps in light of the heavily nationalistic—and militaristic—component of the “Chinese Dream” mantra, princeling General Liu has been advocating a kind of “war culture” to be inculcated particularly among young Chinese. Liu argued in a controversial 2010 article entitled “Why We Need to Retool Our Views on Culture and History” that “war culture” had “crystallized the most time-honored and most critical intelligence of mankind.” “We should harbor a devout heart and a worshipper’s fealty toward war and the actors in warfare,” he said. “They are just too splendid, too great!” ([Seeking Truth](#), September 1, 2010; [People’s Daily](#), August 3, 2010). If actors of warfare are seen as saviors of China and custodians of the quintessence of Chinese civilization, the status of generals as decision-makers in foreign and national security policies will inevitably be enhanced.

*Dr. Willy Wo-Lap Lam is a Senior Fellow at The Jamestown Foundation. He is an Adjunct Professor at the Center for China Studies, the History Department and the Program of Master’s in Global Political Economy at the Chinese University of Hong Kong. He is the author of five books on China, including “Chinese Politics in the Xi Jinping Era: Renaissance, Reform, or Retrogression?” which is available for purchase now.*

## Notes

1. For a discussion of the generals’ role in China’s foreign policy formulation, see, for example, You Ji, “The PLA and Diplomacy: Unraveling Myths About The Military Role in Foreign Policy Making,” *Journal of Contemporary China*, Volume 23, Issue 86, 2014, pp. 236–254. Also see Michael Swaine, “China’s Assertive Behavior Part Three: The Role of the Military in Foreign Policy,” [China Leadership Monitor](#), No. 36, 2012; Willy Lam, *China Politics in the Era of Xi Jinping* (New York: Routledge, 2015), pp. 227–233.

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## What’s in a Story?: Chinese Narratives on Territorial Conflict in the Pacific

By David Millar

Last week, China finished hosting the 2015 Boao Forum and also participated with Association of Southeast Asian Nations (ASEAN) members in the 13th round of talks on the Implementation of the Declaration on the Conduct of Parties in the South China Sea. Both were promoted in the Chinese press as symbols of China’s commitment to the region and to an emerging pan-Asian economic and security order, embracing peace while also according China appropriate weight as a “great power” ([Xinhua](#), [March 27](#), [March 28](#)). This year’s Boao theme, “Toward a Community of Common Destiny,” seems to perfectly capture Beijing’s vision for a 21<sup>st</sup>-century Asia closely entwined with China’s economic and political leadership ([Tung Fang Jih Pao](#), March 29).

Yet China’s ongoing territorial conflicts in the East and South China Seas sound a discordant note in this otherwise harmonious symphony. Many in the United States see China’s engagements as part of a carefully-calibrated campaign of military and diplomatic maneuvering, an “incremental assertiveness” meant to divide the United States’ attention and acclimate neighbors toward accepting China’s rising power ([The Diplomat](#), January 8). Yet in China, the dominant narrative insists that any conflict with regional neighbors is rooted in the United States’ interference—and particularly the “Rebalance to Asia,” which encourages confrontation rather than negotiation and suggests a covert intention to thwart China’s rise ([China Daily](#), April 1).

Narratives like these can, of course, be cynically deployed to justify purely pragmatic goals, but their prevalence and resonance in the information space suggests they genuinely compel belief and inspire action—raising the potential for misunderstanding or miscalculation in a crisis. To provide greater fidelity on the narrative elements that shape the discourse on such conflict, a research team at the Bush School of Government and Public Service began examining the specific language, metaphors and imagery used inside of China to discuss these territorial disputes. This is the first of our reports.

## What's in a Narrative?

We define “narrative” as *a story that individuals and groups use to explain their circumstances and to justify a strategy or course of action*. Strategic narratives typically reference a shared historical experience and establish a causal logic that explains how to deal with similar challenges. Once internalized, this cognitive script serves as a “shortcut” for understanding conflict, and thus become a silent partner in the creation of strategy. Narratives become woven into formal declarations of policy, but are often left unexplained since they are considered “common sense.” Narratives are also key to group identity, and particularly coalition building—especially important in China, where important decisions are traditionally forged through elite consensus (*China Leadership Monitor*, [2008](#) and [2014](#)).

The Chinese Communist Party’s (CCP) core narrative—that the Party alone saved China from its “national humiliation,” and that it alone can deliver its rejuvenation—has survived severe challenges, but still requires periodic infusions of support to counter the rise of competing alternatives. We see this conducted through historical education, propaganda, memorials, dramatic re-enactment and—significantly—symbolic political and military conflicts that reinvigorate a sense of conspiracy and danger.

The Chinese are not simple consumers of such stories. Yet the CCP has demonstrated that in key areas, it still has the upper hand in shaping the narrative space and inoculating the population against “unpatriotic” concepts that threaten the Party’s agenda. [1] This is especially true in regards to territorial conflicts, where—unlike domestic issues such as corruption, pollution and cost-of-living—most Chinese derive their information (and their perspective) from government reporting rather than direct experience.

To identify narrative elements, our research team looked at a variety of sources including official press, regional dailies, military newspapers and websites, discussion boards, specialized journals, conferences, social media and television programs. We also looked for negative indications of censorship, using catalogs of Internet keyword blocks and Propaganda Department directives. From this, our team has begun to isolate patterns that indicate a dominant narrative and also suggest several

lesser, but competing narratives.

