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Research Articles



Pulau Layang-Layang in Malaysia’s South China Sea Policy: Sovereignty Meets Geopolitical Reality amid China–U.S. Rivalry

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Abstract

Pulau Layang-Layang (Swallow Reef) is central to Malaysia’s South China Sea policy. First, the “island” is the first of five features in the South China Sea occupied by Malaysia. Second, since 1983, by exercising exclusive and effective control over Layang Layang, Malaysia has displayed its sovereignty and jurisdiction over the area. Third, with a Malaysian naval station and airstrip, Layang-Layang is Malaysia’s most valuable strategic asset in the South China Sea. Drawing on archival materials and open sources, this paper traces Malaysia’s policy actions vis-à-vis Pulau Layang-Layang, before unpacking the features and factors underpinning the smaller state’s multi-pronged approaches towards the South China Sea disputes. We argue that Malaysia’s policies regarding Pulau Layang-Layang and the broader South China Sea issue have been and will continue to be driven by small-state pragmatism to balance national sovereignty and geopolitical reality amid the growing U.S.–China rivalry.

Keywords: *Malaysia, South China Sea, Pulau Layang-Layang, sovereignty, China*

1. Introduction

Malaysia is one of six claimants – the others are Brunei, the Philippines, Vietnam, China and Taiwan – in the South China Sea (SCS) disputes. Of the four Southeast Asian claimants, much have been written on the Philippines and Vietnam’s SCS policies but relatively less on Malaysia’s and Brunei’s positions. The majority of studies on Malaysia’s SCS policies have approached the subject as part of Malaysia’s broader maritime and territorial

policies or Malaysia's approaches to big-power politics (for instance, Finkbeiner, 2013; Hamzah, 1990, 2014; Kuik, 2013; Lai and Kuik, 2021; Leong, 2020; Mak, 2004, 2009; Ngeow, 2020; Parameswaran, 2015; Permal, 2016, 2020; Uras, 2017). Few studies have focused specifically on Malaysia's claimed and occupied features in the SCS (exceptions include: Hamzah et al., 2020; Nizam, 2012; Roach, 2014; Sebastian, 2020). Even fewer studies, if at all, have focused on one single occupied feature.

This paper fills this gap by focusing on Malaysia's policies towards *Pulau Layang-Layang*, or Swallow Reef, one of the hundreds of maritime-terrestrial features in the Spratly archipelago in the SCS.¹ Of the areas in the Spratly archipelago claimed by Malaysia, Layang-Layang is the first feature occupied by Malaysia, following a landing mission by Royal Malaysian Navy (RMN) personnel on 5 May 1983. Malaysia then established its naval station "Lima" on Layang-Layang on 17 April 1984. Naval stations and permanent presence were subsequently established on *Terumbu Ubi* (Ardasier Reef) and *Terumbu Mantanani* (Mariveles Reef) in 1986 (16 April and 3 November, respectively), and finally, *Terumbu Peninjau* (Investigator Reef) and *Terumbu Siput* (Erica Reef) on 24 April 1999.²

Among these features, Pulau Layang-Layang is the largest in terms of build-up of the station and the physical size after reclamation. Since then, Malaysia has exercised exclusive control over Pulau Layang-Layang and the other features, thus displaying its sovereignty and jurisdiction. Being on the outer limits of Malaysia's presence in the SCS, Pulau Layang-Layang is of great strategic importance. Originally a *terumbu* (reef) and later categorised by the Malaysian authorities as a "*pulau*" (island), the present landmass of Layang-Layang has been partially reclaimed. In addition to the RMN station, Layang-Layang also houses a marine research facility, an 86-room diving resort, and a 1.368 km airstrip capable of landing a large transport plane (Roach, 2014: 10; see also Lai, 2015; Nasir and Dahalan, 2017; Rahman et al., 2018).

The paper proceeds in five parts. The first offers a brief historical overview and geographical description of Layang-Layang. The second discusses the many values of "islands" to maritime nations, before detailing Pulau Layang-Layang's strategic and economic importance to Malaysia. (Hence, despite the July 2016 ruling by the arbitral tribunal in The Hague that none of the features in the Spratlys can be categorised as an "island" because none of them can sustain a human community without external aid, Layang-Layang is still commonly as well as "officially" referred to as an "island" in Malaysia.) The third traces the origins and development of Malaysia's multi-pronged statecraft in establishing and exercising its sovereignty over Pulau Layang-Layang. The fourth analyses how and why geopolitical reality has

shaped and constrained Malaysia's policy options in defending its sovereignty over Pulau Layang-Layang and other claimed areas in the SCS. The fifth section concludes by arguing that the ways and extent to which Malaysia defends its sovereignty in the disputed waters are a function of small-state pragmatism in navigating and adapting to the escalating big-power rivalry and deepening international uncertainties, with an eye to maximizing its interests and minimizing risks for as long as possible.

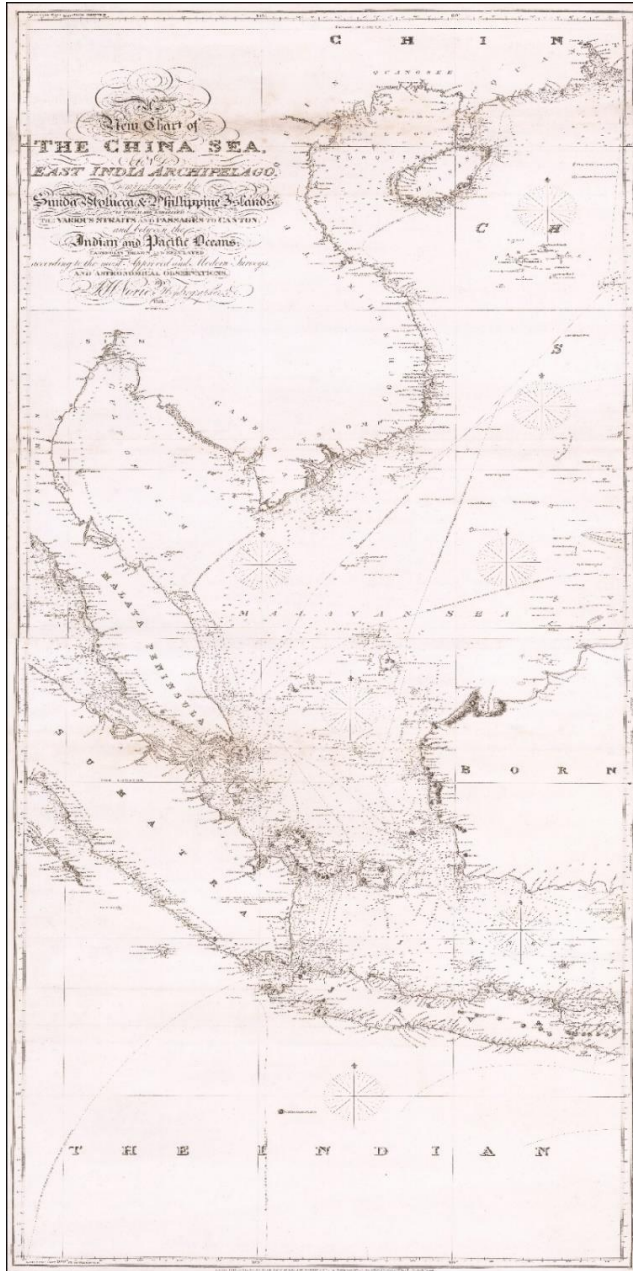
2. Decoding History and Geography

Layang-Layang or Swallow Reef derived its name from the British vessel, *Swallow*, which discovered the feature in 1801. The discovery was based on John William Norie (1821)'s and James Horsburgh (1821, 1843)'s hydrographical and cartographical records. The January 1821 Norie map is among the earliest maps to plot most features in the Spratly Islands. Norie referred to the waters between Tsiompa, the Malaya Peninsula and Borneo as the "Malayan Sea" (see Figure 1). He did not consider the entire sea to be the China Sea. This provides a novel historical perspective regarding the naming of the maritime area. Norie's perspective and map, however, were challenged ten months later in October 1821 by Horsburgh, who published a map of the "China Sea" in two parts. Horsburgh's map used the term "China Sea" differently from Norie's map.³ Nevertheless, these two European cartographers are regarded as the first Europeans to successfully plot all the early features found in the Paracel Islands and Spratly Islands.

Although Layang-Layang was initially named "Swallow Rocks" (Horsburgh, 1821, 1843; Norie, 1821), there were other cartographies which plotted the feature as an "Island." For instance, F.A. Garnier's map, *Archipels des Iles de la Sonde et des Iles Philippines*, arguably the first one, labelled the feature as "Island," followed by Adam and Charles Black's (1873) and J. W. Stemfoort (1885) maps, which classified it as "Swallow I," equivalent to "Mengaloon I" and "Mantanani I" that were essentially "islands" located off the shores of then North Borneo. Meanwhile, Dutch sources such as *Kaart van het eiland Borneo* (Map of the island of Borneo) also plotted the feature as "Island" based on the symbol "E." or "P." after the name, which indicates *Eiland* or *Poelau* ("island" in the Malay/Nusantara language), respectively, to differentiate such marine-terrestrial features from coral reefs and shoals. Among the Spratly features labelled similarly on the map were Louisa E., Royal Charlotte E., Swallow E., and P. Amboina (Topographisch Bureau te Batavia, 1902).

To date, no historical record about Layang-Layang or Swallow Reef specifically has been discovered. Archival documents, in the form of reports,

Figure 1: The Malayan Sea and The China Sea in John William Norie's 1821 Map



Source: Norie (1821).

memorandums, grant leases and permits, exist indicating such economic activities as the harvesting of guano in the vicinity of Spratly Island and Amboyna Cay by the Labuan-based British Central Borneo Company in the late nineteenth century (see FO 881/5740; FO 881/5741; CO 144/66; FCO 881/5741). The archival documents include a memorandum granting a lease to the Central Borneo Company to “work the Guano on Spratly Island and Amboyna Cay”, dated 30 November 1888 (FO 881/5740), a memorandum on the “Intention of the Central Borneo Company to exploit guano from Sprattley Island and Amboyna Cay” dated 6 August 1888 (CO 144/66), and a memorandum by Sir E. Hertslet dated 3 January 1878, stating “he did not find that any foreign government had officially claimed the sovereignty over those island” (FO 881/5741).

The apparent absence or lack of historical records suggests that Layang-Layang is *terra nullius* (Latin for “nobody’s land”), a legally unoccupied or uninhabited land. The mentioned archival documents point to a portion of the Spratly archipelago (including Spratly Island, Amboyna Cay and possibly Swallow Reef/Island) being located within the maritime areas under British jurisdiction during the 1880s. In fact, the “nobody’s land” argument has been substantiated by the *res nullius* (Latin for “that which belongs to no one”) status of the Spratly archipelago (comprising Layang-Layang/Swallow Reef), following Japan’s renouncement of sovereignty over the territories it had previously occupied during the Second World War, as inferred in the San Francisco Treaty of 1951. Japan’s relinquishing of its wartime occupied SCS territories without any special beneficiary rendered these *res nullius* features available for annexation, which Malaysia did when it physically occupied and appropriated Layang-Layang in 1983. More recent archival records include geological survey reports suggesting continuous British jurisdiction over Spratly, Amboyna, and Swallow Reef and oil prospecting licenses issued by the Governor of the Colony of North Borneo in the related maritime vicinity (Geological Survey Department, 1963; The Chief Minister of the State of Sabah and Oceanic Exploration and Development Corporation, 1969).

Geographically, Layang-Layang is an oceanic coral atoll developed on top of a seamount located at the southern corner of the Spratly archipelago. It is approximately 152 nautical miles (nm) northwest of the Sabah region of Bornean Malaysia and just under 200 nm southwest of the Philippines’ Palawan island. The closest shallow geographical features are the *Terumbu Laya* (Dallas Reef) and *Terumbu Ubi* (Ardasier Reef), located just over 14 nm north of Layang-Layang (Asner et al., 2017; Coral Reef Initiative for the South Pacific, 2014; see also Geological Survey Department, 1963: 133).

Layang-Layang, also known as Celerio Reef in the Philippines, *Đá Hoa Lau* in Vietnam, and *Danwan Jiao* 弹丸礁 in China and 彈丸礁 in Taiwan, which appears almost 2000 metres from the ocean floor, is located at coordinates 7°22'20"N 113°50'43"E (Asia Maritime Transparency Initiative, 2021). Layang-Layang is part of the Malaysian continental shelf extending from the landmass of Sabah state (Abdullah, 2004; Nasir and Dahalan, 2017), despite the Northwest Borneo Trough which appears to “separate” this oceanic atoll from the Sabah continental shelf (Hutchison, 2010). It is situated well within Malaysia’s 200 nm Exclusive Economic Zone (EEZ), as defined by the United Nations Convention on the Law of the Sea (UNCLOS) (Royal Malaysian Navy, 2018: 13).

Layang-Layang is an oval-shaped, elongated atoll that extends approximately 7.5 kilometres (km) along its west-east axis, while the north-south axis is about 2.2 km in length. It has a central lagoon surrounded by both submerged and above sea level reef (see Figure 2). According to a 2014 study by the Coral Reef Initiative for the South Pacific (CRISP), the part of Layang-Layang above sea level is a reef located on the south-eastern rim and south-facing side, which had an original land area of approximately 6.2 hectares. This portion has since been reclaimed as a build-up platform enclosed in straight seawalls that covers over 35 hectares, measuring approximately 1.5 kilometres long and 300 metres wide (Coral Reef Initiative for the South Pacific, 2014). Layang-Layang is considered to be the eleventh largest geographical feature, as well as the first artificial island in the Spratly archipelago (Roach, 2014: 10).

Figure 2: Pulau Layang-Layang



Source: CRISP (2014).

3. Defining the Values of Islands: Why Pulau Layang-Layang Matters

Islands have always been economically and strategically important to littoral and archipelagic states.⁴ In the present day, with the advent of legal institutions and mechanisms governing international maritime space, such as the UNCLOS, islands have become even more salient than before. Its salience is not only confined to the terrestrial environs, but also the waters that surround them. As the concept of “security” extends to cover both the traditional military realm and also such non-traditional domains as economic, food, piracy, energy, human and environmental challenges, islands are increasingly regarded as prized assets that have to be secured and sustainably developed for the present and future wellbeing of maritime nations (Lai, 2018).

Islands and other types of marine features such as atolls, reefs, rocks, shoals and low-tide elevations are important economic assets. Large volcanic islands have particularly arable soil. Agricultural activities such as the planting of rice and growing of coffee beans are key to the economies of places like Java and Sumatra. Similarly, the sugar cane and pineapple industries on Fiji and Hawai'i are of tremendous economic benefit. The islands' biodiverse surroundings usually have abundant fish stocks and hydrocarbon deposits. When developed as tourism destinations, islands help generate huge revenues. These resources make islands major sources of commercial, energy and food benefits (Bass and Dalal-Clayton, 1995; Lai, 2018; World Tourism Organisation, 2002).

Islands also have intrinsic and explicit strategic value. They shape maritime nations' security and military strategies, impacting their offense-defence equations. For instance, islands with suitable geographical attributes are useful for the forward deployment of military assets. Islands may function as springboards or stepping stones from which maritime powers conduct naval, amphibious and aerial operations to pursue their interests (Erickson and Wuthnow, 2016). From a defensive position, islands may also serve as strategic buffers against possible military attacks. Island chains such as Micronesia in the Pacific, the Senkakus/Diaoyus, the Paracels and Spratlys in the East and South China Seas form defensive parameters to contain threats (Baruah, 2018; Erickson and Wuthnow, 2016; Kazumine, 2013; O'Brian, 2012).

Strategically located islands have other security functions, such as protecting vital sea lines of communication (SLOC) for safe shipping and freedom of navigation in times of peace, as well as the securing of EEZs against threats of piracy, maritime terrorism, poaching/illegal fishing, and other non-traditional security concerns. Islands, especially those located in narrow strips of water or semi-enclosed maritime confines can be employed as “choke points” during conflict, for the conduct of naval blockade, where Anti-Access/Area Denial (A2/AD) strategies can be used to interdict and

block access of enemy states to important SLOC (Edel, 2018; Kukreja, 2013; Lai, 2018).

As Malaysia is a littoral state straddling the immensely strategic semi-enclosed SCS, securing its maritime-territorial rights while optimizing the economic potential of Pulau Layang-Layang and other Malaysian-occupied features are crucial to advancing Malaysia's security and wellbeing. Strategically, preventing foreign encroachments into Malaysia's portion of the SCS is inextricably tied to preserving the country's sovereignty and territorial integrity, in view of the two Malaysian land masses being separated by this waterway (Noor, 2017; Parameswaran, 2015; Yusoff, 2021). Indeed, the myriad challenges of protecting, administering and integrating a physically divided Malaysia over and across the SCS makes this water central to national security considerations, calculations and planning. Ensuring the safety of this "strategic bridge that allows for a Malaysian Federation" (Evers, 2019; Sebastian, 2020), particularly the sea routes and air space connecting the Peninsular Malaysia with Sabah and Sarawak on the Borneo Island, is, therefore, the major imperative underpinning the country's SCS policy (Lai and Kuik, 2021; Noor, 2017: 21). Economically, the SCS – an area abundantly rich in hydrocarbon deposits and fish stocks – is vital to Malaysia in terms of resource access (including food and energy), biodiverse maritime surroundings, and maritime connectivity.

Because of the SCS's real and perceived economic resources, littoral and archipelagic states have raced to claim sovereignty and exercise jurisdiction and economic rights over the SCS's maritime features. In 1969, a United Nations Economic Commission for Asia and the Far East (UNECAFE) report predicted the prospects of huge oil and gas reserves in both the East and South China seas. Specifically, the SCS was reported to possess an estimated 23.5 billion tons of oil and 10,000 billion cubic metres of natural gas, apart from gas hydrates (Hong, 2012: 75). Other estimates suggested the area contains between 11 and 22 billion barrels of oil, and between 190 and 290 trillion cubic feet of natural gas (*South China Morning Post*, 2019). Expectedly, such predictions have turned the Paracel and Spratly into highly valuable archipelagos owing to their surrounding resource-rich water, where some of the marine features may be entitled to generate their own territorial sea, contiguous zone, and EEZ that encompass the water containing the predicted hydrocarbon reserves.

Malaysia – the second largest oil and natural gas producer in Southeast Asia and the world's third largest exporter of liquefied natural gas (LNG) – derives a substantial portion of its hydrocarbon resources from the SCS. With the oil and gas sector contributing almost a third of Malaysia's annual revenue (Parameswaran, 2015: 3), it is clear that Malaysia's prosperity is highly dependent on the SCS. In addition, the SCS has been the traditional fishing

ground for fishermen from both sides of the Malaysian land masses and, thus, is an important source of employment and food (Lai and Kuik, 2021).

In this regard, Pulau Layang-Layang and the other marine features off the north and west coasts of Sabah, as well as *Beting Patinggi Ali* (South Luconia Shoals), *Beting Raja Jarum* (North Luconia Shoals), and *Beting Serupai* (James Shoal), located less than a hundred kilometres from the shores of Sarawak, have often been frequented by Malaysian fishermen dependent on these marine ecosystems for their economic livelihood. In fact, the waters surrounding Layang-Layang are well known for its rich marine life, in particular, the highly sought-after yellowfin tuna (Chee, 1995). Because of this economic potential, the Malaysian Cabinet approved the deep sea fishing initiative in 1987 to capitalise on the fish stock in Pulau Layang Layang's vicinity (Yasin et al., 2020: 27). The Malaysian authorities then introduced permits to regulate access to the related maritime confines.⁵ Nonetheless, there is frequent foreign encroachment as "Illegal, Unreported and Unregulated (IUU)" fishing by Chinese, Indonesian, and Vietnamese fishermen in the Malaysian maritime zone.

Apart from hydrocarbon and marine resources, the economic potential of the SCS also manifests in the form of tourism, where its marine features with natural geo-sites and idyllic surroundings can be appropriated and developed as tourist attractions to generate revenues. In this regard, since the early 1990s, Layang-Layang, with its biodiverse and naturally endowed marine ecosystem, has been transformed into an exclusive, world class scuba diving resort. Beginning with a modest fifteen-pax, dormitory-style accommodation in 1992, the formerly known Layang-Layang Island Resort has been upgraded and transformed into Avillion Layang-Layang, an exclusive 86-room island resort spreading across five blocks, which caters up to 160 guests (Royal Malaysian Navy, 2018: 62-63). Together with the 300-plus islands off the Sabah coasts, this scenic island, fondly known by the scuba diving community as "The Jewel of the Borneo Banks," have contributed to enhancing the attractiveness of this Malaysian Borneo state as a popular tourist destination.

Pulau Layang-Layang and the other four Malaysian-occupied features are of strategic importance to Malaysia. They serve as RMN platforms to defend the nation's sovereign and maritime interests in the SCS (Sebastian, 2020). These five "Malaysian Spratly" features, with both natural geographical and "man-made" attributes, currently house the naval offshore stations of RMN Station Lima (Pulau Layang-Layang), RMN Station Uniform (*Terumbu Ubi*), RMN Station Mike (*Terumbu Mantanani*), RMN Station Papa (*Terumbu Peninjau*), and RMN Station Sierra (*Terumbu Siput*). Irrespective of the sizes of such features, the proximity of these RMN stations together allows for the formation of a defensive parameter within Malaysia's maritime boundaries (see Figure 3). For the purpose of operational control (OPCON), the RMN calls these five stations collectively as Gugusan Semarang Peninjau (GSP).

Figure 3: Gugusan Semarang Peninjau (GSP)



Source: European Commission, <https://ec.europa.eu/>

Besides operating as a naval station, Pulau Layang-Layang can also double-up as an offshore aerial defence facility. Its 1.368 kilometres airstrip (see Figure 4) can accommodate not only the earlier mentioned military transport planes but also the RMAF's current SU-30MKM and F/A-18D Hornets and future fourth and fifth generation Multi-Role Combat Aircrafts (MRCA). According to a study by the CSIS Asia Maritime Transparency Initiative's (AMTI) titled "Airpower in the South China Sea," Pulau Layang-Layang's airstrip's capabilities allow Malaysia to land its current Sukhoi SU-30MKM. With a combat radius of 806 miles, the Sukhois are capable of providing comprehensive aerial defence/surveillance coverage of the Malaysian-claimed Spratlys and surrounding waters. Although it is just one-third of China's three kilometres-long airstrip at Fiery Cross Reef, the Pulau Layang-Layang runway is still longer than the runways on Vietnam's Spratly Island, Philippines' Thitu Island and Taiwan's Itu Aba (Asia Maritime Transparency Initiative, 2015) (see Figure 5).

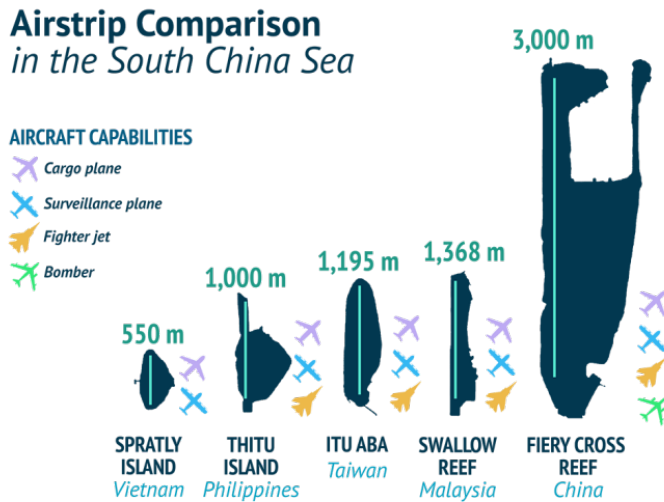
In addition to the installation of ground-based radar and the operation of maritime surveillance and patrol aircrafts, including unmanned aerial vehicles (UAVs or drones) to enhance maritime domain awareness (MDA), the possible deployment of fighters together with surface-to-air (SAM)/ surface-to-surface (SSM) missile systems on Pulau Layang-Layang would bolster Malaysia's air defence, especially in the related maritime zones that

Figure 4: Airstrip on Pulau Layang-Layang (Swallow Reef)



Source: CSIS, AMTI (2015).

Figure 5: Comparison of Airstrips on Claimed Features in the South China Sea



Source: CSIS, AMTI (2015).

encompass the GSP. This is significant, considering the potential security challenges from other claimant states. China, Vietnam, and the Philippines have occupied the most of the features in the SCS, with each building military facilities on its occupied areas and reclaiming land to allow further construction (Zhang, 2021). China, in particular, has extended its forward presence in the disputed waters by erecting seven artificial islands in the Spratlys, which enable China to have significant air and surface surveillance and intelligence gathering capabilities on all of its seven holdings, especially the “big three” (i.e., the Fiery Cross Reef, Mischief Reef and Subi Reef), thereby extending its coast guard and other paramilitary forces’ activities in the areas, including monitoring all air and sea traffic, as well as supporting the frequent refuel and resupply visits from China Coast Guard (CCG) and sheltered other paramilitary force vessels like the People’s Armed Forces’ Maritime Militia (PAFMM), alongside other civilian and military functions in the SCS (Suorsa, 2020).

Additionally, Pulau Layang-Layang’s RMN Station Lima and the other four RMN offshore stations (*Stesen Luar Pantai SLP*) can be further operationalized for multi-agency coordinated enforcement operations or “grey zone operations” for the purpose of securing Malaysia’s EEZs against such threats as piracy, maritime terrorism, poaching/illegal fishing, and other non-traditional security concerns occurring in Malaysia’s portion of the SCS. Among the most blatant of these concerns is IUU fishing, which entails the encroachment on Malaysian waters by illicit foreign fishing vessels. IUU fishing, which is responsible for rapidly depleting fish stocks, currently accounts for 8-16 percent of total catch in the SCS. According to Inderjit Singh (2020: 184), key threats of IUU fishing in Malaysia include illegal fishing, infringement of license terms, misreporting of catch and the use of illegal fishing methods/gears. Thus, illegal fishing in Malaysian fishing zones by foreign vessels not only threatens the economic livelihood of local fishermen but also poses a potential security threat to the country (Singh, 2020: 184). It is reported that approximately 980,000 metric tons of fish, with an estimated value of RM6 billion, are poached annually by illegal foreign vessels, usually from Thailand, Vietnam and Indonesia in Malaysian waters, with Chinese fishing exploits yet to be accounted for (Majid, 2017; *Malay Mail*, 2019). As such, current monitoring, control and surveillance (MCS) systems, as well as maritime enforcement initiatives/measures must be enhanced to better protect Malaysia from this economic security threat. In this regard, Pulau Layang-Layang can be used as an offshore base for multi-agency enforcement operations involving the Malaysian Maritime Enforcement Agency (MMEA), RMN, RMAF, Marine Police, Air Wing Unit Police and Malaysian Fisheries Department to tackle the incursion of foreign fishing boats in Malaysian waters (Singh, 2020: 195).

4. Defending Sovereignty: Malaysia's Multipronged Statecraft

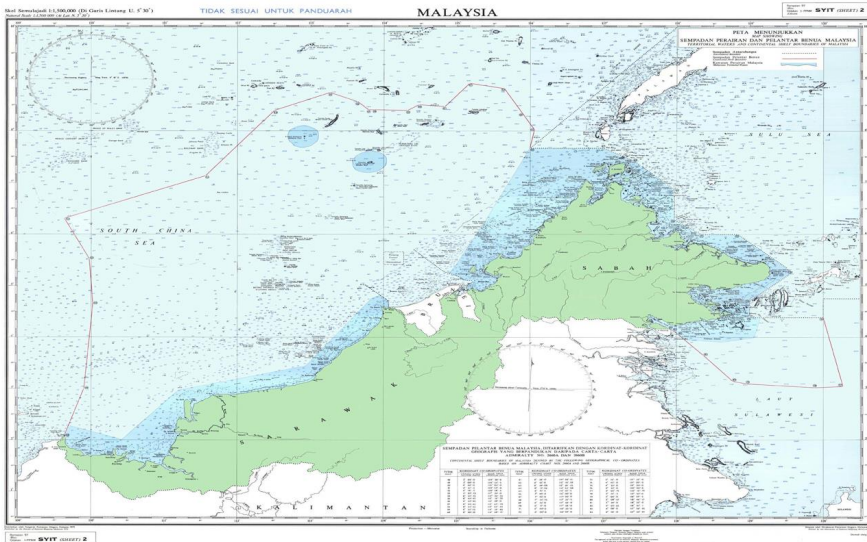
Since the 1960s, the Malaysian government has adopted a multipronged strategy to pursue and defend its sovereignty and other interests over its claimed areas in the SCS, including Pulau Layang-Layang. This multipronged statecraft consists of a combination of legislative, administrative, legal, diplomatic and military tools. In addition to bilateral and multilateral diplomatic efforts made possible by the ASEAN-led multilateral mechanisms created since the early 1990s, the Malaysian authorities have also undertaken various national efforts to exercise and assert its sovereignty over its claimed areas in the SCS.

Legislative and legal measures were central to Malaysia's early efforts in asserting its sovereign and maritime interests in the SCS. In July 1966, Malaysia passed its Continental Shelf Act (revised in 1972), based on the provisions of the 1958 Geneva Convention on the Continental Shelf.⁶ In October 1969, Malaysia and Indonesia agreed on the delimitation of the continental shelves between the two countries. Five months later, in March 1970, the two governments signed an agreement on territorial sea boundary. Malaysia also enacted the Petroleum Mining Act in 1966 (revised in 1972) and the Petroleum Development Act in 1974. The latter act grants the national oil company, Petronas Nasional Berhad (Petronas), exclusive ownership rights to all oil and gas resources in Malaysia and makes it the main regulatory body for upstream oil and gas activities, thereby allowing the federal government to assume ownership of the country's oil and gas (O&G) assets (Adnan, 1978: 375-384; Moorthy, 1982). The 1970s witnessed a petroleum boom in Malaysia, with Petronas partnering with foreign investors on production sharing schemes for carrying out exploration, refining and distribution activities.⁷ In December 1982, Malaysia signed UNCLOS (ratified on 14 October 1996). In 1984, Malaysia passed its Exclusive Economic Zone Act, which provided for "the regulations of activities in the zone and on the continental shelf and for matters connected therewith."⁸ Other legislative acts followed, including the Baselines of Maritime Zones Act in May 2007 and the Continental Shelf (Amendment) Act in 2009.

The most important legislative move, which officially marked Malaysia laying its claims on portions of the Spratly archipelago, was the publication of a two-sheet "Map Showing Territorial Waters and Continental Shelf Boundaries of Malaysia" (commonly known as "New Map", or *Peta Baru* in Malay) on 21 December 1979. While the first sheet of the map is of Peninsular Malaysia, the second sheet (see Figure 6) illustrates Malaysia's territorial waters and continental shelf boundaries along Sarawak and Sabah.

According to the map (hereafter "Peta Baru 1979"), Malaysia stakes its claims to about a dozen tiny reefs and atolls in the SCS. These include:

Figure 6: Areas Claimed by Malaysia in the South China Sea



Source: National Security Council, Malaysia.

Pulau Layang-Layang (Swallow Reef), *Terumbu Ubi* (Ardasier Reef), *Terumbu Mantanani* (Mariveles Reef), *Terumbu Laya* (Dallas Reef), *Terumbu Semarang Barat Kecil* (Louisa Reef), *Terumbu Semarang Barat Besar* (Royal Charlotte Reef), *Terumbu Siput* (Erica Reef), *Terumbu Peninjau* (Investigator Reef), *Permatang Ubi* (Ardasier Bank), *Pulau Kecil Amboyna* (Amboyna Cay), *Terumbu Perahu* (Barque Canada Reef), and *Terumbu Laksamana* (Commodore Reef).

Malaysia asserts that the claimed features are situated on its continental shelf and within its exclusive economic zone (EEZ) of 200 nautical miles. Of the claimed areas, *Pulau Kecil Amboyna* and *Terumbu Perahu* are occupied by Vietnam, while *Terumbu Laksamana* is occupied by the Philippines (Catley and Keliat, 1997; Haller-Trost, 1998; Hancox and Prescott, 1995; Nizam, 2012: 72-82; Valencia et al., 1997: 36). Malaysia has asserted its jurisdiction over *Beting Serupai* and *Beting Patinggi Ali* on an “extensive, peaceful, continuous and public” basis, chiefly through patrolling, policing, and resource-exploration activities (Hamzah, 2014; for a Chinese account, see Zhang, 2006).

Aside from legislative and legal measures, Malaysia has also used military and other tools of statecraft to assert and bolster its sovereignty claims over the areas. As early as 1974, the Malaysian Armed Forces (MAF), in particular, the RMN received a directive to enhance Malaysia’s presence”

in the Spratlys. This marked the beginning of “Operations Terumbu” (Op Terumbu) that broadly covered all MAF operations in the Spratlys (Yasin et al., 2020: 12).

The MAF's maiden expedition to the claimed Spratly features took place in early 1975, involving personnel and equipment from the tri-services of the RMN, Royal Malaysian Air Force (RMAF) and the Army Royal Engineer Regiment (RER). The assignment was to install sovereignty markers on the Spratly features, which included *Pulau Kecil Amboyna* (Amboyna Cay). However, during a subsequent operation by RMN hydrographers, the Malaysian marker installed on *Amboyna* in 1975 was found to be missing. Instead, a Vietnamese monument dated 1976 was discovered. Although the Malaysian troops avoided tampering with the Vietnamese marker, they re-erected the signage *Pulau Kecil Amboyna* on 11 October 1977, to indicate Malaysia's resolve in staking her claim of sovereignty over the said feature. Directorate of National Mapping personnel then expedited the surveys and markings at Layang-Layang and other adjacent features, namely *Terumbu Laya* (Dallas Reef), *Terumbu Ubi* (Ardasier), *Terumbu Semarang Barat Besar* (Royal Charlotte Reef), *Terumbu Semarang Barat Kecil* (Louisa Reef), Seahorse Breakers, Hayor Reef, and *Beting Patinggi Ali* (South Luconia Shoals) (Royal Malaysian Navy, 2018; Yasin et al., 2020: 12-13). Unfortunately, the re-installed Malaysian marker on *Pulau Kecil Amboyna* suffered a similar fate as the first. The entire island was also occupied by Vietnam on 2 June 1978. In his memoir in 2011, Mahathir Mohamad recalled that even though then Malaysian Prime Minister Tun Hussein Onn had initially agreed with him to physically reclaim Amboyna for Malaysia, Tun Hussein eventually changed his mind to avoid possible confrontations with a neighbour state (Mohamad, 2011).

The “loss” of *Pulau Kecil Amboyna* undermined the need and urgency to secure Malaysia's remaining claimed features in the Spratlys, with Layang-Layang as a top priority. Following a meeting on 13 June 1979, the Malaysian cabinet decided to make its SCS territorial claims visible via the construction of observable monuments, which led to the commencement of “Operation Tugu” (Op Tugu) beginning on 31 January 1980. Led by Lieutenant Colonel Choi Siew Pun, the RER constructed the monuments of “sovereignty” on Layang-Layang and nine other Malaysian-claimed features (Royal Malaysian Navy, 2018: 26). The “Op Tugu” comprised three phases. The first phase, executed between 2 and 19 April 1980, involved the laying of foundations of monuments at four of the claimed features, including Layang-Layang. During the third phase, from 16 June to 10 July 1980, 25-foot high concrete monuments were installed at Layang-Layang and three other reefs by the No. 3 Engineer Squadron, RER led by Lieutenant Harjit Singh Rendawa (Royal Malaysian Navy, 2018: 30; Yasin et al., 2020: 13). The monument

at *Terumbu Laksamana* (Commodore Reef) was subsequently destroyed by the Philippines, which subsequently occupied the feature. The monument on *Terumbu Semarang Barat Besar* (Royal Charlotte Reef) was found to be missing in mid-1985 (Yasin et al., 2020: 13).

Eventually, more assertive measures were undertaken to strengthen Malaysia's claims. On 21 August 1981, the cabinet of then Prime Minister Mahathir ordered the MAF to "occupy" Layang-Layang (Royal Malaysian Navy, 2018: 33; Yasin et al., 2020: 13). The extensive preparations for the physical occupation included: intensified RMN patrols and surveys of Layang-Layang and other features in its vicinity, the commencement of a hydrographic survey from 11 to 23 May 1982, and training at the Lumut Naval Base involving members of the newly established RMN Special Operations Force, or *Pasukan Khas Laut* (PASKAL), who were tasked to land, occupy and man the feature (Yasin et al., 2020: 13). Less than two years later, on 5 May 1983, 11 personnel from PASKAL's Alpha Squadron led by RMN Lieutenant Nasaruddin bin Othman and Lieutenant Johari Ramzan bin Hj. Ahmad landed on Layang-Layang to expedite the physical occupation of the reef. The landing mission was carried out from the RMN hydrographic survey vessel, *KD Mutiara*, bound for Layang-Layang as part of the naval task force participating in the MAF's annual joint exercise called "Exercise PAHLAWAN." Following a successful landing, Layang-Layang was permanently occupied (Yasin et al., 2020: 16-17). In August 1983, Malaysian armed forces held military exercises in the area (Richardson, 1983: 7). The following month, in response to protests from Vietnam and China, Malaysia's Deputy Defence Minister Abang Abu Bakar said that Malaysia had sent its armed forces to *Layang-Layang* because it is Malaysian territory, and that "we see no reason why we should withdraw our troops when our claims are backed by international law" (*New Straits Times*, 1983: 2).