## China’s Metanarrative on Maritime Territorial Conflict

The overarching interpretation of China’s maritime territorial conflicts is that they represent the residual injustices of Western and Japanese imperialism and also a litmus test of China’s rejuvenation. China’s legal sovereignty over the territories ceded to foreign aggressors was established by the settlement of World War II—yet because of the United States’ interference, the influence of the Cold War and the People’s Liberation Army’s (PLA) limited ability to project power, territorial *control* had to be delayed. Thus, the government took a long-term approach and “shelved” disputes while China was weak—but China is not weak any longer, the narrative says, so the government should use its diplomatic, economic and military power to reclaim what rightfully belongs to China.

Implicit in this discussion is the idea that other countries will recognize China’s sovereignty only when forced to, and that diplomacy, law, treaties, historical evidence and international engagement are all simply tools to apply toward this goal. In Chinese historical memory, Western law and international coalitions were used post-facto to legitimize what was otherwise naked aggression. The implication is that since respect for China’s sovereignty is fundamentally a factor of national power, China must develop competency in the specialized battlegrounds of law, diplomacy and coalition building to contest other claimants. As PLA Deputy Chief of the General Staff Sun Jianguo stated recently, “‘No confrontation, no conflict’ does not mean ‘no struggle’... without the struggle the United States would still have no respect for China’s core interests” (*Oriental Outlook*, March 5).

When it comes to the application of military power, the discourse becomes more complex. The official narrative continually emphasizes China’s commitment to peaceful negotiation as a means of resolving territorial disputes, while at the same time justifying the development of military capability to defend China’s legitimate rights. Chinese elites have long acknowledged that a military conflict could threaten the regional stability that China’s new power is based on, yet there is a competing narrative that asks whether the government does not have an

obligation to apply this power in the service of China's interests. In the end, the nature of the conflict—and by extension, justification for the use of force—appears to depend critically on how the narrative characterizes China's relationship with the other party.

### Force as a Last Resort against “Flesh-and-Blood Brothers” in Taiwan

Of the three conflict areas we examined, **Taiwan** appears to be where the narrative is most unified and where the threat of military conflict now seems most remote. Having successfully weathered the turbulence of former President Chen Shui-bian's administration (2000–2008), China's “peaceful reunification” narrative has rebounded and been strengthened by the recent détente under current President Ma Ying-jeou. Yet, under the interpretation promoted by the Chinese government, Taiwan is not a territorial conflict at all—since this would imply the existence of two sovereign entities—but rather a matter of civilizational disunity. In a December 2008 speech, then-President Hu Jintao noted that “Although the mainland and Taiwan have not yet been reunited since 1949, the circumstances per se do not denote a state of partition of Chinese territory and sovereignty. Rather, it is merely a state of political antagonism...” ([Taiwan Affairs Office](#), 2008). Thus Beijing's rivals on the island are presented as “secessionist forces” seeking to disrupt a status quo unity, rather than preserving an autonomy already established. At times, however, the narrative appears conflicted: China's February 2000 White Paper on the issue mentions “sovereignty” 35 times, and the phrase “safeguarding national sovereignty” appears again and again in official messaging ([Taiwan Affairs Office](#), 2000; [United Daily News](#), March 14).

Unlike with the other two conflicts, the government's narrative emphasizes a personal and familial obligation to the people of Taiwan. “People on both sides of the Taiwan Strait share the same blood, language and roots. They are one family that cannot be separated,” said Miao Deyu, Spokesman for the Chinese Embassy to the United Kingdom in a 2014 letter to the *Financial Times* (*Financial Times*, October 17, 2014). The Taiwan people are characterized as “flesh-and-blood brothers,” and in terminology and metaphor Taiwan is consistently characterized as a *family problem*. “The national reunification we advocate is not merely unification in form, but more

importantly, a spiritual connection between the two sides,” said current President Xi Jinping at a 2014 conference ([Xinhua](#), September 26, 2014). Thus, at its core, the “one China” narrative is about preserving the familial identity that keeps China's large and multiethnic population unified and the biggest threat is “desinification” that legitimizes the rejection of Chinese cultural identity. The self-perception of the people on Taiwan then becomes a critical marker to establish a causal logic about the potential for the use of military force. Provided that “peaceful reunification” is perceived as drawing the Taiwan population toward greater solidarity, patience is warranted and military conflict is to be avoided at almost all costs. Should Beijing's perception shift toward the idea that patience gives Taiwan's “non-Chinese” identity time to grow, then waiting becomes a strategic mistake and the use of force must be considered.

### A Dangerous Tiger in the East China Sea

The dispute in the East China Sea is presented as a long struggle against an old enemy, a tiger that has not—and perhaps cannot—change its stripes, and that waits in the shadows to exploit any sign of Chinese weakness. Remembering the historical wrong of Japan's 20th-century rise and conquest of the Chinese mainland, narratives on conflict in the East China Sea focus on Japan's nature as a secretly unrepentant, military-nostalgic country that would again upset the natural balance of power in Asia if allowed. Having established the Diaoyu as “inherent territory since ancient times,” the islands become symbolic in a necessary struggle to confront Japan's remilitarization. ([Defense News](#) [81.cn], January 13, 2015).