At the end of 1983, the construction of the permanent base on Layang-Layang began, using the Caisson Retained Island (CRI) technology adopted by the oil and gas industry to develop sturdy offshore exploration facilities (Mancini et al., 1983). With a budget of RM60 million, Promet Berhad was commissioned to construct the permanent module, which involved the simultaneous fabrication of metal caissons at the Malaysian company's yard in Jurong, Singapore and on-site earth works at Layang-Layang (Yasin et al., 2020: 24-25). The initial infrastructures included an accommodation block, hangar, office space, a reverse osmosis system, and power generation plant to provide basic utilities for the stationed personnel, as well as trees and grass for landscape, making Layang-Layang the first "man-made island" in the SCS. To facilitate RMN vessels' access to the calmer waters of the lagoon, an "artificial" channel was constructed by blasting through coral reefs (Royal Malaysian Navy, 2018: 48-49; Coral Reef Initiative for the South Pacific,

2014). The development of the RMN Station Lima has strengthened the basis for Malaysia's claim over Layang-Layang based on the principle of *effectivites* (effective occupation), apart from altering its status to that of an "island", with its name officially changed to "Pulau Layang-Layang" (Layang-Layang Island) on 29 March 1992 (Yasin et al., 2020: 28).

Efforts to strengthen Malaysia's claim included visits by leaders to Layang-Layang. The first such visit was made by Prime Minister Mahathir in April 1984, upon the completion of Station Lima. This was followed by a trip in May 1992 by Agong Sultan Azlan Shah and Queen Bainun, accompanied by Chief of RMN, Mohamad Shariff Ishak (Ahmad and Sani, 2017: 73-74; Liow, 2009: 63; Salleh et al., 2009: 114). Mahathir made another visit to Layang-Layang in May 1995 to reaffirm Malaysia's claim (Wu, 2013: 144). He spent a night on Swallow Reef, increased naval patrols, and ordered a large-scale military exercise (Storey, 2011: 224). Subsequent leaders made similar visits: Deputy Minister Najib Razak visited Layang-Layang in August 2008, and Prime Minister Abdullah Badawi did so in March 2009 (Wu, 2013: 144).

To further advance its effective occupation, the Malaysian government not only developed Pulau Layang-Layang as a military asset but also the island's economic and commercial potential by transforming it into a world class scuba diving and deep-sea fishing destination. A March 1987 cabinet approval launched the deep-sea fishing initiative, with mainly Sabah and Sarawak companies reaping the economic rewards of Pulau Layang-Layang's surrounding waters. A fisheries and marine research station (MARSAL) was also established the same year, which brought further infrastructural development to Pulau Layang-Layang. The construction of the Layang-Layang Island Resort (currently known as The Avillion Layang-Layang) by a private company was completed in October 1989, with the resort officially welcoming its first batch of international and domestic visitors on 15 January 1990 (Yasin et al., 2020: 27). Anticipating an increase in tourist arrival, the original airstrip at Layang-Layang was extended to 1,067 metres in December 1991 and 1,368 metres in 2003. Malaysia's efforts to develop tourism on Layang-Layang have been motivated primarily by the intention "to prove that the reef can sustain economic life on its own, and thus can fulfil the minimum requirement of UNCLOS to generate its own 200 nautical mile (nm) Exclusive Economic Zone" (Chung, 2000: 267).

Layang-Layang's transformation from a submerged reef with a small dry patch of land at high-tide into an 83-acre man-made island housing an RMN outpost and a premier diving resort is indicative of Malaysia's multipronged approach in advancing its interests in the wider SCS. In addition to physical occupation, administrative and socioeconomic measures noted above, the Malaysian authorities have also conducted oil and gas exploration activities

in the areas. Some Chinese writings have described Malaysia as the country “most active” in undertaking energy exploration activities in the disputed areas (Zhang, 2006: 245).

The Malaysian government has also consistently emphasized the importance of international law when asserting its sovereignty claim. Malaysia protested Vietnam’s occupation of *Pulau Kecil Amboyna* (Amboyna Cay) and *Terumbu Perahu* (Barque Canada Reef), the Philippines’ occupation of *Terumbu Laksamana* (Commodore Reef), as well as sought formal clarification when China promulgated its Law on the Territorial Sea and the Contiguous Zone in 1992.

On 6 May 2009, Malaysia and Vietnam lodged a joint submission to the United Nations Commission on the Limits of the Continental Shelf (UNCLCS), extending their continental shelf claims into an area in the southern part of the SCS beyond 200 nautical miles from their coastlines. Procedurally, the move was to meet the terms and conditions under Article 76, paragraph 8 of UNCLOS as well as the SPLOS/72 Decision (by the 11th Meeting of State Parties to UNCLOS under the UN General Assembly in 2001) that those signatories who ratified UNCLOS before 13 May 1999 should submit their information on the limits of the continental shelf beyond 200 nautical miles to the UNCLCS before the deadline expired on 13 May 2009 (Estina, 2013: 19). Politically, Malaysia’s move was reportedly “to reduce competition among claimants.”⁹ Robert Beckman commented that the joint submission reflected Malaysia and Vietnam’s positions on how the hydrocarbon resources in the SCS should be allocated (Beckman, 2010).

The day after the joint submission, on 7 May 2009, China filed *Notes Verbales* to the UN Secretary General, protesting the joint submission and Vietnam’s unilateral submission, reiterating its “indisputable sovereignty over the islands in the South China Sea and the adjacent waters and enjoys sovereign rights and jurisdiction over the relevant waters as well as the seabed and subsoil thereof” (Wu, 2013: 146). China’s protest note attached its nine-dash line map. On 20 May 2009, Malaysia responded to China’s protest by sending a *Note Verbale* stating that the joint submission constitutes “legitimate undertakings in implementation of the obligation of State Parties” to the UNCLOS and that it was made “without prejudice to the question of delimitation of the continental shelf between states” and “without prejudice to the position of States which are parties to a land or maritime dispute.”¹⁰ The note added that the Malaysian government “has informed the People’s Republic of China of its position prior to the submission of the Joint Submission.”¹¹ In June 2009, while meeting Chinese Premier Wen Jiabao during his first official visit to China upon assumption of his premiership, Malaysian Prime Minister Najib remarked, “Malaysia has recognised the complexity of the South China Sea issue and would like to solve the problem

through friendly negotiation under the guidance of international laws” (Li and Jiang, 2009).

While some analysts have described China's protest note as a “provoked response” to Malaysia and Vietnam's joint submission, from Malaysia's viewpoint, however, the developments have raised concerns about China's intent in the disputed areas. This viewpoint is reflected in a paper presented by Kadir Mohamad, former secretary-general of the Malaysian Foreign Ministry and former foreign policy advisor to the Prime Minister, at a workshop in Kuala Lumpur, in which he stated that China's actions and the nine-dash line map “have created doubts, uncertainties and concern about China's actual intentions” (Mohamad, 2012: 4). Nazery Khalid, a researcher at the Malaysian Institute of Maritime Affairs, wrote in 2011, “China's claim of sovereignty over South China Sea as defined by its ‘nine-dotted lines’ principle, which has spurred anxiety among the littoral states of the sea, stands testimony to its growing assertiveness in protecting its interest in the sea” (Khalid, 2011: 130).

Reflecting the Malaysian government's position on managing the disputes in the context of international law, Nazery opined, “Since all the claimant states of South China Sea are parties to UNCLOS, they should always act in concert with its provisions and bring their national laws and practices in conformity with the convention.” He added, “It is imperative that claimant states enter into negotiations to agree on where are the disputed areas and those not in dispute, before they can work on initiatives such as joint development. In this regard, it would be most desirable for China to bring its claims in conformity with UNCLOS so that claimants can agree on areas not in dispute” (Khalid, 2011: 133).

More recently, on 12 December 2019, Malaysia made a partial submission to the UNCLCS, claiming an extended continental shelf beyond 200 nautical miles. According to researcher Sumathy Permal, the submission represented “a more proactive side of Malaysian maritime policy aimed at protecting its sovereign rights”, besides continuously calling for “the full implementation of the 2002 Declaration on the Conduct of Parties in the South China Sea and the conclusion of a Code of Conduct in the South China Sea” to manage the disputes (Permal, 2020).

5. Dealing with Geopolitical Reality: Pragmatism in Malaysia's SCS Policy (and China Policy)

Malaysia, like other claimant states, is determined to protect its sovereignty and maritime rights over its claimed areas in the SCS. As a militarily weaker claimant state, however, Malaysia realizes its policy options to assert and advance its interests vis-à-vis the multi-nation disputes are limited, confined by its capabilities, and subject to the wider geopolitical realities in Asia. These

realities include the widening power asymmetries and uncertainties, following the growing U.S.–China rivalry and China’s assertiveness over the past decade (Alatas, 2021; Hamzah, 2020; Lai and Kuik, 2021; Ngeow, 2021a, 2021b; Noor, 2019, 2021; see also Leong, 2020; Milner, 2020).

As big-power rivalry deepens, so does Malaysia’s small-state pragmatism, which is most evident in three elements in its SCS outlook: (a) recognizing that the nature of the SCS issue has changed from a territorial dispute to a matter of big-power contestation; (b) prioritizing its oil and gas exploration, while adopting a low-profile, cautious, and non-confrontational approach, and (c) displaying indirect defiance (chiefly via “legal hedge”, discussed below) towards China’s growing assertiveness, while not taking sides vis-à-vis the competing powers (Hamzah, 2014; Kuik and Ahmad, 2021; Ngeow, 2020; Noor, 2017; Permal, 2016). Each element is pragmatic in that it uses available means to pursue prioritized ends: maximizing prioritized benefits, while minimizing perceived risks, specifically the risks of entrapment and abandonment. Pragmatism, after all, is about striking a balance between multiple internal needs and external constraints.

This pragmatism in Malaysia’s SCS policy (and its broader China policy) is best reflected in Malaysia’s responses to the post-2020 developments in the disputed waters. The first episode occurred in April-May 2020 when there was a month-long standoff involving a Chinese seismic survey ship *Haiyang Dizhi 8* and the Malaysian Petronas’ contracted *West Capella* drill ship engaging in exploration activities near the outer edge of Malaysia’s Exclusive Economic Zone (EEZ) in the SCS, not far from the area where China Coast Guard (CCG) vessel has maintained a regular presence since 2014. Soon after, U.S. and Australian warships appeared and conducted military exercises near the site of the *West Capella*’s operation, purportedly in support of Malaysia (Ngeow, 2020; Ziezulewicz, 2020). The second episode was on 31 May 2021 when 16 People’s Liberation Army Air Force (PLAAF) aircraft flew into the airspace near Malaysia’s Sarawakian coast, prompting the Royal Malaysian Air Force (RMAF) to scramble jets to intercept the aircrafts (Ahmad et al., 2021). Then, in late September 2021, the Chinese survey ship *Da Yang Hao* was reportedly operating in an area that ran through the EEZs of three countries – Brunei, Malaysia and the Philippines – moving back and forth off the coasts of Sabah and Sarawak. At one point, the *Da Yang Hao* was only 60 nautical miles off the Malaysian coast (Radio Free Asia, 2021).

Malaysia responded to these developments prudently. While its increasing apprehension about China’s mounting maritime assertiveness has pushed Malaysia to deepen its hedging approach, the smaller state has refrained from over-reacting or departing from its non-confrontational posture towards its giant neighbour. While Malaysia has continued to embrace and enhance its longstanding defence partnerships with the United States and other Western

powers as “a military hedge” (vis-à-vis *any* unwanted but possible military danger in the future that it cannot cope by itself), it has taken great care to underscore the message that these partnerships are not targeted specifically to any power (at least at the present time). Malaysia has cautiously kept a delicate distance from its long-time defence partners (even though doing so risks displeasing the latter), with an intended goal of signalling to external and internal audiences that its defence partnerships with the Western powers are a continuation of – not a departure from – its “equidistance” tradition vis-à-vis all big powers. Malaysia, accordingly, has deepened its “politico-diplomatic hedge” by reiterating its position that it would not take sides, emphasizing its commitment to develop stable and mutually productive partnerships with *both* sides of the power equation. While there are signs of an increased use of “legal hedge” to defy and push back China, this has been done in a measured and balanced way.

Examples of this multifaceted small-state pragmatism abound. During the *West Capella* incident in 2020, the Malaysian government reacted in its typically low-key manner: denying any confrontation or standoff between the Chinese and Malaysian ships, calling for peaceful means to resolve the situation, while expressing concern about potential miscalculation. Foreign Minister Hishammuddin Hussein stated: “While international law guarantees the freedom of navigation, the presence of warships and vessels in the South China Sea has the potential to increase tensions that in turn may result in miscalculations which may affect peace, security and stability in the region,” before adding, Malaysia maintains “open and continuous communication” with all relevant parties, including China and the United States (Latiff and Ananthalakshmi, 2020). The minister’s remarks – by mentioning both China and the United States, while highlighting the possibility of increased tensions and miscalculations – clearly indicated that the Malaysian authorities were more concerned about the dangers of being entrapped in big-power conflict than the encroachment of foreign vessels into its EEZ *per se* (Lai and Kuik, 2021).

Nevertheless, despite these cautious statements that seemingly indicate that Malaysia wishes to keep its distance from the U.S. and Australian military, Malaysia has, in practice, continued to maintain close and robust ties with its Western partners (Malaysian Ministry of Defence, 2020: 70). In 2021, when the armed forces were able to resume their military exchanges after the outbreak of COVID-19, Malaysia conducted several bilateral training and exercises with the United States. In April, the Royal Malaysian Air Force (RMAF) conducted exercises with the *USS Theodore Roosevelt* Carrier Strike Group in the South China Sea. Then in November, the Malaysian Army and the U.S. Army Pacific held their face-to-face annual bilateral exercises, the 25th iteration of Keris Strike, in Gurun, Kedah.

These seemingly contradictory measures are indicative of the smaller state's attempts to balance the military hedge and politico-diplomatic hedge at a time of growing power uncertainties. As observed by Steve Wong: "Informed security analysts know by now that, both out of conviction and necessity, Malaysian policymakers typically dial-down real threats and risks of conflict and talk-up normative values of dialogue and cooperation." He continued, "These can give the impression of being 'schizophrenic' and 'out-of-touch' with realities, but it is simply not perceived to be in the country's political, economic, or social interests to do otherwise – not even when the rhetoric is at odds with actual intentions and actions," adding that this posture "is expected to remain the *modus operandi* through 2022 and beyond, despite ominous pressures of a changed environment and changing realities" (Wong, 2021).

This pattern is extended to Malaysia's use of legal hedge and related efforts. For instance, in its *Notes Verbale* to the United Nations dated 29 July 2020, Malaysia used strong language to rebuke China's earlier note objecting to Malaysia's establishment of its outer limits beyond 200 nautical miles, rejecting China's "nine-dash line" and describing it as having "no basis under international law" (United Nations, 2020). This strong-worded *Notes Verbale* in 2020 was followed by Malaysia's visibly stronger steps in 2021 (e.g., sending diplomatic protests and summoning the Chinese ambassador). However, despite this stronger position, Malaysia has opted to offset such *limited and indirect defiance* with more *open and direct* deference and cooperation vis-à-vis China on other realms: agreeing to revive the two Beijing-backed pipeline projects (previously suspended by Malaysia in 2018 during Mahathir's second premiership), as well as agreeing to establish the High-Level Committee on Malaysia-China Post Pandemic Cooperation. The first meeting was held during Saifuddin's China visit on 4 December 2021.

Malaysia's deepening pragmatism reflects that it is increasingly alarmed about escalating big-power tensions and growing risk of entrapment. When the Australia-United Kingdom-United States (AUKUS) pact was announced in September 2021, Malaysian leaders warned that the pact would trigger an arms race in Asia. Prime Minister Ismail Sabri Yaakob cautioned that the pact would "provoke other powers to act aggressively in the region, especially in the South China Sea" (Povera, 2021). Foreign Minister Saifuddin Abdullah echoed his concerns, stating that AUKUS could "lead to the escalation of arms race", "potentially spark tension among the world superpowers", and "aggravate aggression between them in the region" (Malaysian Ministry of Foreign Affairs, 2021). Hishammuddin Hussein, now Defence Minister in Ismail Sabri's cabinet, stressed that "Malaysia does not want to be dragged into the geopolitics of the considerations of huge powers," while emphasizing that other states must respect ASEAN's long-standing principle of neutrality and "Malaysia's stance on nuclear-powered submarines operating in its waters,

including under the United Nations Convention on the Law of the Sea, and the Southeast Asian Nuclear-Weapon-Free Zone Treaty” (Palansamy, 2021).

Malaysia's official stance on AUKUS does *not* mean that Malaysia is opposed to the U.S. and other Western powers playing a military and security role in the region. In fact, Malaysia remains committed to its bilateral defence partnerships with the U.S., Australia, the United Kingdom and France, as well as multilateral defence mechanisms (most notably the Five Power Defence Arrangements, FPDA, with Australia, New Zealand, Singapore, and the United Kingdom). On 26 October 2021, while responding to a question in Parliament, Hishammuddin said that while Malaysia “had made its views on AUKUS clear,” the country reiterates its firm commitment to the FPDA: “Malaysia will make sure that the relations that have been formed over the last 50 years under the FPDA will continue to be defended.” (Rahim et al., 2021)

Malaysian elites do *not* consider these positions (expressing concerns about AUKUS but embracing FPDA) contradictory; rather, they see the positions as complementary and mutually reinforcing its small-state pragmatism. This is because FPDA and AUKUS differ on at least three grounds: (a) their natures – the former is a consultative defence arrangement targeting no state; the latter is a military alliance seen as targeting China; (b) the historical contexts – the former was created in 1971 to replace Anglo-Malayan Defence Agreement (AMDA) in the wake of the British withdrawal following its “East of Suez” policy; the latter was established to respond to, and potentially contain, China's rise; and (c) their impact – the former enhanced Malaysia's defence capacities; the latter runs the risks of increasing big power contestation, marginalizing ASEAN, polarizing the region, and entrapping smaller states in a U.S.–China conflict.