It is also, internally, a test of China's courage: Having been poorly prepared to respond to Japanese aggression once, China's leaders cannot be seen as acquiescing to Japanese intimidation. “Remembering history,” “remilitarization,” and “defending the motherland” are all themes frequently referenced in discussions on the issue ([The Diplomat](#), August 2, 2013; *China Daily*, March 26, 2004). Yet at the same time, there is a warning about alienating the Japanese people. If the Japanese take a conciliatory path and recognize both China's “great power” status and the severity of its past mistakes, there is room to negotiate. If not, China must be prepared to fight another war—not to recover control of rocks, but to preserve the security



environment and prove the futility of Japan's militaristic tendencies.

### “Maritime Consciousness” in the South China Sea

The narratives surrounding the South China Sea are quite different. Unlike with the other two conflicts, the myriad Chinese claims to sovereignty are not grounded in any sort of pervasive memory or historical consciousness—and this is seen as a problem. Commentators emphasize that for China to become a “maritime nation,” China must create institutions, maps, education and imagery to enhance a dangerous lack of “maritime consciousness” over “blue national soil” ([Chinese State Oceanic Administration](#), June 9, 2014). Ultimately, these small disputes appear to be seen as a litmus test for China's centrality in the region, a way of slowly reestablishing the proper power dynamic between a resurgent China and smaller nations along the periphery.

All narratives emphasize that China genuinely wants peaceful, mutually-beneficial relations in Southeast Asia—but implicitly, this is founded on a China-centered hierarchy, and a willingness by the Chinese government to use “sufficient toughness” where necessary. If the United States insists on injecting itself into these conflicts, the use of force is still to be avoided, but a combination of diplomatic, military and public pressure can be used to remind it that it is overstretched and that these disputes lie outside its core national interests. [2] Demonstrations of force may be warranted to compel direct, bilateral talks on China's terms—but must still be controlled to avoid damaging China's image in the region.

### Conclusion

As China's growth continues to shift the balance of power in the Asia-Pacific, it will become increasingly important to understand how the attitudes of China's decision-making elite are influenced by culturally-specific interpretations of the past. While it will require considerable attention to avoid having “narratives” turn into “clichés”, insightful characterization of the debates within China may grant some additional insight into Chinese decision-makers' worldview and empower negotiation with China and other regional actors to forestall future conflicts.

*David Millar is a career intelligence professional and scholar specializing in political dynamics and security issues in East Asia.*

*His research focuses on strategic culture, political psychology and decision-making, and he has contributed to several studies on U.S.-China relations as well as a book-length project on U.S. counter-terrorism doctrine. From 2012 to 2014, he served as the Senior Intelligence Analyst for Northeast Asia at the Special Operations Command Pacific (SOCPAC) in Honolulu, Hawaii and from 2005 to 2010, as a political analyst advising the Executive Branch. David teaches graduate-level courses in East Asian Security and holds an M.A. in International Policy and Nonproliferation.*

### Notes

1. David Shambaugh, [China's Propaganda System: Institutions, Processes, and Efficacy](#) (2007); Anne-Marie Brady, [Guiding Hand: The Role of the CCP Central Propaganda Department in the Current Era](#) (2006); Wang Zheng, *Never Forget National Humiliation: Historic Memory in Chinese Politics and Foreign Relations* (2012); Lei Zhang, [The Google-China Dispute: The Chinese National Narrative and Rhetorical Legitimation of the Chinese Communist Party](#) (2013).
2. See Andrew Chubb, [Exploring China's “Maritime Consciousness”: Public Opinion on the South and East China Sea Disputes](#) (2015).

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## The Maritime Silk Road and the PLA: Part Two

By Morgan Clemens

In the previous issue, the first part of this article examined the various strategic and other motivations behind China's desire for an increased military presence west of Singapore (see [China Brief](#), March 19). Having laid out China's basic purpose in building up a military presence and supporting bases along the Maritime Silk Road, it is incumbent to assess exactly what constraints China will face in achieving these objectives. This conclusion will examine these constraints and make broad predictions for the future.

### Constraints on China's Military Presence West of Singapore

The first set of constraints (and perhaps the most critical) is that which Chinese leaders place upon themselves. As many analysts have noted, China's leaders have long made avoiding involvement in other countries' affairs a key rhetorical and practical plank of their foreign policy, a plank that remains largely intact and would, at the very least, be complicated by efforts to obtain and maintain military facilities in countries lying along the Maritime Silk Road. [1] Moreover, the Chinese have generally shown that while they may be a revisionist power, they are not radically so, preferring to gradually, progressively and incrementally change the existing geopolitical order to more suit their own ends. Beyond this, they cannot help but be aware of the potential for conflict with India incumbent upon any rapid or forceful military expansion into the region, which would be almost certain to exacerbate the presently mild degree of strategic competition between the two ([China News](#), February 12). A similar consideration would also have to be paid to the United States, which would certainly not sit diplomatically or politically idle as Chinese bases were built in the Indian Ocean or Middle East.

Beyond these self-imposed constraints, there must also be taken into account the possible (even likely) reluctance of states along the Maritime Silk Road to host any explicitly military facilities. As other Western analysts have pointed out, for more than a decade, leaders from a whole host of states have directly, forcefully and repeatedly denied any intention to allow China to build military facilities on their territory. And indeed, if China ever did have a

strategic initiative along the lines of the "String of Pearls," then it would certainly have to be considered an abject failure, having produced no real accomplishments in the past decade. [2] For its part, the Chinese government is certainly aware that most of the states in question are post-colonial in nature and, therefore, often prickly on points of national sovereignty and foreign intrusion (military or otherwise) ([China News](#), February 12). Of course, China does have tools to overcome such resistance, especially in the form of its generous economic largesse and developmental aid, but it is still entirely possible that states in the region could closely cooperate with China in economic and transportation matters while still looking elsewhere (to the United States and India, among others) for cooperation on security affairs ([The Diplomat](#), January 30).

A final constraint is imposed by the United States and, to a lesser extent, other powers by virtue of their own existing military presence in the region. Other Western analysts have noted that during the course of the approximately 20 People's Liberation Army Navy (PLAN) escort task forces dispatched to the Gulf of Aden since 2008, several ports (Aden, Djibouti and Salalah) have stood out as being most often used by those task forces for resupply and replenishment, implying that these ports would be the most likely locations for the PLAN to develop some sort of fixed support infrastructure in the region. [4] While this is likely the case, it should also be noted that those particular ports are the ones most commonly used by U.S. and other naval vessels in the region, making the development of explicitly military support facilities on the part of the Chinese practically inconceivable. [5] None of this is to say that China will not develop facilities at these (or other) locations to support and sustain PLA forces in the region, but rather that these facilities will likely not themselves be military in nature.

### What to Expect in the Decade Ahead

In their recent detailed report on the issue of future Chinese overseas basing, Christopher Yung and other researchers from the U.S. National Defense University lay out six possible models from which the Chinese might choose, ranging from their existing dependence on *ad hoc* arrangements at local commercial facilities to a full-scale American-style network of combat support bases. In their analysis, Yung and his colleagues particularly point to what they call the "Dual-use Logistics Facility" model as that most likely to be adopted by the Chinese if they

do not intend to engage in any sort of large-scale combat operations in the Indian Ocean. Under this model, a Chinese base in the region would provide “medical facilities, refrigerated storage space for fresh vegetables and fruit, rest and recreation sites, a communications station, and ship repair facilities to perform minor to intermediate repair and maintenance.” Such bases would be small and likely dispose of only 100 to 200 personnel. [6] This analysis is sound, as the “Dual-use” model most evenly balances the objectives, constraints, and capabilities discussed above.

One reasonable (and minor) divergence from this conclusion, however, would be the possibility that such a base would not necessarily be explicitly military in nature, especially early on. The fact that the PLAN uses the term “*yizhan*” (驿站)—which in Chinese connotes the old-fashioned posting stations at which official couriers and mail carriers would once have changed to fresh horses in mid-journey—to describe the “sea posts” discussed earlier likely indicates the very limited purpose for the “sea posts.” [7] It is also potentially indicative of the degree to which the PLAN may be able to “piggy-back” on a network of Chinese-run overseas commercial port facilities, such as those built, developed and operated by the state-owned Chinese Overseas Shipping Corporation (COSCO). [8] It is in this context that China’s investment and development largesse could be best put to use, by first ensuring that there *are* commercial ports in the region that fit their requirements and secondly by ensuring that employees of Chinese state-owned enterprises (functionally equivalent to state officials, at least for our purposes) are directly involved in the day-to-day management of those facilities and thereby well-positioned to assure Chinese military access to the facilities on a more consistent and reliable basis. While this would perhaps represent a *marginally* less certain degree of access than if the facilities were explicitly military in nature, it would likely be balanced by the *somewhat* less fraught (and provocative) effort to obtain commercial port management rights, as opposed to even limited military basing rights. [9]

Based on both the basic objectives and general constraints discussed here and in Part One, it would seem reasonable to predict that in the next decade China’s military presence west of Singapore will expand, but only to the degree necessary to successfully carry-out the general sea lane protection missions currently envisaged. The facilities to support these forces and missions will

be concomitantly limited in size and will likely not even be explicitly military in nature. Or, looked at from the opposite direction, China’s military presence west of Singapore cannot expand without a proportionate expansion in the infrastructure available to support it, and given the constraints discussed above, we can expect such an infrastructure expansion to happen only slowly, thereby dictating a gradually expanding military presence in general.

The one geographic area in which there is, perhaps, a lower probability of this prediction holding true is East Africa. The past decade has seen China slowly but steadily building-up a strategic and economic presence in places such as Kenya, Tanzania, Malawi, Madagascar and the Seychelles, and this region has yet to become the focus of a permanent, large-scale U.S. military presence or particularly strong American strategic relationships. [10] Thus, East Africa is perhaps the portion of the Maritime Silk Road along which China presently has the greatest degree of strategic freedom of action, being not yet constrained by an overwhelming degree of U.S. activity. Moreover, considering both the longstanding diplomatic (and even military) links China has with various East African states, as well as those states’ notable poverty (even in comparison to other states along the Maritime Silk Road), it would be likely that China would receive the best “bang for the buck” when using investment and development as tools for obtaining access to facilities. Thus, if China *were* to develop explicitly military bases for supporting forces anywhere along the Maritime Silk Route, then it would most likely be in East Africa, where there is the least probability of tension or confrontation (at least at present) with the United States, India or other regional powers ([Forum on China-Africa Cooperation](#), January 9, 2014; [Defense Web](#) [South Africa], November 18, 2014).