Malaysia's seemingly contradictory outlook – and its alliance-avoidance stance – are both rooted in historical experience and its present-day concerns about the ongoing geopolitical realities. Malaysian elites learned from the British East of Suez policy and the U.S. Nixon Doctrine in the late 1960s that big-power allied support, however constructive and strong, is not durable. This outlook is also attributable to leader current judgments about *external* structural dynamics and *internal* political needs. Structurally, big powers would always compete and act–react among themselves, with the primary end of maximizing *their own* relative power. These present top-down challenges and uncertainties to all, especially the vulnerable smaller and weaker states. Domestically, at a time of unprecedented internal transitions, Malaysian ruling elites and politicians struggling for their own political preservation prefer external stability and prioritize external relations capable of providing resources and opportunities to boost their domestic political and governance functions. Following the 2018 general elections which ended the United Malays National Organisation (UMNO)-led Barisan Nasional (BN)'s

uninterrupted 61-year rule, Malaysia underwent three changes of government in three years, with uncertainties still ahead. For a country known for political stability, this is an unusual internal development. Since 2020, as the rest of Southeast Asia and the world fight the COVID-19 crisis, Malaysia's successive ruling elites have not only been battling the pandemic and attempting to rebuild the economy, but also struggling for their political survival.

The net effects are: while Malaysia has continued its multipronged policy of using diplomatic, legal, and physical measures to pursue its multiple interests surrounding the SCS, the growing U.S.–China rivalry and mounting domestic challenges have compelled its ruling elite to attempt pursuing these measures in a way that allows them to capitalise on the changing power dynamics as a source to support and shore up, rather than undermine, their more pressing tasks of ensuring their legitimacy, authority and survival at home.

These functions necessitate the elite to adopt policy options that strike a balance – and not necessarily maximise – the country's triple interests of territory and security, resources and prosperity, as well as policy manoeuvrability and long-term autonomy. Because it is almost impossible to maximise each of these interests with one single policy instrument (e.g., defence alignment), and because all policy instruments involve some form of *trade-offs* (e.g., over relying on alignment might serve to maximise security but it runs the risks of foregoing economic gains and undermining policy autonomy), an “optimal” option would be one that allows the elite to acquire politically-meaningful benefits as much as possible for their domestic legitimisation purposes, while minimising whatever risks and costs the constituent instruments might entail. Put differently, an optimal option would be one that involves an “acceptable” trade-off, measured in terms of its expected effects on the ruling elite's legitimisation tasks. An option that is expected to incur a high degree of costs outweighing the desired benefits, which will undercut elite's inner justification efforts, would not be considered as optimal and, as such, would be avoided and rejected.

The result is a continuation of Malaysia's pragmatic stance of not overplaying the SCS issue, and not allowing the issue to impede the overall progress of its economic and political relations with China. Such a policy makes political sense under the current conditions of intensifying big-power rivalry. This is especially so given that the disputes are not likely to be resolved in the near future, and that there are other equally or more important stakes in the bilateral relations, which are deemed crucial for the ruling elite's domestic tasks. This outlook has been translated into a policy that is marked by a desire to avoid conflict, a preference for negotiation and multilateralism, an insistence of not taking sides, and a proclivity for developing broad-based cooperation with *all* the key players. This policy, however, may evolve should

the key structural conditions change (e.g., if China's assertiveness escalates into direct and blatant aggression).

6. Looking Ahead: China's Counter-Intuitive (and Counter-Productive) Acts

In this article, we traced the history and highlighted the contemporary significance of Pulau Layang-Layang for Malaysia's SCS policy. We also unpacked Malaysia's multipronged strategy in defending its sovereignty over Pulau Layang-Layang and other claimed features, before analysing *how* the changing geopolitical realities surrounding the growing U.S.–China rivalry have shaped and reshaped Malaysia's SCS policy. We argued that domestic political factors have been and will likely be the principal driver motivating and limiting the smaller state's policy vis-à-vis the multi-nation disputes.

Malaysia's SCS policy (and for that matter, its China policy), of course, is not set in stone. It is likely to evolve if and when there are major changes in key external and internal conditions. One possible external factor might be the trajectory, pace and scope of China's assertiveness. Already, China's actions vis-à-vis Malaysia over the SCS over the past decade have suggested an increasing degree of assertiveness and even aggressiveness. The PLA overflight in late May 2021, in particular, appeared to have escalated from a show of presence into a show of force. Sending a squadron of aircraft flying in a tactical in-trail formation 40-60 nautical miles off a sovereign nation's coast, while not responding to communication requests, is an overtly provocative, if not outright hostile act.

Such an act was puzzling, and indeed, counter-intuitive.¹² Many observers were surprised that Malaysia, a friendly partner, was targeted. Malaysia was the first ASEAN state to establish diplomatic ties with China. It was among the first states to dispatch a delegation to Beijing when China was isolated after the 1989 Tiananmen Incident. Malaysia has actively involved China in the ASEAN–China dialogue process and jointly promoted East Asian institution-building. Moreover, Malaysia's approach vis-à-vis the SCS disputes has been non-confrontational, in contrast to Vietnam, the Philippines (before Duterte), and Indonesia's openly defiant approaches. Malaysia has also enthusiastically embraced Xi's Belt and Road Initiative. On 21 May 2021, just days before the PLAAF overflight, Chinese Premier Li Keqiang and Malaysian leader Muhyiddin Yassin held a video conference, pledging to deepen bilateral cooperation. Observers were also perplexed by the timing, which took place on the 47th anniversary of Malaysia–China ties and the eve of RMAF Day.

The act is also a counter-productive one, as it has increased Malaysia's threat perception of China. Indeed, the perceived incursion has sparked fundamental rethinking within the Malaysian establishment about the country's

China policy. The Malaysian Armed Forces took the unprecedented move of issuing a public statement before the Malaysian Foreign Ministry; and the Sarawak state government, Sabah's political elite, and opposition parties are demanding that the national leadership in Putrajaya take a strong position on the SCS and to ensure such incidents will not recur. China's provocation reminds Malaysia that a rising power has the capability of harming smaller states, even as China's leader pledges differently. But such provocations are precarious and self-defeating. China may think its show of force is merely a "small" measure of pressuring and deterring Malaysia from exploiting offshore oil and gas resources in a part of the SCS Beijing regards as falling within its "nine-dash line". But exhibiting coercive force to a friendly nation sends an awful message not only to the target but also to all the states which have – thus far – chosen to stay *neutral* as U.S.–China rivalries grow.

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Notes

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1. This paper uses "*Pulau Layang-Layang*" (Layang-Layang Island) when the feature is discussed within the context of Malaysian government policy, but uses "Layang-Layang" when it is referred to in the general, regional context. According to the July 2016 ruling by the Arbitral Tribunal in The Hague, no

- feature in the South China Sea can be categorised as an “island” because none of them can sustain a human community without external aid.
2. Personal communication with individuals familiar with the matter, November-December 2021. See also David 2019, Nizam, 2012.
 3. Horsburgh's map of “China Sea” has two parts: China Sea Sheet 1 in 1821 and China Sea Sheet 2 in 1823. The latter provides a substantially improved chart of the coast of China.
 4. Parts of this section have been adapted from Lai, 2018.
 5. Information derived from focus group discussions with local fishermen based at Kudat who traditionally fished in the waters off Pulau Layang-Layang and GSP. (Focus Group Discussion, 15 September 2020).
 6. Available at: United Nations (1966), Continental Shelf Act. 28 July. <http://www.un.org/Depts/los/LEGISLATIONANDTREATIES/PDFFILES/MYS_1966_Act.pdf>.
 7. Prior to this, exploration and production activities in the offshore areas of the country were undertaken by such foreign oil companies as Shell, Exxon and Mobil. See Adnan 1978. See also Geological Survey Department, 1949; Sabah State Archives (SSA), AE/18/3/, 1985.
 8. Available at: United Nations. (1984), Exclusive Economic Zone Act 1984. <http://www.un.org/Depts/los/LEGISLATIONANDTREATIES/PDFFILES/MYS_1984_Act.pdf>.
 9. Citing a Malaysian scholar, an ICG report noted that Malaysia decided to proceed with the joint submission with Vietnam, even though Philippines and Brunei refused to join them in submitting the claim, because Malaysia reckoned that “if we could settle our dispute with even one country, that was progress.” See International Crisis Group, 2012.
 10. Available at: United Nations (2009), HA 24/09. 29 May. <http://www.un.org/depts/los/clcs_new/submissions_files/mysvnm33_09/mys_re_chn_2009re_mys_vnm_e.pdf>.
 11. Ibid.
 12. This portion is drawn from Ahmad, Kuik and Lai, 2021.

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Friend or Would-be Coloniser? A Constructivist Appraisal of Zambia–China Relations in the Light of Anti-Chinese Sentiments in Zambia

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Abstract

Recent occasional attacks on Chinese entrepreneurs in Zambia, supposedly on grounds that they are expropriating socio-economic opportunities for Zambians, deserve a fresh interrogation of Zambia–China relations. Labour-related tensions between Chinese employers and their Zambian employees have also ignited violence between the two parties. Opportunistic Zambian politicians have used these tensions to sponsor the narrative that China in general has malevolent designs over Zambia. Due to increasing external debt and general economic difficulties during the tenure of Zambia’s Patriotic Front (PF) government, from 2011 to 2021, desperate Zambians took their frustration out on the increasing numbers of Chinese entrepreneurs who are considered harbingers of Zambia’s external debt crisis and usurpers of Zambia’s sovereignty. Using constructivism as the theoretical framework, the research found that Zambia–China relations are no longer driven by ethical moorings that were typical of the colonial and Cold War eras. Secondly, that China’s identity in Zambia has assumed an ominous dimension with the increasing number of Chinese migrants whose conduct is at variance with the image that the Chinese government strives to present. Third, that the ineffective governance of the PF leadership threatened to force the country to default on the debt it owes to China and this could have led to China limiting the room for manoeuvre on the part of the Zambian government, thereby justifying the arguments of those who opine that China aims to take over Africa even though ineffective African governments are culpable.

Keywords: *China, identity, interest, constructivism, Zambia*

1. Introduction

The ensuing article will look at the norms, ideas, identities and interests that have shaped Zambia–China relations for the last 56 years. The article will take a tacitly normative perspective by exposing the upside as well as the downside of Zambia–China relations. It will also make a departure from the liberalist and rationalist inclinations of analyzing relations among nations from the level of state actors. The article has noted the growing influence of the opinion of non-state actors on Zambia–China relations. This opinion has claimed the attention of state actors from both Zambia and China. Thus, it is imperative to note that monopoly or dominance of state-actor opinion on Zambia–China relations has somewhat eroded. In addition, the article will also demonstrate the difference, in identity, between China as a state, and Chinese, as non-state actors whose number in Zambia has been steadily increasing. Unpacking these nuances will set the research apart from a generalized analysis of China's identity and its likely effect on Zambia.

Firstly, the article places Zambia–China relations in a broader context, by looking at how frustration with Western actors has inadvertently driven Africa into China's orbit. The second section will look at the recent history of Zambia–China relations. The third part begins a pointed focus on Zambia–China relations, and how the glorious history that the two countries share was increasingly fading away mainly due to the inability of the PF-led Zambian government to manage its resources. Rather than blame China as a marauding would-be coloniser as other literature tends to do, the current study will put the responsibility of the current skewed Zambia–China relationship on the previous Zambian government. The fourth section will look at China's involvement in Zambia through state-owned enterprises, citing mostly major projects that they are undertaking. The section will also reveal the content and flow of imports and exports between the two countries since the early 1990s and how that impacts on the nature of Sino–Zambian relations. The article will not concentrate on China's investment in Zambia's mining sector as dominant emphasis in that sector has limited the study of other areas such as track two diplomacy that involves non-state actors from the two countries, whose point of interaction is outside the mining sector. The fifth section is dedicated to analyzing the impact of Chinese migrants in Zambia on China's identity among Zambians. The sixth section will then interpret the texture of Zambian–China relations arguing from a constructivist perspective which looks at the importance of identity in any relationship.

2. Understanding Zambia's/Africa's Relationship with China

The discourse on Zambia–Chinese relations could be inserted in the wider African relations with the East. It is a relationship in which African countries

turn to the East to achieve the ever elusive economic and infrastructural development in the continent. Previous efforts by African countries to achieve this have taken the form of borrowing from the World Bank and IMF controlled by the West (Ismi, 2004; Omotola and Saliu, 2009). The problem with this previous effort is that instead of helping in the development of African countries, the contrary was the case. For example, through the World Bank and the IMF Structural Adjustment Programs (SAPs), African countries were “forced to open their economies to Western penetration and increase exports of primary goods to wealthy nations...[which] multiplied profits for Western multinational corporations while subjecting Third World countries to horrendous levels of poverty...and economic decline” (Ismi, 2004: 5). The 2016 UNCTAD report also affirms that SAPs have had a devastating impact on the African continent resulting in slower economic growth, increased poverty and lower incomes. Moreover, SAPs led to increased debt burden on Africa and hence “has, for decades, remained a recurrent and discordant note in the discourse on the crisis and contradictions of Africa’s development” (Omotola and Saliu, 2009: 87). The request by many African countries for debt cancellations has been the subject of global political economy discourse. Considering these circumstances, it is easy to understand why African countries sought alternatives towards enabling their economic development.

Also, political interference from the West and Europe in the African countries receiving their aid, did not help matters and was quite stifling for some of the borrowing African countries. The UNCTAD report (2016: 8) states that America’s predominance in the World Bank and IMF has ensured that the so-called global institutions are used as instruments of America’s foreign economic–political policies. These foreign policies have resulted in the interference of America in the socio-politics of the countries receiving aid. This has compelled some African countries to surrender their internal affairs to be scrutinised by America and other global economic super powers; they have to dance to the tune of the donor country with regards to political, economic and even social demands. For example, the Highly Indebted Poor Countries (HIPC) initiative of the World Bank and IMF signifies the form of interference of the West on African countries in debt; the initiative requires that borrowing and indebted countries have a record of good governance and able to show that they are committed to the battle against corruption (Omotola and Saliu, 2009).

Considering the above failures of the Western and European economic super powers in Africa, the East (especially China) and its economic and developmental promises, provides an alternative to Africa’s aspiration for socio-economic growth and development. Ogunrotifa (2011: 235) asserts that “the shift of Africa’s attention from the West to the East especially China in the 21st Century is not unconnected to the absurdities of unequal relations and

domination by Western countries in the pre and post Structural Adjustment Programme (SAP) period.” As an alternative, China’s aid presents many advantages for needy African countries; for example, China’s aid goes with the understanding of debt cancellation and change of due date for repayment of loans, as part of China’s development assistance to certain countries (Chilufya, 2010). Also, China’s non-interference policy has been embraced with alacrity in Africa. Summarily, it will seem that China has exploited the dissatisfaction of Africa’s leaders on the problematic economic and foreign policy models from the World Bank and IMF; “the Chinese are aware of the historical background of Africans and the continent’s current travails under Western domination” (Ogunrotifa, 2011: 236).

Against the above backdrop, some scholars have argued against the view which holds that China’s role in Africa is totally disadvantageous and worsening the situation of underdevelopment in Africa. Willis (2014) looks at the argument on whether China’s socio-economic relations with Africa constitute neo-colonialism. The author agrees that China’s involvement in Africa is problematic, but this does not constitute neo-colonialism since this involvement brings some potential for greater economic development in Africa. However, Willis (2014) also notes that China’s role has the potential of aggravating the political economy of Africa entrenched by former colonial imperialists as asserted by Ake (1981). According to Willis (2014) China “is aggravating an existing political economy of resource extraction long practised by the West in collusion with African elites.” This is seen in China’s practices in the so-called strategic partnership with African countries like Zambia.

Zambia provides one example of the double-edged nature of the surge in Chinese imports. On the one hand, these have been extremely popular as they allow African consumers unprecedented access to low-cost manufactured goods (e.g. see Zi, 2015: 7). On the other hand, Chinese clothing and textile exports have undermined local African production as they crowd out both domestic and third-country markets – the likes of South Africa and its neighbours have witnessed large-scale unemployment as a result (Willis, 2014). Chilufya (2010: 11) notes that “the trade and investment ‘deals’ between China and most African governments are opaque and on barter terms largely dictated by China.” This undergirds the rhetoric from some scholars (for example Ogunrotifa, 2011; Dewidar, 2015) that China has a neo-colonialist agenda in Africa, since the barter system was also notably used during the Western colonial architecture of Africa’s weak political economy (Ake, 1981).

China’s alleged neo-colonialist strategy becomes even clearer in the age of globalisation in which China seeks to assert itself as a global power, dominating the global economic scene (Ogunrotifa, 2011). The aggressive move by China to dominate the economic scene in the developing world

is reminiscent of the scramble for Africa. Also, China’s so-called non-interference policy and the inability to call African dictators to order and to entrench human rights is in itself another problematic issue. This allows a situation in which African leaders and oppressive regimes utilize the means given to them by China to enrich themselves and become more powerful, quashing any opposition. Moreover, many of China’s “infrastructure projects seem to serve the interests of Chinese firms operating in Africa. There is also relatively little ‘aid’ given by China... China’s investment tends to favor a select group of African countries [that] tend to be natural resource exporters, whereas China mostly imports oil and other minerals from Africa” (Dewidar, 2015: 12).

However, it is also worth noting that apart from material resources, China extends overtures to countries with the intention of encouraging nations that share formal ties with Taiwan to foreswear those ties in favour of China. This is done through economic cajolery and displays of political affinity with the developing world. The use of soft power and claims of Third World solidarity create an identity of China that is palatable for actors that take umbrage at what they consider Western interference. These contrasts in constructed identities are arguably indicative of the difference in norms and ideas between the West on the one hand and China and the developing world on the other. A countervailing point to be made is that Africa does not always relate with China because it identifies itself with China. Zimbabwe’s “look East” initiative, for example, was out of necessity rather than sole belief in China’s identity and intentions in Africa (Moyo, Chambati and Yeros, 2019). Indeed, China’s non-interference principle which supported the governments of Sudan and Zimbabwe only enjoyed support in contrast to Western sanctions on those countries. Generally speaking, in their political outlook and behaviour, however flawed, African governments still lean towards Western politics rather than Chinese. It is also noteworthy that by adopting article 4(h) of the African Union (AU), which is the policy of non-indifference, AU members demonstrated that non-interference as a foreign policy is obsolete and irresponsible. Seen from this angle, Africa courts China not because it believes in the Chinese worldview but because it wants to show the West that it has alternatives and secondly, it demonstrates Africa’s antipathy to foreign oversight even though that article of the AU quoted points to the concession of such oversight.

2.1. Background of the Recent Zambia-China Relationship

Less than a week after the conclusion of the Forum on China-Africa Cooperation (FOCAC) summit in 2018 in Beijing, there was a groundswell of emotion in Zambia as rumours filtered through that China had commandeered

the Zambia National Broadcasting Corporation (ZNBC) and the Zambia Electricity Supply Corporation (ZESCO) (Mutale, 2018). Furthermore, there were also rumours that China was in the process of seizing Zambian airports because the Zambian government had failed to pay the debt it owed to China. Indeed, Zambia's relationship with China has been the cynosure of debate in Zambia since the latter part of 2018.

In November of 2018, the Chinese ambassador to Zambia presented a formal complaint to the then Zambian president Edgar Lungu, complaining about what were termed as xenophobic attacks on Chinese nationals by Zambian citizens. This came after Hakainde Hichilema, Zambia's current president, who was at the time the main opposition party leader, allegedly asserted that China had overtaken the state-owned Zambia Forestry and Forestry Industries Corporation (ZAFFICO). Upon hearing this, riots broke out on the Copperbelt province of Zambia, amidst looting of Chinese-owned businesses (*Africa Times*, 2018). Zambian Government officials, including the Vice President, conceded that there was xenophobia against Chinese nationals but that it had been fuelled by "slanderous" utterances from the opposition.

Anti-Chinese sentiment in Zambia is well documented, especially after 2001. In fact, the the Patriotic Front (PF), Zambia's ruling party from 2011 to 2021, is credited with bringing the China–Zambia relationship to the centre of Zambia's political debate. Michael Sata, the founding leader of the PF, launched broadsides at the then ruling Movement for Multiparty Democracy (MMD) and how it had allowed Chinese nationals and the Chinese government to usurp Zambia's economy and threaten its sovereignty. These sentiments were common from 2001 to 2008, after which Sata reduced his emphasis on anti-Chinese sentiment. However, after the PF's accession to power in 2011, economic relations between China and Zambia grew, and so did anti-Chinese sentiment, only that this time, it was coming from opposition political parties, the labour force, and ordinary Zambians who are now stern critics of China–Zambia relations.

Like the MMD before it, the PF was at pains to defend China's economic presence in, and relations with, Zambia. The content of the rhetoric between representatives of the two governments, always teemed with references to a glorious past when China helped Zambia. Furthermore, China has successfully cultivated a picture of a kindred developing state of the South, a non-interfering partner and, like most of the South, a survivor of Western and foreign domination. This construct has appealed to countries that regard Western terms of relations and aid as punitive and interfering in the internal affairs of the global South. In the context of this paper, China in Zambia is regarded as the proverbial wise man from the East, bearing gifts of infrastructure and foreign direct investment while at the same time benefitting from the resources that Zambia is endowed with. The depth of the economic

relations between China and Zambia is shrouded in secrecy but the attitude of the PF government to defend China at all costs suggested an indebtedness that culminated in resignation and expediency on the part of the Zambian government. The ensuing article traces the historical origins of Zambia–China relations from a constructivist perspective.

3. China–Zambia Relations: A Glorious History with Unsettling Contemporary Realities

The celebrated Bandung Conference of 1955 in Indonesia was a watershed moment in the history of Afro-Asian relations. China and India played an important part in setting up the conference. The principles of coexistence that were adopted at the conference were a mere addition to the principles that China and India had previously signed, demonstrating again the pivotal and influential role that China and India played at Bandung. The conference was also an attempt for African and Asian countries to chart their course in the international system, independent of the Cold War belligerents.

At the time the Bandung Conference was convened, most of Africa was under colonial rule. This is an important point to consider because it reinforced the Afro-Asian view of the Western capitalist countries as oppressive. It is thus not surprising that Asian countries, mainly China, were zealous in their support for anti-colonial agitation. The Union of Soviet Socialist Republics (USSR) was also an active supporter of countries that sought to end colonialism. The coincidence of communist powers supporting the anti-colonial struggle influenced the ideologies of African countries. Many African countries experimented with socialism and other ideologies (like humanism in Zambia) that were akin to socialism. Furthermore, the Chinese and Soviet largesse hardened the view that capitalism was inherently oppressive and that capitalist powers were loath to end colonialism.

Zambia was one of the African countries that looked askance at the role that Western powers were playing in Africa. Zambia gained independence in 1964 and established formal relations with China five days later. Zambia was one of the first few countries to gain independence in southern Africa. Thus, it was almost automatically saddled with the task of helping contiguous countries to end colonial and settler rule. A number of liberation movements like South Africa's African National Congress (ANC), Zimbabwe's Zimbabwe African People's Union (ZAPU) and Namibia's South West Africa People's Organisation (SWAPO) were based in Zambia. Among the movements that China helped were the Pan-Africanist Congress (PAC), the Zimbabwe African National Union (ZANU) and UNITA. Zambia and China were thus drawn together in their concerted interests in ending foreign domination. China's affinity with Africa was also encouraged by China's fight with Taiwan for

international recognition. Thus, cultivating cordial and politically beneficial relations with Africa could sway Africa towards favouring China as the *de jure* representative of Chinese people, at Taiwan's expense. This feat, China achieved in 1971, with significant support from independent African states. China's material and propaganda support for African's struggle was clearly a major factor in winning African solidarity.

One of the most important and ambitious projects that China undertook was the Tanzania Railway line (TAZARA). The TAZARA was important for a number of reasons. The rationale for the railway line was underlined by the fact that Zambia was dependent on Rhodesia (as Zimbabwe was then called) and South Africa for the conveyance of its exports and imports. However, Zambia's stance on apartheid, colonial and settler rule put it on a collision course with Zimbabwe and South Africa. Thus, Zambia had to circumvent the hostile countries and the idea of a railway line, moving up north, was mooted. Both Kenneth Kaunda of Zambia and Julius Nyerere of Tanzania had approached Western powers to solicit for donations to build the railway but they were turned down. China promptly agreed to sponsor the project. Many years later Levy Mwanawasa, as president of Zambia, would explain deepening relations between China and Africa as a consequence of Western countries' reluctance to come to the aid of Africa. China emphasized the fact that Western countries and the Soviet Union had recoiled from helping Africa to lessen dependency on settler-ruled countries. China argued that the TAZARA "was a support to the African people in their struggles against imperialism, colonialism and for national independence and assist the African countries to develop their national economies and to consolidate their national independence" (Embassy of the PRC in Estonia, 2004).

To this day, the TAZARA stands as a testimony to China's reliability and friendship with Zambia. Kaunda described China and Zambia as "all weather friends." This description meant that the two countries would maintain their stable relations irrespective of changes in the international system. This was somewhat proved when Zambia reverted to multiparty democracy in 1991. Kaunda had broached the possibility of a one-party state as early as 1966. China's identity as a one-party state was similar to Zambia's own from 1972 to 1991. However, with the changes in Zambia's political practice, certain enduring identities and interests in Zambia and China ensured that the two countries maintained cordial relations.

This article argues that identities play a pivotal role in fortifying relations among nations. Intersecting identities and common interests are likely to foster stable relations among nations. Identities that are at variance with each other have the capability of precluding altruistic and mutually beneficial relations among nations. Zambia and China identified each other as survivors of foreign domination that sought to support any country that was under

colonial or settler rule. Thus, their identity resulted in a common interest. Relations between the two countries were historically based on principle.

Some observers (e.g., Carmody and Hampway, 2010) have divided the history of China–Zambia relations into three categories. The first epoch was characterized by solidarity. This was the phase of anti-colonial agitation. The second phase was more characterized by geopolitics. From 1978, China embarked on reforms that saw the country transforming from being a socialist zealot to a more pragmatic power, concentrating on growing the country rather than promoting and exporting socialist revolution as the first priority. The third phase was more inclined towards geoeconomics. Structural adjustment reforms that were prescribed to the developing world by Bretton Woods institutions did not bear the fruit they were ideally supposed to bear. Zambia, in particular, had to contend with an increasingly restive citizenry, after experimenting with structural adjustments by removing subsidies from primary commodities. Economic weakness, the growing popularity of trade unions, the eventual end of the Cold War and the certain collapse of settler rule in Southern Africa forced Kenneth Kaunda to concede that his one-party system, with its socialist-leaning economics, had outlived its usefulness. He was thus forced to return to multiparty politics, and an election was held in 1991 at which Kaunda’s United National Independence Party (UNIP) was resoundingly defeated by Frederick Chiluba’s Movement for Multiparty Democracy (MMD). The period starting from 1991, wherein Zambia changed its political as well as economic system, had an influence on how Zambia–China relations ensued.

In their current form, relations between China and Zambia have been transformed somewhat. Despite rhetoric to the contrary, China–Zambia realities have a scent of imbalance and impending disaster about them, and the previous Zambian government is largely to blame. There was rife speculation that the PF government was failing to service its public debt. In November 2020, Zambia “defaulted on a US\$42.5 million payment on a Eurobond”, becoming the first country to do so during the scourge of the coronavirus pandemic (Fabricius, 2021). Zambia struggled to secure bailouts and loans from the IMF partly for fear that the country would use the money to service its debt from China. The China Africa Research Institute established that by 2019, Zambia, with Djibouti and the Democratic Republic of Congo, are the only countries in Africa where “Chinese loans account for half or more of the country’s public debt” (Brautigam, 2019). In addition, *Africa Confidential* revealed that the Zambian government raided the “National Pension Scheme Authority (NAPSA), to pay overdue February salaries for public service employees” (*Africa Confidential*, 2019). The report attributed the situation to “the lavish spending and borrowing of President Edgar Lungu’s government” (ibid). The *Lusaka Times* (2019a) also reported that Zambia was failing to

pay Chinese road contractors and that earlier in 2019 China's Exim bank had sent "a delegation to Zambia... to demand overdue payments to Chinese contractors." In characteristic fashion, the then Special Assistant to the Zambian President for Press and Public Relations Amos Chanda, refuted these reports claiming that the reports by *Africa Confidential* were "aimed at killing the Zambian economy by stopping Foreign Direct Investment" (*Lusaka Times*, 2019b).

4. China's State-owned Enterprises in Zambia and the Content and Flow of China-Zambia Exports

One of the most attractive aspects of China's foreign policy is the vow of non-interference in the internal affairs of other countries. The country undertakes to offer aid and trade relations but has vowed not to dictate or prescribe the way in which its partner-countries choose to run their internal political affairs. It is for this reason, for example, that when Zambia reverted to multiparty politics in 1991 China pledged that its relations with Zambia would continue unabated because Zambia had elected a future for itself with which China would not interfere (Taylor, 2006). Non-interference has found fertile ground in African leaderships, when contrasted to the much-loathed Washington Consensus that has been interpreted as hawkish and hostile to Africa's sovereignty (Aidoo and Hess, 2015). While he was president of Zambia (from 2008 to 2011), Rupiah Banda reacted angrily to the Global Fund and the European Union when they withheld their aid to Zambia citing endemic corruption. Banda inveighed against this decision arguing that the reasons adduced were tantamount to interfering in the internal affairs of sovereign states (*Reuters*, 2010).

As has been said, post-Cold War relations between Zambia and China have mainly been characterized by economic ambition. The political and economic changes that Zambia instituted in 1991 created room for foreign investors to claim stakes in Zambia's economy. This has attracted both state-owned and private Chinese enterprises to venture into Zambia and claim not only investments but massive government tenders. It is noteworthy that, when former Chinese president Hu Jintao visited Zambia in 2007, he announced that China would be building a multi-facility economic zone in Zambia, the first of its kind on the African continent (Kopiński, Polus and Taylor, 2011).

Currently, the most visible Chinese state-owned enterprise in Zambia is the Aviation Industry Corporation of China (AVIC). The website of the enterprise states "that AVIC INTL upholds the mission of Go beyond Commerce for a Better World, takes advantage of global network and platform, and actively participates in promoting the Belt and Road Initiative (BRI)" (AVIC INTL, 2013). The enterprise has won numerous and lucrative government projects. In October 2019, Zambia's Ministry of Home Affairs

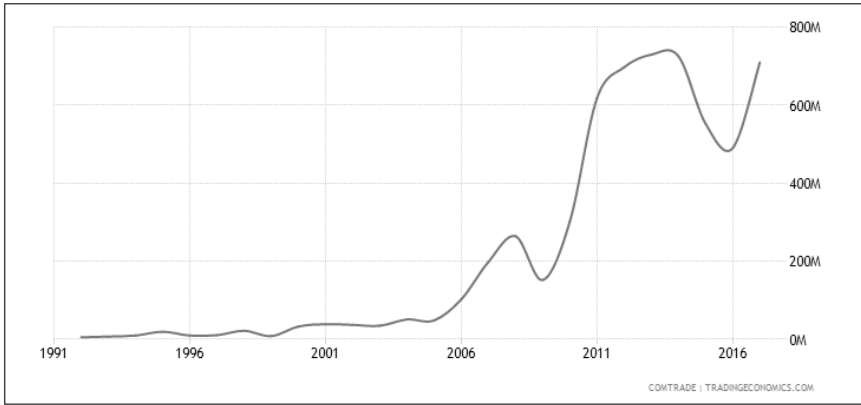
“engaged AVIC International Holding Corporation for the construction of Two Thousand Three Hundred and Fifty Housing Units (2,350) under Phase 1 for the four departments namely Zambia Police Service, Drug Enforcement Commission, Zambia Correctional Service and Immigration” (ZMHA, 2019). Some of AVIC’s biggest contracts in Zambia have been in the aviation sector. In Ndola district, on Zambia’s Copperbelt, AVIC was awarded a contract to build the Copperbelt International Airport, reportedly at the cost of \$397 million revised from \$574 million (*Lusaka Times*, 2019c). It was reported that, at the behest of the government of Zambia, “US\$4.5 million worth of contracts have been given to local Zambian contractors” (*Lusaka Times*, 2018). Together with AVIC, China Jiangxi is another Chinese state-owned that has claimed major infrastructural projects in Zambia. China Jiangxi was appointed to design and construct a new airport structure at the Kenneth Kaunda International Airport (KKIA) in Lusaka, Zambia’s capital. The construction started in April 2015. In 2019, Zambia’s Ministry of Housing and Infrastructure Development (ZMHID) presented a progress report to parliament on the KKIA reminding the house that the contract to China Jianxi was worth \$360 million and that “the funds were provided by the Exim Bank of China through established procedures” (ZMHID, 2019). The minister went on to state that:

With regard to the terms of the loan, I wish to inform the house that the maturity period for the loan facility is 240 months or 20 years with a grace period of 84 months or 7 years while the loan is expected to be repaid within a period of 13 years. Further, the applicable interest rate on the loan is two percent (2%) per annum while the rate applicable for the management fee is 0.25%. Lastly, the rate applicable for the commitment fee is also 0.25% per annum (*ibid*).

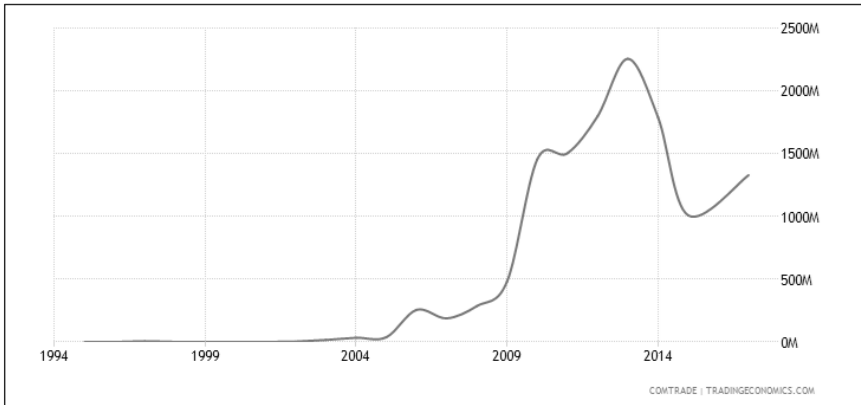
Apart from the aviation industry, China Jiangxi, like AVIC has been awarded tender in other sectors. “The Ministry of Home Affairs engaged China Jiangxi Corporation Limited to construct two five storey and one four storey office blocks at Ridgeway area” (Zambia Ministry of Home Affairs, 2019). From the 1970s (when the TAZARA) was built and the 1980s (when the Mulungushi textile was built), both under the auspices of China, there seemed to have been a hiatus in major Chinese investment in Zambia. That hiatus was somehow represented in the flow and ebb of Chinese imports and exports from Zambia as shown in Graphs 1 and 2.

As could be deduced from the graphs, the 1990s was characterized by marginal exchange by way of exports and imports between Zambia and China. While the new millennium saw a spike in trade, there is a worrying trend in the Zambia–China exports–imports equation that not only represents China’s trade with other African countries but seems to replicate the abhorred trade relationship between Africa and Western trade partners. This trade equation

Graph 1 Chinese Exports to Zambia from 1991 to 2016



Graph 2 Zambian Exports to China



has mainly been characterized by low value goods leaving Africa in exchange for high-end imports (finished products) from outside Africa. Another worry, particularly to Zambia, is the country’s failure to diversify its economy and disentangle itself from its chronic and unsustainable dependency on copper. The year 2017 demonstrated an instructive illustration of the Zambia–China trade imbalance. In that year, Zambia’s exports to China were worth \$1.33 billion with copper accounting for \$1.27 billion (95 per cent), with the second being tobacco at a paltry \$24.34 million (1.8 per cent). In the same year, China’s exports to Zambia were worth \$709.47 million, with electrical and electronic equipment accounting for \$205.09 million (29 per cent) and the second commodity machinery, nuclear reactors and boilers accounting for \$180.46 (25 per cent) showing a reasonable and more diversified distribution of exports than was the case for Zambia (Trade Economics, 2019).

These realities bring into perspective at least two observations: the first is that, in terms of exports and imports relations with China have not substantially changed Zambia's nature of exports and overreliance on copper. Secondly, and more economically ideological, is that China, as a relatively new trade player in Zambia should not carry the blame for the country's struggle to diversify its economy. Where China is reasonably culpable, however, is in the conduct of non-state actors of Chinese extraction who, according to the thesis of this article, are a representation of China to the Zambians that they interact with. State-level interaction should be pitted against non-state level interaction wherein international diplomacy and the tendency to gloss over points of discord do not feature. In other words, analysis on Zambia–China relations should take into cognizance the growing number of Chinese nationals in Zambia and their likely impact on Zambia–China relations. This is the essence of track 2 diplomacy made famous by Joseph V. Montville.