### Looking Beyond 2025

As stated at the beginning, the present analysis is limited in scope to the decade ahead, but it is nonetheless pertinent to discuss at least briefly those factors that will influence China’s attitude toward overseas basing and military operations after that timeframe has passed. Making predictions beyond this point would be an exercise in futility, dependent upon a number of currently unknowable variables. First and foremost among these will be Chinese motivations, namely the Chinese leadership’s own perception of whether overseas bases

and operations have been worth the political, diplomatic and fiscal expense involved. If so, then they will likely seek to expand them both geographically and quantitatively; if not, then we could expect to see retrenchment (or at least no further expansion). Next, assuming that China's leaders continue to see net utility in overseas bases and operations, there would be the question of the country's capability to sustain and expand them. Ultimately the maintenance of military power overseas is dependent upon basic, long-term economic vitality at home, and the decade ahead will almost certainly be critical in determining whether or not China's historically rapid economic development can continue on a more sustainable path. Thus, the question of whether China will be able to continue expanding the military's overseas presence in a decade's time will depend in large part upon domestic policy decisions Chinese leaders will make between now and then. A final factor to consider is the actions of other major powers in the region, especially the United States and India. As noted previously, China will not spend the next ten years operating in a vacuum, and Chinese actions will almost certainly engender significant political, diplomatic and economic responses on the part of other powers. For instance, should the United States or India (or both) come to view any significant Chinese military presence west of Singapore as a serious problem, could very easily engage in a calculated policy to develop key ports and form strategic relationships with the key states in the region in order to limit Chinese opportunities to do so. [11] If such an eventuality came to pass, then in ten years' time China's leaders could well find themselves both willing and able to expand their military presence overseas, but without the necessary openings and opportunities.

### L'Envoi

As a final coda, it would be useful to emphasize that there is very little inevitability concerning the expansion of China's military presence along the Maritime Silk Road. For any nation, obtaining actual military bases overseas is an expensive, time-consuming, politically and diplomatically fraught process involving real costs and risks. It may be easy for the United States to, today, look upon its own vast global network of well-developed military bases and think of them as just a part of the natural geopolitical order, but they are not. They are in fact the product (or perhaps the fruits) of abnormal conditions. Most of the major foreign military bases currently utilized

by the United States were first obtained during a period of intense and near-permanent national mobilization, from approximately 1940 through the early 1970s. Facing grave existential threats during the Second World War and the first decades of the Cold War, the enormous political and fiscal costs associated with overseas bases were discounted, while the powers most likely to view such expansion as potentially threatening under normal circumstances (namely, Britain and France) were forced into acquiescence by dint of circumstance (namely the fact that they were U.S. allies). Thus, while U.S. overseas bases and military presence were not developed on the cheap, they did largely come into being by virtue of extremely favorable domestic and international political conditions. It should be always borne in mind that China does not currently benefit from such conditions (or anything even approaching them) and almost certainly will not in the decade ahead, barring some radical and unpredictable change in current international conditions. Thus, while China will likely seek an expanded military presence west of Singapore, the sheer number of strategic, political, and other potential obstacles is such that, over the course of the next decade, any expansion will certainly take place slowly and be qualitatively limited in nature.

*This is the second part of a two-part series of articles examining the Chinese military's thinking on the New Silk Road. [Part One](#), published in China Brief Vol. 15, Iss. 6, addressed Chinese views and some predictions about how the PLA might approach the initiative over the next ten years.*

*Morgan Clemens is a Research Analyst at Defense Group, Inc., where his work focuses on the Chinese armed forces and defense industry. He holds an M.A. in Asian Studies from George Washington University and a B.A. in History and Government from the College of William & Mary. He has previously studied at Tsinghua University in Beijing and the Zhejiang University of Technology in Hangzhou.*

### Notes

1. Daniel J. Kostecka, "Places and Bases: The Chinese Navy's Emerging Support Network in the Indian Ocean," *Naval War College Review* (Winter 2011), Vol. 64, No. 1.
2. Christopher D. Yung, et al., "*Not an Idea We Have to Shun*": *Chinese Overseas Basing Requirements in the 21<sup>st</sup> Century*, (Washington: National Defense University Press, November 2014), p. 27.