5. The Growing Number of Private Chinese Nationals in Zambia and its Impact

This paper argues that since the end of the Cold War, relations between China and Zambia have been more influenced by economic ambition. In addition to this, current Sino–Zambian interaction has culminated in an exponential increase of Chinese nationals who are coming to Zambia out of their own initiative rather than at the behest of the Chinese government. Zambia, a country endowed with human and natural resources, but with a relatively low population offers better prospects for Chinese nationals. The Migration Policy Institute (MPI) established that word of mouth among Chinese nationals has played a part in increasing the number of Chinese migrants in Zambia. Zambia's longstanding reputation for hospitality, as was the case during the southern African crusade against colonial and settler rule, is another reassuring incentive for those who might want to settle in the country. By 2015, "the number of Chinese nationals entering Zambia... increased by 60 percent since 2009" (Postel, 2015). The Zambian Ministry of Home Affairs put the number of Chinese nationals in Zambia at 20,000 commending them for having "invested about \$5bn in more than 280 business enterprises in mining, manufacturing, agriculture, infrastructure development and resource extraction" (quoted in Mutale, 2018). The trend of Chinese nationals in Zambia suggests that the depth of Chinese investment is proportional to the number of Chinese nationals in Zambia. The real number of Chinese migrants in Zambia is not easy to determine. Even the Migration Policy Institute conceded as much due to Zambia's immigration policies that do not keep strict immigration records of those accompanying a family with a work

or investment visa. In addition, corruption, which leads to illegal and hence undocumented migration and other poor tracking mechanisms, often leads to miscalculations. In the particular case of Zambia, the possibility of opposition political parties and other non-state actors inflating the number of Chinese nationals allegedly residing in Zambia is high due to “increasing levels of anti-Chinese sentiment” (Park, 2009: 3). Due to anti-Chinese sentiment in Zambia, however negligible the number of Chinese migrants might be, it is likely to be exaggerated by a Zambian citizenry whose government has struggled to provide gainful employment and entrepreneurial opportunities for those who seek to occupy the space being occupied by Chinese migrants. However, it also cannot be gainsaid that Chinese migrants whose activities are not regulated might be a threat to Africa–China relations and a blemish on China’s national identity.

The significant role that ordinary Chinese are likely to play in Africa and Zambia was put in a cogent perspective in Howard French’s 2014 book *China’s Second Continent*. In the book Howard argues that while the Chinese government has been adjudged to be a looming threat to Africa’s sovereignty, it is ordinary Chinese who are a bigger threat. He argues that Africa should focus more on the ordinary Chinese rather “than any carefully planned action by the Beijing government to build state power and reinforce national prestige” (French, 2014: 6). The findings made in this research show that there is a paucity of research that looks at China at the state level and ordinary Chinese in Africa as discrete dimensions of the “China in Africa” discourse.

In addition to French’s (2014) book, in *Events over Endeavours: Image of the Chinese in Zambia and Angola*, Jaroslaw Jura, Kaja Kaluzynska and Paulo de Carvalho (2015) also endeavoured to establish the perceptions of non-state actors from Zambia and Angola on the deepening relationship between China and their respective countries. From the time that the two books were written, there has been an escalation of tension between ordinary Zambian citizens and their Chinese counterparts. Up to 2018, the ire that ordinary Zambians held against China was mainly towards ordinary Chinese employers under whom ordinary Zambians work. However, the attacks on Chinese nationals in late 2018, were an expression of Zambian anxiety over fears that China’s state-owned enterprises were usurping Zambian sovereignty through taking over public enterprises from Zambia. The violence that erupted following rumours about ZAFFICO being taken over by a Chinese company forced “an unprecedented number of Chinese nationals” to leave Zambia vowing to return only if the situation had subsided (Mutale, 2018).

Regarding anger that is expressly aimed at Chinese nationals, one reason is the crowding out of potential local entrepreneurial spaces by Chinese merchants. In his book, French (2014) discusses the interactions he had with Chinese nationals who are involved in small and medium enterprises

in Africa. This article, in tandem with French’s book, focuses on what Park and Alden (2013) call the ‘downstairs’ stairs of Africa–China relations, as opposed to the ‘upstairs’ which pays more attention to state-level politics. It is noteworthy that, during the Cold War, the majority of Chinese nationals coming to Zambia were state agents who had to go back to China at the termination of their contracts. Yoon Jung Park writes that of the estimated 50,000 Chinese workers who were conscripted to build the TAZARA, “almost all of these Chinese workers returned to China after completing their contracts.” However, as elsewhere on the African continent, the complex Zambia–China relationship “is manifesting at another level with the rise of Chinese migration and expansion” (Park and Alden, 2013: 643).

Most of the condemnation from ordinary Zambians has been centred on appalling working conditions in Chinese firms and the fact that there is an alarming number of Chinese who come to Zambia to venture into businesses like poultry that could be done by ordinary Zambians. The concern is that this sort sought of ‘investment’ is predatory in that it does not bring the scarce skills that Zambia needs; it rather crowds out Zambians’ small-scale business opportunities. It is arguable that the impression of ordinary Chinese might influence the impression that people will have on the Chinese government. An example of how ordinary citizens could paint a picture of their state is the xenophobic attacks that were visited on foreign nationals in South Africa. African countries opposed to the attacks threatened punitive measures towards South Africa as a state. Those that referred to Africa’s solidarity against apartheid before 1994 argued that the South African government had turned against kindred nations that had helped to sustain the struggle against apartheid. The same logic has been used in Zambia to conflate the identities of individual Chinese nationals with state-sponsored Chinese investment in Zambia.

5.1. The Identity Dynamic: A Constructivist Analysis of Sino-Zambian Relations

The ensuing insights will borrow some virtues of constructivism and the importance of track 2 diplomacy in international relations. Constructivism is an international relations approach that departs from the rational school of international relations. According to Alexander Wendt (1995), one of its most celebrated and seminal proponents, constructivism fits under the reflexive school of international relations. Generally speaking the rational school uses theoretical tools that are laced with positivism in their understanding of relations among nations. Reflectivism, on the other hand, opposes the rational school mainly on the grounds that relations among nations are social and hence, the importance of social meaning, ideas, identities and interests are major determinants of the complexion of relations that nations have.

Constructivism is thus an approach that looks at the social dimension of international relations (Checkel, 1998). It argues that nations are not inherently compelled to behave in deterministic ways towards each other. There are ideas that give impetus to the type of relations that nations forge in the international system. This puts constructivism at variance with rationalist theories like rationalism that argue that the primary determinant of international relations is material rather than ideational.

There has been an argument (e.g. see Mapendere, 2005: 66) that since the end of the Cold War, “ideological differences are no longer the major cause of conflict, but rather ethnic identity and the distribution of resources are today’s main sources of violence.” In terms of intrastate ethnic conflicts, Rwanda and Sudan stand as obvious examples. While state actors can and occasionally do play leading roles in inciting non-state actors, lasting harmony cannot be achieved by state-level pronouncements without the buy-in of non-state actors who form the bulwark of actual forces in conflict (Matambo, 2018: 27). The importance of concord among non-state actors is the main thesis of track 2 diplomacy (Montville, 1991). Track 2 diplomacy can be fitted in the constructivist purview of international relations and vice versa. The unifying factor is identity and how it shapes relations among individuals and nations and determines prospects for lasting peace. Put at an interstate level, track 2 diplomacy has been elusive in countries where state actors have failed to cater for citizens. Ordinary citizens, already beset by ethnic cleavages and unfair distribution of state resources find in foreign nationals an outlet of frustration. This argument was presciently and correctly made by Frantz Fanon (1963) when referring to the failure of post-colonial governments to change the colonial edifice and establish an equitable society.

Post-apartheid South Africa is an example where state failure to cater for citizens has led to xenophobic attacks on African migrants who are often accused of usurping opportunities for South African citizens. The case of Zambians against Chinese comes against the backdrop of unemployment rates that are especially bleak for the youth. According to the 2017 Labour Force Survey Reports by Zambia’s Central Statistical Office (2018: ix), in 2017 “The unemployment rate was 12.6 percent. The male unemployment rate was 11.9 percent and that of females was 13.5 percent. The youth unemployment was 17.4 percent. The male youth unemployment rate was 16.2 percent and that of females was 19.1 percent.” In such circumstances, it is expected that those of working age who do not have employment, formal or informal, will grow increasingly restive. Successful Chinese businesses are thus construed as objects of limiting the space for working-age Zambians. Conflict is bound to ensue as unemployed Zambians are daily sharing their space with Chinese entrepreneurs. Thus, while state actors predictably continue to promote an image of China that is non-threatening, their constructions do not resonate

with a frustrated citizenry. It would seem that a lasting solution to conflict among non-state actors would be bolstering opportunities for Zambians by the Zambian government and exacting terms from both non-state actors and state actors from China that are not injurious to Zambia and its citizens.

Former Zambian Foreign Affairs Minister Harry Kalaba reiterated Kaunda's assertion that the Chinese are Zambia's "all weather friends", but went on to say Chinese should bring scarce skills rather than working in settlement areas "doing block making or selling chickens" (Kalaba, 2018). Apart from calling for critical skills from China, the PF government had called for Chinese investors to support Zambian-owned enterprises by deciding that not less than 20 per cent "of all Government-funded road contracts awarded by the Road Development Agency (RDA) and other government institutions must be executed by Zambian-owned companies" (Tembo, 2018). In deference to this, AVIC signed 16 subcontracts worth K52 million (Zambian currency) to local contractors, to build 164km of road as part of the Lusaka 400 Urban Roads (L400) project (Musonda, 2018). By December 2018, Zambia's state broadcaster reported that a total of 54 Zambian companies had "been contracted by AVIC International in its countrywide public infrastructure contracts" (Jere, 2018). The above terms represent a responsible version of agency from the Zambian government as opposed to xenophobic or racist activism which can easily be mistaken for agency.

From the foregoing, China has become essential to Zambia's economy and ambitions of infrastructure development. The importance of China at state level is thus apparent. What has been more fraught to the Zambia–China relationship has been the hostility of Zambian citizens towards Chinese migrants. Allegations of China being a would-be coloniser have been provoked by the uneasy dynamics by unemployed Zambians sharing common spaces with Chinese entrepreneurs. There are also cases of Zambians who work in Chinese-run enterprises under trying circumstances but are forced to do so as the last recourse. This is another site for possible conflict. From the conduct of controversial Chinese employers, an identity of oppression is attributed to China as a state. Therefore, a conflict of China's identity plays out depending on the socio-economic circumstances of Zambians. For the last 56 years, successive Zambian governments have touted China as friend and partner but ordinary Zambians have latterly begun to associate China with an unsavoury identity that arises from interacting with the growing number of Chinese migrants. This paper elides the inclination to blame China for the skewed nature of relations with Zambia, thus partly justifying anti-Chinese sentiment. It rather puts the responsibility on Zambia's failure to diversify its economy and provide opportunities in the formal and informal sectors for its working-age citizens. Thus, the constructions of China's identity could only

be transformed positively when Chinese migrants are not seen as threats to Zambians who have access to economic opportunities.

6. Conclusion

For the last 56 years, Zambia and China have sustained a fascinating relationship mainly characterized by cordiality but the relationship has recently been infested with tension among non-state actors from both countries. During the Cold War, the countries were united by concerted efforts to end colonial and settler rule. The interaction was mainly at the level of state actors and the Chinese citizens who came to Zambia did so at the aegis of their government according to contracts that enjoined them to go back to China once finished. However, the post-Cold War era saw an increase in Chinese investment in Zambia and a proportionate number of Chinese nationals coming to Zambia out of private ambition and volition rather than under auspices of their government. The PF party seized on this emerging trend and relentlessly harried the MMD government for its close relations with China. Michael Sata passionately argued that China's incursions into Zambia had a scent of colonialism about them. However, after coming to power in 2011, the PF retained and increased Chinese involvement in Zambia. This hints at a sense of resignation.

The flurry of attacks on Chinese nationals, especially from 2018 to 2019 were a consequence of rumours, some which were justifiable, that the Zambian government had mortgaged some of its assets as collateral for debt owed to China. In addition, lack of employment and opportunities in Zambia have forced Zambian citizens to scapegoat Chinese entrepreneurs in Zambia. One of the central theses of this paper is that relations, whether at state or non-state level are driven by constructed identities and that these identities often emerge from lived experiences and perception. To ordinary Zambians, China's identity is found in Chinese migrants that interact with ordinary Zambians and reports show that this identity has often been negative. Thus, the paper demonstrated that while track 1 diplomacy (state-level) diplomacy has been very successful in maintaining Zambia–China relations, track 2 diplomacy (non-state level) has not been equally successful and has often attracted the attention of state actors. Zambian governments shoulder the responsibility to change the prevalent circumstances. On 12 August 2021, Zambians held a general election at which they ejected the Patriotic Front out of power and voted in the United Party for National Development (UPND). The UPND condemned how the PF handled both domestic and international affairs. It will be interesting to note how the new ruling government will deal with China, a country that has been blamed for some of the PF's corruption, but still a country that remains almost indispensable to Zambia's economic and debt affairs.

Notes

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The Rise of China in Europe: A Challenge to Integration?

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Abstract

This paper discusses the impacts of the “rise of China” on European integration. Challenges facing European integration are now among the most important issues followed closely by those who are interested in the development of the European Union. This paper, regarding European integration as a process in which a European “international society” emerges and then evolves, proposes an analytical framework to analyze the rise of China as both a centripetal force for and a centrifugal force against European integration by examining how common interests and conflicts of interests among European countries over such controversial issues as human rights in China, arms embargo against China, and increasing Chinese investment in Europe would affect European countries’ efforts to turn Europe into a highly integrated international society. As this paper demonstrates, whether and how either of the two forces for and against European integration will become stronger than the other would determine the direction where European integration might move and therefore is worth more examination in future research.

Keywords: *Rise of China, European Union, Sino-European relations, international society*

1. Introduction

The rise of China due to its economic reform since the late 1970s has been a popular research topic in the field of international relations. One of the key research questions relevant to the rise of China that scholars try to address is whether and how it has affected and will continue to affect the order of the current international system (Buzan, 2010, 2014, 2018). More specifically, has China been rising as a “revisionist state” that poses a “threat” to the world with its alleged tendency to challenge the status quo of the international system given its growing power? Or, is China more of a “status quo power”

that not only has no intention to challenge the status quo but also provides the world with many “opportunities” for economic growth and political stability on a global scale? To answer these questions, scholars especially like to focus on China’s relations with the most powerful country in our world today, the United States (US), and see how their interactions in the international system have evolved (Friedberg, 2005; Sutter, 2018). Also, China’s relations with its neighbours in general and those key regional actors around it in particular (e.g., Japan, two Koreas, Taiwan, the Association of Southeast Asian Nations, India and Russia) are among the most significant research interests of those scholars who study the rise of China (Ali, 2010; Bekkevold and Lo, 2019; Dreyer, 2015; Shambaugh, 2020). These days, the relations between China as a rising power and the “Third World” (e.g., the Middle East, Africa and Latin America) are more and more examined as well (Abegunrin and Manyeruke, 2020; Bernal-Meza and Li, 2020; Evron, 2019)

It is worth noting that, in addition to China’s relations with the aforementioned countries and regions in the context of the rise of China, there has been growing attention to Sino-European relations among scholars and diplomats as China’s international influences continue to expand from Asia to other regions of the world (Farnell and Irwin Crookes, 2016; Li, 2021; Sverdrup-Thygeson, Lindgren and Lanteigne, 2018). There are many different angles through which to approach the impacts of the rise of China on Europe. In this paper, I will especially focus on its impact on European integration that European countries have been working together to achieve since the end of WWII. More specifically, how has the growing Chinese economic and political presence in Europe affected European integration? Challenges facing European integration are now among the most important issues followed closely by those who are interested in the development of the European Union (EU) when “Brexit,” as well as other events like the financial crisis and the migrant crisis, makes people wonder whether Europe is moving toward “disintegration” after decades of effort for integration (Raine 2019; Vollaard, 2018). Here, referring to the English School of international relations theory, this paper proposes an analytical framework for those who are interested in European integration to analyze the impacts of the rise of China on Europe as an “international society.” As this paper will demonstrate, the rise of China (regardless of whether it is rising as a revisionist state or a status quo state) seems to have created two contradictory forces affecting European integration, especially the evolution of the EU from an integrated economic entity to a political one. There is a “centripetal force” associated with the rise of China that might strengthen the integration when European countries in general and those EU member states in particular conflict with China over such controversial issues as human rights in China, arms embargo against China, and increasing Chinese investment in Europe. Meanwhile, there

is also a “centrifugal force” that might however pose a potential challenge to the integration when intra-European disputes over those issues emerge. This analytical framework suggests that whether and how either of the two forces affecting European integration will become stronger than the other would determine the direction where European integration might move and therefore is worth more examination in future research.

To make my case, I divide the rest of the paper into five parts. In the next section, I will discuss European integration from a lens of the emergence and the evolution of an “international society,” a concept developed by the English School of international relations theory. In the third part of this paper, I will talk about the development of Sino-European relations in the context of the rise of China. In the fourth part, I will demonstrate the rise of China as a centripetal force for European integration by examining how European countries as an international society have shared their common interests about China and tried to jointly engage China in their conflicts with the country over the issues about human rights in China, arms embargo against China, and increasing Chinese investment in Europe. Then, I will also demonstrate the rise of China as a centrifugal force against European integration by examining how common interests about China among European countries are replaced, partially if not completely, with conflicts of interests over China, and therefore the Sino-European conflicts are turned into intra-European disputes over those conflicts. Finally, I will summarize the findings and conclude that how the centripetal and the centrifugal forces will evolve and interact with each other would influence whether and how Europe will become a highly integrated international society, especially a political one, in the future.

2. Europe as an “International Society”

One of the best ways to understand the origins and the development of European integration is through the lens of “international society.” The concept of “international society,” as opposed to that of “international system,” has been developed by the so called “English School” of international relations theory (Bull and Watson, 1985; Buzan, 1993: 330–336). According to the English School, although there is no doubt that the international system is anarchical, once states begin to interact with one another in that anarchical system, they would gradually realize that they do share some common interests and therefore start to form a society with some common sets of rules in order to jointly pursue those common interests.

The onset and the process of European integration can be examined as the emergence and the evolution of an international society (Buzan, 2004: 190–195). A “coexistence interstate society” (or a “pluralist international society”) emerged in Europe when the Peace of Westphalia in 1648 turned

the region into an “anarchical society of states” (Bull, 1977) where European countries began to follow such sovereign norms as equality of states and non-intervention in order to maintain peace among themselves. That coexistence interstate society was transformed into a “cooperative interstate society” (or a “solidarist international society”) in the wake of WWII when European countries began to seek not only “coexistence” but also “cooperation.” Having interacted with one another either positively or negatively for so long, European countries, though still regarding “order” as the major common interest that they should jointly pursue, began to realize that they actually had even more common interests (such as economic gain, human rights, environmentalism, and so on), which in turn would help maintain peace. To pursue those common interests, they began to not only preserve the existing institutions for coexistence but also create new institutions for cooperation. This is how the European Coal and Steel Community emerged in 1951, and a series of cooperation since then (such as the creation of the European Atomic Energy Community and the European Economic Community in 1957, as well as the creation of the European Community in 1967) eventually led to the establishment of the EU in 1993. The emergence and the development of the EU, alongside the creation of the eurozone in 1999, have been changing the European international society from a “cooperative interstate society” further into a “convergence interstate society.” Simply speaking, the interactions during the period of “coexistence” and that of “cooperation” have brought European countries so many common interests in terms of culture, politics and economics that they now want to apply similar political, legal and economic rules and are willing to give up part of their state sovereignty to a higher European authority that could monitor and implement those rules. In other words, European countries as an international society have begun to modify sovereign norms and are now moving beyond “cooperation” (not to mention “coexistence”) toward “convergence.”

Examining the development of Sino-European relations alongside the English School’s interpretation of European integration, we can find that European countries have developed common interests in issues about China and tried to jointly deal with these issues as a European whole, as revealed by the conflicts between China on the one side and European countries together on the other over such issues as arms embargo, human rights, trade and investment, etc. While these Sino-European conflicts might destabilize Sino-European relations from time to time, they have arguably played a role in facilitating and strengthening a sense of community among European countries and therefore contributed to the evolution of the European international society depicted by the English School. However, the rise of China at the same time might also be a potential challenge to European integration as those common interests among European countries with regard

to China are turned into conflicts of interests between them when some of the European countries, facing the growing economic opportunities brought by China's trade and investment, begin to accommodate China and water down their voices against China (or even support it) in those Sino-European conflicts. Simply speaking, with the rise of China, we are seeing not only Sino-European conflicts that have a positive effect on European integration but also internal conflicts between European countries over those Sino-European conflicts that have a negative effect on it. While the former might help facilitate the change of the European international society from a society of cooperation to a society of convergence, the latter might actually slow down the evolution of the European international society into a convergence interstate society, especially a political one.

3. Development of Sino-European Relations in the Context of a Rising China

Contemporary Sino-European relations began in 1949 when the post-WWII Chinese civil war ended with the establishment of the People's Republic of China (PRC) by Mao Zedong in the Chinese mainland and the relocation of the Republic of China (ROC) to Taiwan by Chiang Kai-shek. Since then, more and more European countries have shifted their recognition of the Chinese regime from the latter to the former. Today, all but one European country (i.e., Vatican) have "normalized" their relations with China. However, it is worth noting that China and European countries, in the post-1949 era, did not have many significant interactions until the late 1970s when China began to move away from its communist ideologies and embrace capitalist ideas as a result of its economic reform launched by the then Chinese leader, Deng Xiaoping. With China's economic reform leading to rapid growth of its economy, the economic ties between China and Europe started to increase, which in turn encouraged more political and other interactions between them as well.

3.1. Growing Sino-European Economic Ties

The European Commission of the European Communities (EC) (which existed from 1967 to 1993) established its diplomatic tie with the PRC government in 1975. Then, the drastic change of China's economic system made by Deng ushered in the first trade agreement between China and the EC in 1978 (Algieri, 2002: 64). With China's economic reform continuing to unfold, that trade agreement was replaced with a bigger economic agreement named "Agreement on Trade and Economic Co-operation between the EC and China" in 1985, and in 1988, the European Commission of the EC opened its first representation in Beijing (Algieri, 2002: 64; Men, 2012: 333). Due to the new

agreement, the trade between the two sides continued to grow and more FDI (foreign direct investment) from European countries entered China's Special Economic Zones (SEZs), which were created by the Chinese government back then to attract foreign capital and technologies to China for its economic development (Taube, 2002: 101).

The suppression of the pro-democracy protest at the Tiananmen Square by the Chinese government in 1989 (i.e., the Tiananmen Incident) led major European countries (along with the US) to impose economic sanctions against China, and many western companies decided to reduce their investment in China after the incident accordingly. However, due to the growing economic interests that European countries had had in China, the economic ties between China and Europe were largely normalized very shortly after the Tiananmen Incident (Algieri, 2002: 64). The establishment of the EU in 1993, as well as the enlargement of the union after that, not only strengthened the interconnectivity between countries within Europe but also increased the economic ties between China and Europe (Karkanis, 2018: 1158). For example, from 1995 to 2003, trade between China and the EU was doubled, and since then, China has surpassed Switzerland as the EU's second largest trading partner following the US only (Men, 2012: 334). Also, over the next decade, not only did China's trade with the EU continue to grow, China's investment in the EU also significantly increased due to China's "go-out" policy implemented in 1999 to encourage Chinese enterprises to invest abroad. Between 2005 and 2016, China poured nearly \$164 billion of investment into Europe as compared to its \$103 billion of investment in the US during the same period of time (Wade, 2017). Currently, Europe as a whole is the biggest destination of China's outward FDI (European Commission, 2017; Men, 2012, 333–343).

China's grand economic strategy today on the basis of its "Belt and Road Initiative" (BRI), which was firstly announced in 2013, has brought and will continue to bring China and Europe even economically closer. With the BRI, China has been trying to strengthen its economic ties with countries in Central Asia, Southeast Asia, South Asia, the Middle East, Africa, Latin America and Europe by providing them with financial aids for the building of local and international transportation networks and infrastructure as well as many other projects for their economic development. In the same year when the BRI was officially announced, China and the EU jointly endorsed the *EU-China 2020 Strategic Agenda for Cooperation* through which the two sides agreed to "strengthen cooperation in developing smart, upgraded and fully interconnected infrastructure systems" and "expand cooperation in interoperability of seamless supply chain logistics networks between Asia and Europe, maritime markets and routes, rail services, logistics, safety and energy efficiency" (Delegation of the European Union to China, 2013: 8). As of today,

the EU, using its own words, still “seeks to make the most of opportunities to promote sustainable connectivity in line with its own interest through interaction with China’s BRI” (European External Action Service, 2018).

3.2. Sino-European Strategic Partnership

With the growth of Sino-European economic ties, the political and other interactions between China and European countries have been increasing as well. In July 1994, the European Commission of the EU published its first Asia policy paper, *Towards a New Asia Strategy*. Given the strong economic performance that China had had by then, the EU indicated in the paper that relations with China should constitute one of the most important parts of its policy toward Asia (Algieri, 2002: 76). The next year, the EU published its first China policy paper, *A Long-term Policy for China-Europe Relations* (Men, 2012: 334). Then, in 1996, the first Asia-Europe Meeting (ASEM) was held in Thailand, which was among the first institutionalized channels through which China and European countries could work together to not only strengthen their economic ties but also deal with such issues as food security, migration, sustainable development, etc. (Lanteigne, 2006: 86–87, 92; Zhu, 2006: 170).

The relations between China and European countries reached a whole new level when the EU revealed for the first time in another China policy paper released in March 1998 that it would pursue a “comprehensive partnership” with China, and then the first international meeting specifically dedicated to Sino-European relations (i.e., the first EU-China Summit) was held in London the following month of the same year. Five years later, in mid-October 2003, the EU went so far as to indicate in the other China policy paper that Sino-European relations were reaching a “maturing partnership.” This statement was echoed by the first EU policy paper that China published (in mid-October 2003 as well), in which China committed itself to a “long-term, stable, and full partnership” with the EU (Ministry of Foreign Affairs, China, 2003).

Their relations nevertheless became tense in 2008 when protests against the 2008 Beijing Olympics erupted in many places around the world including European cities. The political tension even made the 11th EU-China Summit for that year cancelled (which had been held every year since 1998) (Men, 2012: 346). However, notwithstanding the aforementioned tension, Sino-European relations were back to normal very shortly with the 11th EU-China Summit being rescheduled to May 2009, which was immediately followed by the 12th EU-China Summit in November of the same year.

Despite the turmoil in the late 2000s, the Sino-European strategic partnership continued to grow in the 2010s. The 16th EU-China Summit

held in Beijing in November 2013 involved an unprecedented long meeting between the EU leaders and President Xi Jinping of China, which at the end resulted in the joint announcement of the *EU-China 2020 Strategic Agenda for Cooperation* (Fabrizi, 2015: 100). According to that strategic agenda, “as important actors in a multipolar world, the EU and China share responsibility for promoting peace, prosperity and sustainable development for the benefit of all” (Delegation of the European Union to China, 2013: 2). Also, they agreed to “continue to consolidate and develop their strategic partnership to the benefit of both sides, based on the principles of equality, respect and trust.” In 2014, President Xi paid his first-ever visit to Brussels (also, the first visit paid by a Chinese head of state to the EU), and then China and the EU issued a joint statement to “deepen the China-EU Comprehensive Strategic Partnership for mutual benefit” (European Council, 2014; Fabrizi, 2015: 103). The EU-China joint statement released in the wake of their 20th summit held in Beijing in July 2018, during which they celebrated the 15th anniversary of their “comprehensive strategic partnership,” reaffirmed the two sides’ “commitment to deepening their partnership for peace, growth, reform and civilization, based on the principles of mutual respect, trust, equality and mutual benefit, by comprehensively implementing the *EU-China 2020 Strategic Agenda for Cooperation*” (European Council, 2018: 1).

4. Rise of China as a Centripetal Force for European Integration

Despite the development of Sino-European relations discussed in the previous section, which has brought about a strategic partnership between China and the EU since 2003, there are still conflicts, including both political and economic ones, between China on the one side and European countries in general and the EU in particular on the other. That being said, while these conflicts might cause damage to Sino-European relations from time to time, they have however contributed to the integration of Europe as an international society when European countries seek joint efforts to deal with China based on their common interests, which in turn further help develop a sense of community among them.

4.1. Economic Issues

Although the growth of Sino-European economic ties has brought China and European countries closer to each other, it has however led to some conflicts at the same time. According to a policy paper published by the EU in 2006 about its economic relations with China, the EU regarded China as the “single most important challenge for EU trade policy” and urged China to “reject anticompetitive trading practices and policies” (Commission of the

European Communities, 2006; Men, 2012: 335). Simply speaking, the EU has become increasingly worried about its rising trade deficit with China and has accused China of dumping its products to the European markets at times. On the Chinese side, China has become increasingly unsatisfied with the EU's refusal to grant China the "market economy status" (MES) in the World Trade Organization (WTO), which has made it easier for the EU to win anti-dumping cases against China within the WTO framework.

On top of their conflicts over trade, controversies over foreign investment have become obvious, too. While Europe has become the biggest destination for China's foreign investment, European countries' investment in China seems to have much room for growth. To European countries, the problem lies in their concern that the Chinese market for European investment (and trade) is not as open as the European market for Chinese investment (and trade) (Commission of the European Communities, 2006). As a result, in 2013, China and the EU began to negotiate over an EU-China agreement on investment that, as indicated in their jointly endorsed *EU-China 2020 Strategic Agenda for Cooperation*, "will provide for progressive liberalization of investment and the elimination of restrictions for investors to each other's market" (Delegation of the European Union to China, 2013: 5).

Concluding and then implementing what they call a "Comprehensive Agreement on Investment" is now among the most important economic issues that China and the EU are working on. According to its China policy paper published in June 2016 (entitled *Elements for a New EU Strategy on China*), that agreement is the "EU's immediate priority towards the objective of deepening and rebalancing our economic relationship with China" (European Commission, 2016: 8). In the joint statement released at the end of the 2019 EU-China Summit, China and the EU confirmed that the two sides were achieving the "decisive progress" for the "conclusion of an ambitious EU-China Comprehensive Investment Agreement in 2020" (European Council, 2019: 1). The two sides officially concluded the agreement in principle in December 2020. However, the disputes still continue, and the agreement has been blocked by the European Parliament since May 2021 (Ewing, 2021).

4.2. Arms Embargo

In addition to the economic conflicts unfolding along with the growth of Sino-European economic ties, there are also political conflicts emerging between them as their relations in general continue to develop. Among the Sino-European political conflicts, the controversy over the major European countries' arms embargo against China in the wake of the 1989 Tiananmen Incident is arguably the most significant one.

To punish China for brutally crushing the protesters with its military force in that incident, European countries imposed on China not only economic sanctions but also an arms embargo. On June 26, 1989, twenty days after the Tiananmen Incident, the European Council of Ministers for the EC released a declaration on China which condemned the “brutal repression taking place in China” (European Council, 1989). Furthermore, the declaration also required the member states of the EC to put off their “military cooperation” with China and implement “an embargo on trade in arms with China” (European Council, 1989; Stockholm International Peace Research Institute, 2012).

China has been urging European countries to remove their arms embargo against China, especially since the official establishment of the Sino-EU strategic partnership in 2003. However, despite China’s constant protests, the European Council of the EU (which replaced the EC in 1993) made public the EU’s “Common Positions” on arms exports in December 2008, which provided even more specific guidelines for the EC’s arms embargo against China imposed in 1989. Though not singling out China, the “Common Positions” introduced, among other things, eight criteria that the EU member states have to take into account when exporting arms to any country (Council of the European Union, 2008). On the basis of the EU China policy published in 2016, which re-emphasized that the “EU exports to China are governed by the arms embargo established by the European Council Conclusions of 1989 and the eight criteria established under the Council Common Position on exports of military technology and equipment” (European Commission, 2016: 12), the EU-wide arms embargo against China remains largely intact to the present day.

4.3. Human Rights

Not only did the 1989 Tiananmen Incident bring about a conflict between China and major European countries over the European arms embargo against China. The incident also triggered the Sino-European conflict over China’s human rights violations (Baker, 2002: 47; Kinzelbach and Thelle, 2011: 60). The declaration mentioned above that imposed the arms embargo also urged China to “respect human rights” and to “take into account the hopes for freedom and democracy deeply felt by the population” (European Council, 1989). Most importantly, the declaration suggested that the member states of the EC respond to the incident by “raising the issue of human rights in China in the appropriate international fora” (Baker, 2002: 50; European Council, 1989).

Following the declaration, the member states of the EC worked together to influence the Sub-Commission on Prevention of Discrimination and Protection of Minorities under the UN Commission on Human Rights (UNCHR) to adopt in August 1989 a resolution criticizing the human rights situation in China (Baker, 2002: 51–52). In August 1991, they managed to

have another resolution related to China (which was about human rights in Tibet under the Chinese rule) passed by the Sub-Commission (Baker, 2002: 52). In addition to going through the aforementioned Sub-Commission, beginning in 1992, member states of the EU (which replaced the EC in 1993) also tried to have a resolution about China's human rights record directly passed by the UNCHR itself. However, due to China's large, if not dominant, influence in the UN, especially over those developing and underdeveloped countries, as well as the help from its allies like Russia, all of the draft resolutions against China's human rights violations co-sponsored by the EU member states were immediately blocked by a no-action resolution, except for the draft resolution in 1995 (which was still not passed at the end) (Baker, 2002: 53). On the Sub-Commission front, European countries also faced similar difficulties: the Sub-Commission no longer adopted any resolution against China after the 1991 resolution (Baker, 2002: 53).

Realizing the ineffectiveness of its effort since 1989 to press China over human rights through formal resolutions in the UN framework, the EU began to change its strategy in the second half of the 1990s during which it stopped working on the aforementioned resolutions and started to seek opportunities to have dialogues with China about human rights. The first Sino-European dialogue on human rights was held in 1995, and it has been institutionalized and held on a regular basis since 1997 (Baker, 2002: 58; Kinzelbach and Thelle, 2011: 61).

Despite the regular dialogue between China and the EU on human rights, which did produce some positive outcomes as both China and the EU see it, conflicts between them over the human rights situations in China continue to the present day. Although the EU has stopped pushing for formal UN resolutions against China, it continues to release joint statements about China's human rights record on a regular basis during the sessions of the UN Human Rights Council (which replaced the UNCHR in 2006), an action that China has criticized as an interference with China's domestic affairs. Most importantly, when it comes to China's human rights record, while the EU pays more attention to China's violations of political and civil rights, China emphasizes its effort to promote socio-economic rights among Chinese people with its economic reform and sees EU's effort to promote political and civil rights in China as a violation of China's sovereignty (European External Action Service, 2019; Men, 2012, 347).

5. Rise of China as a Centrifugal Force against European Integration

As the previous section has demonstrated, while Sino-European conflicts over economic issues, arms embargo, and human rights might cause turmoil in Sino-European relations from time to time, those conflicts have shaped

and reshaped common interests in China shared by European countries and cultivated a sense of community among them, all of which have contributed to the integration of Europe as a cooperative interstate society evolving into a convergence interstate society. That being said, as this section will reveal, the rise of China at the same time might also be a potential challenge to European integration as it sometimes changes, partially if not completely, the aforementioned European common interests in China into conflicts of interests between European countries.

More specifically, because of the rise of China, as revealed by the growing economic power and influences of China, some European countries including some EU member states have begun to weigh their own interests (especially the economic ones) in their bilateral relations with China much more than the collective interests of Europe as a whole in the context of Sino-European relations. This in turn has made it difficult for Europe to come up with a coherent China policy as an integrated supra-national entity when some European countries begin to conflict with others over how to deal with China (Baker, 2002: 47; Sandschneider, 2002: 33–34, 42–44).

5.1. Intra-European Disputes over Arms Embargo

Although, as mentioned, the European Council of the EC required its member states to impose an arms embargo against China in the wake of the 1989 Tiananmen Incident, it did not come up with any specific EC-wide guideline for the embargo. Instead, the scope of the embargo was left for interpretation by each member state. Here, it is worth noting that, expecting the growth of Chinese demand for advanced military weapons and technologies as a result of its rapid economic development, European countries like the United Kingdom (UK) and France that export arms abroad have had no intention to impose a full arms embargo against China since the very beginning. To them, the embargo should include only lethal military items and major weapons platforms instead of everything with potential military applications (Gupta, 2004; Stockholm International Peace Research Institute, 2012; UK Government, 1995).

With Sino-European relations continuing to develop, which eventually led to an EU-China strategic partnership in 2003, there are not only disputes among the European countries over how to interpret the arms embargo imposed by the EU (which replaced the EC in 1993) but also voices against the embargo itself. In 2004, following Chinese president Hu Jintao's visit to France, French president Jacques Chirac made public France's opposition to the arms embargo. Seeing the significant growth of Sino-European relations in general and their economic ties in particular, France regarded the 15-year-old embargo as anachronistic and began to urge the EU member states to work

together to lift it once and for all. France's explicit opposition to the arms embargo against China since 2004 resulted in the first big debate among the EU member states over the embargo (Gupta, 2004; Shambaugh, 2005). While France argued for a complete removal of the embargo, the Scandinavian countries were largely supportive of the embargo. Many countries like Germany, the Netherlands, and the UK were in between, taking an open but cautious attitude toward the issue. With no consensus reached in the debate, the EU arms embargo against China remained.