3. Most recently, a change in government precipitated by a January 2015 presidential election in Sri Lanka appeared to derail (or at least complicate and make less certain) various Chinese efforts to develop port facilities in that country, and also threatened to prevent a repeat of the 2014 port call by a PLAN submarine (*The Economic Times*, March 5).
4. Yung, et al., p.30–31.
5. Djibouti actually hosts Franco-American military forces while Aden has long been a replenishing point for Western naval forces operating in the region. Even Salalah regularly hosts American naval vessels and has become the focus of American efforts to develop its port facilities (*Mina Group*, January 28, 2014; *Times of Oman*, February 4, 2014).
6. Yung, et al., p.14, 43.
7. Of course, the further fact that the term has also been applied to the plainly military facilities being built in disputed areas of the South China Sea does complicate this assertion, but it is reasonable to view the use of the term in the west of Singapore context as generally accurate and its use in the South China Sea as a sort of propaganda or convenient euphemism.
8. While this possibility has occasionally been mentioned in the Chinese press, the author has yet to identify any authoritative Chinese military writings describing this as a definite intention, thus it remains only a supposition, but a reasonable one considering COSCO's longstanding role in the supply of PLAN vessels operating in the Gulf of Aden. COSCO presently has management stakes in four overseas ports: Antwerp, the Piraeus, Suez and Singapore. COSCO also operates individual terminal management companies in other overseas ports. The expansion of this presence remains stated company policy (*COSCO*, 2015; *COSCO*, 2015; *COSCO*, 2015; *Port Finance International*, March 26, 2014).
9. This would not preclude the presence of *any* Chinese military personnel at such facilities, but they would likely be very few in number

and mostly focused on providing direct liaison services between the facility and the ships, much as the attachés do now.

10. In this context East Africa is taken to exclude the Horn of Africa (i.e. Somalia, Ethiopia, etc.).
11. This should not be construed as either a recommendation or a prediction on the part of the author, but merely an observation.

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## Political Centralization Drives Upcoming Industrial Consolidation

By Zhibo Qiu

Beginning in late 2014, the Chinese government officially announced a series of high-profile industrial consolidation plans in the railway and nuclear sectors, and a mix of government plans and public rumors continue to swirl around the possible consolidation of the oil and telecommunication sectors. This, however, is not the first time Beijing has attempted to consolidate state-owned enterprises (SOEs) in major industries. Despite previous failures, Chinese President Xi Jinping's administration seems poised to push through this round of consolidation due to his centralized political and economic power as well as the Chinese Communist Party's (CCP) need to accomplish the benchmark goals set forth during the Third Plenum in November 2013.

### The Start of a New Era: Railway Twins Come Back Together

Over New Year's, China's industrial policy analysts were excited to learn of an announcement that had been ten years in the making and is likely to open a new chapter on China's industrial landscape for the next decade. On December 30, 2014, Chinese Southern Railways (CSR) and Chinese Northern Railways (CNR) finally announced their consolidation plan, ending 14 years apart (*Xinhua*, December 30, 2014). The rapid development of China's railway sector over the last ten years rested on the unprecedented growth of infrastructure construction across China during the 11th and 12th Five-Year Plans. The two companies manufactured all of China's high-

speed trains, 80 percent of its railroad cars and most of its subway cars, enabling them to capitalize on the central government's growth strategy. China's policy goals extend beyond its borders, as the government has negotiated with 28 countries on high-speed train cooperation projects, including the United States, Russia, Brazil, India and Thailand (*Beijing News*, January 29). With its vast domestic market and strong government support, CNR and CSR now rank first and second amongst rolling stock manufacturers worldwide, ahead of Bombardier (Canada), Siemens (Germany) and Alstom (France) (*Xinhua*, October 29, 2014; *SCI/VERKEHR*, 2014).

However, CNR and CSR's cut-throat competition also flowed overseas, jeopardizing China's national interests by creating unnecessarily low bids or even lost contracts (see *China Brief*, January 23; *Beijing News*, November 4, 2014). Meanwhile, repetitive research and development (R&D) investment, inconsistent product standards and fragmented lower-end suppliers also prevented these companies from improving their innovation capacity and supply chain efficiency at home.

A consolidated mega-corporation under the new name "China Railway Rolling Stock Corporation (CRRC)," valued at over \$26 billion, will avoid such price wars between Chinese companies and increase the new company's competitiveness in resource allocation, bargaining power as well as high-tech R&D (*Beijing News*, December 31, 2014). Furthermore, President Xi's "One Belt, One Road" strategy will offer prime opportunities for CRRC to expand its market share and global influence as the world's leading rolling stock manufacturer, as railways will play a crucial role in the New Silk Road's regional connectivity and cooperation. [1]

### Nuclear Power

After the rolling stock sector, the next industry on Beijing's consolidation agenda is nuclear power. In early February, the State-owned Assets Supervision and Administration Commission (SASAC), which oversees SOEs, approved the consolidation of China Power Investment Corporation (CPIC) and the State Nuclear Power Technology Corporation (SNPTC) (*China Securities*, February 3; *China Daily*, February 6). [2] After their consolidation, China will reduce its five large nuclear companies down to three SOEs—China

National Nuclear Corp, China General Nuclear Power Group and the newly consolidated entity. In a State Council meeting this year, Premier Li Keqiang reiterated that China will consolidate its industrial resources and accelerate the speed of Chinese advanced manufacturers investing abroad and exporting to the overseas market, in particular, the high-speed train and nuclear industries (*Beijing News*, January 29).

### Food and Agricultural Products

Another sector embarked on structural industrial consolidation is the food sector. Earlier this year, the National Development and Reform Commission (NDRC) confirmed that China's state-owned food companies will consolidate and shift to mixed ownership in the upcoming SOE reform (*21st Business Herald*, January 14). The food giant China National Cereals, Oils and Foodstuffs Corporation (COFCO) will very likely become China's national champion. In fact, COFCO has already absorbed China Huafu Trade and Development Group Corporation last November and China Grain and Logistics Corporation in March 2013 (*21st Business Herald*, January 14). [3] Outside of China, COFCO is also actively engaging in overseas mergers and acquisitions, as it bought Nidera and Noble Group last year (*Xinhua*, April 3, 2014). These moves are intended to focus COFCO's core business more on grains, as well as gain access to strategic resources, move up the supply chain and build a global brand to compete with its "ABCD" competitors. [4]

### Not Beijing's First Attempt at SOE Consolidation

The recent consolidations across a wide range of industries do not signal a significant shift in Chinese industrial policy, as Beijing tried, and failed, to consolidate its automobile industry in 2006. Beijing's inspiration derives from Japan and South Korea's successful industrial policies in the automobile industry in the 1950s–1960s, which nurtured a series of national champions such as Toyota, Honda, Nissan and Hyundai. In 2006, the NDRC issued the Circular on Adjusting the Industrial Structure of the Automobile Industry, calling for corporate consolidation among major players, and in 2007 it set a goal to nurture one or two large companies with the production capacity of two million vehicles per year by 2012 (*China Securities*, January 21, 2009). In 2009, then-Premier Wen Jiabao

reiterated the government's intention to accelerate industry consolidation by approving the Automobile and Steel Industry Development Plan ([Gov.cn](#), September 14, 2009).

Despite these government initiatives, the number of automakers instead more than doubled, increasing from roughly 130 in 2008 to 321 by the end of 2012 ([China Securities](#), January 21, 2009; [Chinese Industry Information](#), March 31, 2013). China's top ten automakers account for over 83 percent of the total sales, still leaving plenty of room for consolidation. Moreover, although China is the largest global automaker and car market, its major companies cannot innovate. This is due in part to China's reliance on joint ventures, which allow Chinese companies to rely on foreign partners for real innovation and R&D, and in part to local protectionism, as provincial governments are unwilling to sacrifice a sector that accounts for a large proportion of the GDP—previously a key factor in an official's career trajectory.

For SOEs writ large, the central government has consistently pledged over the last decade to consolidate its state sector. In 2005, Wang Zhongming, then-Director of SASAC Research Centre, announced that central-level SOEs would likely be consolidated from a total of 198 down to 30–50 ([21st Century Business Herald](#), August 30, 2005). In 2010, Li Baomin, his successor, confirmed the SASAC's goal for the 12th Five-Year Plan was to nurture 30–50 central SOEs with indigenous innovation capacity, international competency and soft power as international brands ([Beijing News](#), November 3, 2010). According to sources close to SASAC, the Xi administration still plans to reduce central-owned SOEs to less than 60, from the current 112 ([Global Times](#), February 15).

### Three Key Reasons for Successful Consolidation Under Xi

Compared with ten years ago, what enabled the central government to push forward this round of industry consolidation?

*The new generation of Party leadership has gradually centralized political power, paving the way industry consolidation. Deng Xiaoping's Reform and Opening led to the gradual localization of political power and drove the government to transform its planned economy into state-owned*

enterprises. As a result, leading industrial sectors, including oil, telecommunication, aviation and railways, were split into a few large players to increase domestic competition. President Xi appears to have reversed this trend of decentralization since taking office, as Dr. Willy Lam analyzed Xi's consolidation of power marked a departure from Deng Xiaoping's devolution of powers (see [China Brief](#), March 28, 2013).

President Xi's anti-corruption campaign is a key part of his ongoing SOE consolidation and reform plan. Beijing is tightening its control over the political power of local governments and industry-related ministries through regular anti-corruption inspections and placement of Central Commission for Discipline and Inspection (CCDI) officers in the Party and state apparatus, including removing 41 provincial senior officials in 22 provinces ([People's Daily Online](#), December 25, 2014). In February, the CCDI announced that 26 central SOEs were selected for the first round of inspections and released a roadmap to cover all the SOEs in key industries. The 26 SOEs are mainly leading national companies in the oil and gas, electricity, telecommunication and resources sectors ([Xinhua](#), February 11). Interestingly, the CCDI will adopt the "one-to-two" model, instead of previous "one-to-one" model, which means one inspection team will cover two SOEs in the same industry. This offers possible opportunities to compare and analyze SOEs against each other. In fact, industrial reform for strategic sectors is nothing new for Wang Qishan, the CCDI Director. In 2001, Wang, then-Director of the NDRC Economic Reform Committee, was in charge of mapping out plans for reforming the monopolistic sectors such as electricity, telecommunication, aviation and railways ([21st Century Business Herald](#), November 2, 2010). Wang's overlap reinforces the notion that anti-corruption efforts in the SOEs will further consolidation and reforms.

*President Xi's call to establish a single national market will eliminate local protectionism against consolidation. Xi first proposed developing an integrated national market and promoted open competition in a provincial meeting in July 2013 ([China News](#), October 24, 2013). In the 2015 National People's Congress NDRC work report, China pledged to standardize and eliminate any regulation that impedes the establishment of a single national market, in order to break down local protectionism and blockage ([NPC](#), March 17). For the central government, regional fragmentation*

reduces the efficiency of resource allocation and distorts fair competition. In the past, to protect local industries and attract foreign investment, local governments have offered a variety of preferential policies including land subsidies, tax returns and tax breaks ([CPPCC News](#), December 25, 2014). To tackle this, the State Council released a circular to standardize local governments' preferential policies in order to reduce local protectionism and consolidate the national market ([Xinhua](#), December 9, 2014). Local governments and ministries will only be allowed to offer preferential policies consistent with the national legislation or approved by the State Council.

*The rapid economic expansion of, and thus competition between, Chinese SOEs in overseas markets puts more pressure on domestic industrial consolidation.* Compared to a decade ago, China's Outbound Direct Investment (ODI) has soared from almost zero in 2001 to \$116 billion in 2014, making China a net capital exporter ([China News](#), January 26). As more Chinese companies go global, competing bids by similar Chinese companies for overseas projects represents unnecessary competition between two parts of the same Chinese government, and this desire to avoid bidding wars is a major driver for the consolidation of CSR and CNR (see [China Brief](#), January 23).

Building national brands to compete with international conglomerates is also essential for President Xi's "China Dream." In early March, state-run *People's Daily* wrote, "brands have their roots in the core values and cultural tradition of the nation, and brands are the name cards of a nation" ([People's Daily](#), March 2). Beijing has carefully selected a few strategic and monopolistic sectors to nurture national champions and present as an image of China to foreign countries. At this year's Davos Summit, Premier Li's keynote speech to the global business community called for China's high-end industries to go global, including high-speed trains, nuclear power, aviation and telecommunication ([Phoenix News](#), January 22).

### Forecasting Challenges Ahead

Industrial consolidation has been a long-term strategy for the Chinese government over the past two decades. With his unrivaled personal power in the Chinese system, President Xi's administration has more leeway to push forward this new round of industrial consolidation.

More industries will surely follow. In February 2015, unofficial news spread that China will consolidate its leading telecommunication operators China Unicom and China Telecom; as well as China Mobile and National Radio and Television Network Company ([Beijing News](#), February 13). A few days later, the *Wall Street Journal* reported that China plans to merge its largest state-owned oil companies to improve efficiency and compete with international oil conglomerates ([Wall Street Journal](#), February 17; [International Financial News](#), March 19). [5] The latest news was the possible consolidation of China's two largest shipbuilders, China State Shipbuilding Corporation (CSSC) and China Shipbuilding Industry Corporation (CSIC), after the two announced to swamp their senior executives ([Xinhua](#), March 27). [6]

Yet despite President Xi's best intentions, China faces increasing political and operational risks in the process of industrial restructuring. Without clear regulations and transparency, corporate mergers may lead to more "rent-seeking" opportunities for corruption that may challenge SOEs' ability to operate efficiently and jeopardize Beijing's attempt to increase the competency and profitability of its large state sectors. For example, CNR and CSR officials and their relatives reportedly purchased large amount of these two companies' stock shares in the six months before the official consolidation announcement ([Xinhua](#), January 9). In Premier Li's recent National People's Congress work report, he identified rent-seeking as the primary common feature for corruption, which may explain why the Party has begun investigating SOEs for corruption before initiating consolidation. Beijing's consolidation plans are targeted on strategic sectors vital to the national economy, and these SOEs will face greater pressure to integrate supply chains and unify industrial standards for both production and operation. These mergers will also likely result in substantial job loss, and the Party will have to address this sensitive issue accordingly.

The Chinese government also realizes that these consolidated "national champions" will not automatically transform themselves into global brands. A month after the consolidation of CSR and CNR, Mexico announced it would not pursue a major railway project, which a CSR-led consortium won the bidding process in November, due to budget constraints—and some political concerns



(*China Daily*, January 31). These “national champions” will require additional investment to develop their own core technology and foster technological innovation. As China pushes forward the “One Belt, One Road” strategy, consolidated SOEs’ brand reputation and political risk management will be crucial to their successes, both at home and especially abroad.

*Zhibo Qiu is a political consultant and researcher, focusing on China’s domestic politics, foreign policy and overseas investment. She holds a master’s degree from the University of Cambridge and the Graduate Institute of International and Development Studies.*

## Notes

1. “One Belt, One Road” refers to the President Xi’s initiatives to build a New Silk Road Economic Belt and a 21st Century Maritime Silk Road.
2. The State-owned Assets Supervision and Administration Commission (SASAC), affiliated to the State Council, is the ministry-level government body that currently oversees 112 Chinese central government-owned SOEs.
3. China Huafu Trade and Development Group Corp is China’s large sugar, meat, vegetables and alcohol producer.
4. “ABCD” global food companies refer to Archer Daniels Midland, Bunge, Cargill and Louis Dreyfus Commodities. On September 2014, COFCO announced its 1.2 billion euro (\$1.3 billion) merger agreement with Noble HK’s agricultural trading unit. The new deal will provide COFCO direct access to Noble Agri’s grain, sugar, oilseed and cocoa sources overseas. On February 2014, COFCO announced its joint venture agreement with Nidera, a Dutch grain and oilseed trader, in which COFCO owns 51 percent. The new company will focus on grain sourcing and trading.
5. One option is to combine China National Petroleum Corporation and China Petrochemical Corporation. Another is to merge

China National Offshore Oil Corporation with Sinochem Group. Details of the potential mergers in the telecommunications and oil sectors are unavailable as no official sources have confirmed the plans so far.

6. Similar to the railway sector, CSSC and CSIC were split into two companies in 1999.

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