The debate without specific conclusion however encouraged the EU member states to come up with the EU's "Common Positions" on arms exports in December 2008 that I have discussed in the previous section. Although the "Common Positions" did provide the EU member states with better guidelines for their exports of arms to other countries including China, it did not stop the intra-EU friction over the issue about the arms embargo against China. They still interpreted the relevant criteria offered by the "Common Positions" in different ways when it comes to China, and some countries like France continued to push for the lifting of the embargo (Scimia, 2017).

In 2010, another debate among the EU member states over the EU arms embargo against China emerged. The debate turned out to be as severe as the previous one. While Spain, along with France and Greece, led the force against the arms embargo, the UK, supported by some of the new EU members from the former Soviet bloc, was against the immediate removal of the embargo on the human rights grounds although it was open to any possibility in the long run (Weitz, 2012). Like the previous debate, this debate ended with no consensus reached. As a result, the status quo lasts, and the EU arms embargo against China is still intact to the present day.

To sum up, the issue about the EU arms embargo against China has become not only a source of Sino-European conflict but also that of intra-EU friction. As a political action in the first place that was jointly taken by European countries against China's using force to repress the Chinese protesters in the 1989 Tiananmen Incident, it then became an economic issue as well when China's eagerness to modernize its military capabilities as a result of its economic growth began to direct the attention of countries like France to China's huge market for arms deals. Today, the issue of the EU arms embargo against China is becoming very political again. To the European countries opposing the embargo, beside losing economic benefits from China which are very much needed by Europe especially after the 2007–2010 global financial crisis (Weitz, 2012), the arms embargo is now one of the key Sino-European political fractures that is preventing their partnership from moving forward and therefore should be completely removed.

5.2. *Intra-European Disputes over Human Rights*

As mentioned in the previous section, to promote human rights in China after the 1989 Tiananmen Incident, member states of the EC worked together to influence the Sub-Commission on Prevention of Discrimination and Protection of Minorities under the UNCHR to adopt two resolutions against China's human rights violations, one in 1989 and the other in 1991. Starting in 1992, member states of the EU (which replaced the EC in 1993) began to directly co-sponsor resolutions against China in the UNCHR (which all failed at the end). This strategy of shaming was eventually replaced by the strategy of so called "constructive dialogues" in 1997 when the EU member states stopped co-sponsoring any UNCHR resolution against China and the conversations between China and the EU on human rights that began in 1995 were institutionalized and became the regularly held EU-China Human Rights Dialogue (Kinzelbach and Thelle, 2011: 61).

This change actually involved an intra-EU friction. Due to the growth of China's economy, there were more and more economic benefits that European countries could get from China. As a result, with the constant political showdown between European countries and China on the issue of human rights (at least once every year in the UNCHR), some of the former began to worry that a frequent political conflict like that would sooner or later cause huge damage to their economic interests in China. France fired the first shot with such a concern in 1997, which eventually led to the change.

Trying to secure an Airbus deal (Bloomberg News, 1997; Sandschneider, 2002: 43), France decided to show goodwill to China by, among other things, declining to co-sponsor the UNCHR resolution introduced by Denmark and the Netherlands in April 1997. France's decision was then followed by similar ones from Germany, Italy, Spain and Greece (Baker, 2002: 62). Eventually, the resolution was only co-sponsored by Austria, Belgium, Denmark, Finland, Ireland, Luxembourg, the Netherlands, Portugal, Sweden and the UK. As many observers argue, this intra-EU friction in 1997 ended the common approach that European countries had been taking toward the issue about human rights in China since 1989 (Baker, 2002: 55-66; Kinzelbach and Thelle, 2001: 61). In June 1998, the Council of the EU officially decided to promote human rights in China through the EU-China Dialogue on Human Rights (Baker, 2002: 57), and since then, there has been no joint resolution against China proposed by the EU member states in the UNCHR and its successor, the UN Human Rights Council (UNHRC).

The EU's new approach toward the issue about human rights in China, nevertheless, did not dissolve their conflict with China over the issue. As mentioned in the previous section, although the EU member states stopped in 1998 pushing for a joint UN resolution against China in terms of its human

rights violations, they have been issuing a joint statement on a regular basis since then during the meetings of UNCHR and its successor UNHRC to direct people's attention to China's human rights record. However, it is also worth noting that the intra-EU dispute over human rights in China did not disappear, either. For example, the EU member states failed to issue a joint statement about China's human rights record in June 2017 during a UNHRC session due to the objection from Greece to release such a statement. This was the first time that the EU did not issue such a statement in the UNHRC (which replaced the UNCHR in 2006) (Human Rights Watch, 2017; Tonchev and Davarinou, 2017).

Greece's objection was regarded by EU diplomats as "dishonorable," and many believed that it was a result of Greece's effort to maintain good relations with China in order to strengthen their bilateral economic ties in general and attract more Chinese investment in particular (Smith, 2017). By the time of that objection from Greece, China had acquired, among other things, a 51% stake in Greece's largest port (i.e., Port of Piraeus) and a 51% share of Greece's public power corporation's grid operator (Smith, 2017). With the continuous growth of China's economic presence in Europe which has become the biggest destination for China's foreign investment, as well as the increasing economic ties between the two sides in general, it is reasonable to argue that there might be more and more European countries economically benefiting from China and therefore becoming more inclined to defend the interests of China instead of the interests of Europe as a whole. This, in turn, would make it hard for the EU to maintain a coherent policy toward China over arms embargo and human rights, as well as issues about Sino-European economic ties.

5.3. Intra-European Disputes over Economic Issues

As mentioned, there have been more and more economic disputes between China and Europe as their economic ties continue to grow. However, it is worth mentioning that, when it comes to Sino-European relations, economic issues are now no longer purely economic. Growing Sino-European economic ties, as discussed above, have influenced some European countries' political decisions about China. Although the EU, in its China policy paper published in 2016, reminded its member states that "mutual economic and commercial interests are strong but should not prevent the EU from upholding its values in its relations with China" (European Commission, 2016), there seem to be European countries, especially those in the "periphery" of the EU, that try to take as much advantage as possible of the economic opportunities that China could offer.

Realizing the difficulty in economically penetrating the European “core,” China has kept a close eye on its “periphery” as an entrance to major European economies. Iceland (which is not an EU member) was among the first targets for China’s “side door approach” toward the European core (Lanteigne, 2010: 362). Hoping to enter larger European markets through the small and medium-sized ones, China began its negotiations with Iceland over a preferential trade agreement (PTA) in 2006, which was China’s first attempt to pursue a PTA in Europe (Lanteigne, 2010: 363–364, 378). These negotiations eventually led to the signing of a free trade agreement (FTA) between the two sides in April 2013, China’s first FTA with a European country.

In addition to Iceland as a side door on the west, China has also been making a lot of efforts to enter the European “core” through a side door on the east, i.e., Central and Eastern Europe (CEE). Xi’s visit to CEE in 2009 (as the Chinese vice president back then) ushered in the economic cooperation between China and the 16 CEE countries (which include 11 EU members). The first official summit for the Cooperation between China and Central and Eastern European Countries (CEEC), or the so-called “16+1,” was held in Warsaw, Poland, in 2012 (Hutt, 2017; Pavličević, 2018: 688; Vuksanovic, 2017; Witthoeft, 2018). Despite the EU’s concern about this China-initiated regional cooperation and its effort to prevent the institutionalization of such cooperation which involves 11 of its members, the “16+1” summit has been held annually since 2012, and the CEEC has expanded to include not only trade and investment but also such fields as connectivity, infrastructure, finance, logistics, tourism, culture, education and health care (Fabrizi, 2015: 101; Jakóbowski, 2018: 666; Vangeli, 2018: 680; Xinhua News Agency, 2017).

The CEEC is especially important to China in its effort to promote its BRI given that CEE is located in the region through which the two routes of BRI (i.e., the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road”) enter the European continent. As of now, all of the 16 CEE countries have expressed their official support for China’s BRI, showing their interests in benefiting from the BRI with their status as the “Eurasian land bridge” (Fabrizi, 2015: 101).

Among all of the CEE countries, Hungary (an EU member) has been one of the most important allies for China in the region. When China began to make significant efforts to promote China-CEE relations in the early 2010s, Hungary immediately responded with an “Eastern Opening” policy in 2012 (Hutt, 2017). Then, in 2013, it introduced a “residency bond” to grant foreigners who buy 250,000 euros worth of these bonds (many of them have turned out to be wealthy Chinese) a residence status in Hungary, which in turn allows them to move freely within the EU boundary (Hutt, 2017; Józwiak, 2017). On the Chinese side, China announced in 2013 a plan for a Chinese-funded upgrade of the railway connecting the capital of Hungary (i.e.,

Budapest) to that of Serbia (i.e., Belgrade), which since then has become one of the most critical projects for China's BRI (Hutt, 2017). Many agreements associated with that 350-km upgraded railroad project were signed in 2014, and the Bank of China established its regional headquarters in Budapest at the end of the same year (Jóźwiak, 2017). Up until 2015, Hungary had received about 80% of all Chinese investment in the region (Hutt, 2017). Therefore, it is no coincidence that Hungary in 2015 became the first European country officially endorsing China's BRI, and its foreign minister back then said in 2016 that "when the Chinese think about the economy and Europe, then it is Hungary that mostly comes to their minds now" (Hutt, 2017).

The year of 2016 is arguably one of the most important years for China's relations with CEE since the CEEC was initiated in 2012, during which China began to significantly expand its economic presence from Hungary to many other countries in the region. For example, the visit of President Xi to Serbia in that year brought the country 5.5 billion euros worth of Chinese investment in its infrastructure (Vuksanovic, 2017). In the same year, China also increased its investment, largely in the form of loans, in many other countries in the region such as North Macedonia, Albania and Montenegro (Vuksanovic, 2017).

Among all of the development in 2016, China's acquiring a 51% stake in the largest Greek seaport (i.e., the Port of Piraeus) attracted most of the attention (Denyer, 2017; Krastev, 2018; Vuksanovic, 2017). Actually, as early as 2008 when Greece was suffering from the financial crisis, China already moved to seize the opportunity to secure a 35-year concession from the Greek government to operate two of the docks within the Port of Piraeus (Vuksanovic, 2017). Greece has been regarded by China as an important country that could help China economically reach the European "core" through the CEE countries. The aforementioned 350-km upgraded railway between Hungary and Serbia is actually part of China's strategy to establish a transportation link between Greece and the "heart of Europe" through which the Chinese goods shipped to Greece via the Suez Canal could be more easily delivered to those major European markets (Hosken and Kasapi, 2017; Hutt, 2017; Tonchev and Davarinou, 2017: 22; Topaloff, 2018; Vörös, 2018; Vuksanovic, 2017). So far, China has invested nearly half a billion euros in the port (Horowitz and Alderman, 2017), transforming what it calls a "dragon head" of BRI into the busiest port on the Mediterranean Sea and the seventh busiest in Europe as a whole (Horowitz and Alderman, 2017; Hosken and Kasapi, 2017; Linden, 2018; Zou, 2016).

The growth of Chinese economic presence in the aforementioned CEE countries, as well as Greece, has boosted China's influences over there. For example, showing goodwill to China, the president of the Czech Republic once described his country as an "unsinkable aircraft carrier for China in

Europe” (Witthoeft, 2018). Croatian officials have also expressed their interests in integrating China’s BRI with the “Three Seas Initiative” promoted by Croatia and other countries in the region (Xinhua News Agency, 2018). Similarly, the Serbian ambassador to China has depicted Sino-Serbian relations as “iron friendship” while its deputy prime minister has called Serbia “China’s biggest partner in the Balkan region” (Vuksanovic, 2017). In a similar tone, the prime minister of North Macedonia has thanked China for helping North Macedonia’s economic development with the Chinese investment in its highway construction (Krastev, 2018). Like those leaders in the CEE countries, the Greek prime minister in 2015 also openly expressed Greece’s interest in being “China’s gateway into Europe” (Horowitz and Alderman, 2017). The aforementioned political statements of course should not be taken at face value, and it is also worth noting that there are actually many different views on China within these countries (Matura, 2018). Therefore, the above examples do not mean that those countries have completely become pro-China. That being said, they do reveal the fact that there are voices for China emerging in the region as a result of China’s growing economic presence over there, and thus, more future studies should be conducted to see how the pro-China rhetoric will evolve and interact with other different views on China.

China’s growing economic ties with the aforementioned European countries have brought China not only economic influences and benefits but also political ones when some of those countries began to conflict with other European countries over issues with regard to China. Take the South China Sea for example. In the wake of the International Tribunal for the Law of the Sea’s ruling against China’s claim over the South China Sea in July 2016, Hungary and Greece thwarted a proposed joint EU statement significantly supporting the ruling, and as a result, the EU ended up releasing a relatively vague statement instead (Fallon, 2016; Horowitz and Alderman, 2017; Tonchev and Davarinou, 2017: 53). The issue about China’s human rights record is another example. It is worth noting that, because of China’s concern, human rights have never been on the agenda for any CEEC meeting (Fabrizi, 2015: 101–102), and now the impact is moving beyond the region of CEE. In February 2017, Hungary prevented the EU from signing a joint letter as a bloc which condemned the detention and torture of Chinese human rights lawyers by the Chinese government (Denyer, 2017; Witthoeft, 2018). A similar situation happened in June 2017 when Greece blocked an EU statement on China’s human rights record for the UNHRC, which marked the first absence of such an EU statement for that UN body (Horowitz and Alderman, 2017; Smith, 2017; Tonchev and Davarinou, 2017: 53; Witthoeft, 2018). Responding to questions about Greece’s decision, Greek officials called the proposed EU statement “unconstructive criticism of China” and said

that “unproductive, and in many cases selective, criticism against specific countries does not facilitate the promotion of human rights in these states, nor the development of their relations with the EU” (Denyer, 2017). Again, the above examples do not mean that those European countries have become unwaveringly pro-China. From time to time, they still sided with the EU on issues against China. For instance, all 27 EU members, including Hungary and Greece, did agree to impose the EU sanctions against China over Xinjiang in March 2021 (Emmott, 2021). That being said, those examples presented do reveal the political side effects of China’s growing economic presence in Europe that can be observed at times, if not always.

China’s growing economic ties with the European “periphery” as a result of China’s “check-book diplomacy” are catching European leaders’ attention, especially those in the “core” (Fallon, 2016; Horowitz and Alderman, 2017; Smith, 2017; Tonchev and Davarinou, 2017; Witthoef, 2018). While some like the German chancellor have expressed their worry regarding the “economic relations being linked with political questions,” others like the French president (despite France’s opposition to the arms embargo against China) have gone so far as to warn that some European countries seem to be more open to Chinese interests “at the expense of a European interest” (Krastev, 2018). Simply speaking, as demonstrated, along with the growing Sino-European economic ties, there have been not only economic disputes between China and Europe but also frictions between European countries themselves, especially those between the “core” and the “periphery” as revealed by the concerns of the former about the latter’s getting more economically (and then politically) closer to China as opposed to the EU.

6. Conclusion

China’s successful economic reform initiated in the late 1970s has increased the Sino-European economic ties and, since 2003, has led to a strategic partnership between the two sides. However, on the other hand, Sino-European relations still involve many political and economic conflicts between them as revealed by their disputes over the Sino-European economic ties, the European arms embargo against China, and China’s human rights record.

As this paper has demonstrated, while those Sino-European conflicts might destabilize Sino-European relations from time to time, they have however contributed to European integration by shaping and reshaping common interests in China shared by European countries and cultivating a sense of community among them. That being said, with the continuous rise of China, each European country has been having more and more of its own economic interests in China. As a result, some of the European countries began to have friction with other European countries over the aforementioned

Sino-European conflicts when they revealed a more compromising attitude toward China in order to maintain decent bilateral relations with it for their economic interests. Simply speaking, the rise of China has created both a centripetal force for and a centrifugal force against European integration. This finding suggests that an analytical framework that takes both of the forces into account is necessary since whether and how either of the two forces for and against European integration will become stronger than the other would determine the direction where European integration might move.

It of course remains to be seen how exactly the trend of integration among European countries will be affected. Europe as an international society might continue to move further toward the goal of becoming a political convergence interstate society in the context of the rise of China if the centripetal force for the integration ends up being stronger than the centrifugal one against the integration. Or, it might still be just a cooperative interstate society at most when facing China if the two forces remain equally powerful. Or, it might actually be changed back into nothing more than a coexistence interstate society when it comes to the issues about China if the centrifugal force turns out to be stronger than the centripetal one. Therefore, more research on whether and how these scenarios will realize is undoubtedly worth doing as new development in Sino-European relations unfolds in the future.

In any case, as this paper has demonstrated, China's growing influences have triggered intra-European disputes over how to deal with the rising power. While some of the European countries including some EU members seem to, at times, have no problem engaging China in a bilateral way that can best serve their own national interests (even at the expense of the EU), the EU has emphasized that "dealing with such a comprehensive strategic partner as China requires a 'whole-of-EU' approach" and urged its members to "reinforce agreed EU positions in their bilateral relations with China" (European Commission, 2016: 17). How this European debate about China will evolve in the future would arguably give us a good glimpse into the changes of strength in those two contradictory China-related forces for and against European integration that I have discussed throughout this paper.

Note

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Skirmishes along the Sino-Indian Border – Strategic Options for India

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Abstract

In the backdrop of the Covid-19 pandemic, the clash in the Galwan Valley (June 15, 2020) between the Chinese and Indian troops, that killed twenty Indian soldiers, is undoubtedly a watershed moment in India-China relations. While both the Asian giants seek to avoid war, India and China have sharpened the political rhetoric; meanwhile, troops from both sides continue to be amassed along the Line of Actual Control (LAC). The process of disengagement of troops and de-escalation of tensions have worked, albeit limitedly. Furthermore, the growing support of China to Taliban controlled Afghanistan (August 2021), will impact the course of Sino-India relations. The current stand-off between India and China marks the beginning of a new phase of relations where its repercussions will be felt in their immediate periphery and beyond. This article focuses on the strategic options for India. The transgression of China across the LAC will continue to cast its shadow over the relations between the two Asian giants. The earlier “spirit” and “connect” between the two nations stand broken and mending the same will test the institutions and leadership of both the countries.

Keywords: *Line of Actual Control, de-escalation, Galwan Valley, Quad, rapprochement*

1. Introduction

The skirmishes between the troops of India and China in Galwan Valley (June 15, 2020) along the Line of Actual Control (LAC), has undoubtedly shaken the foundation of India-China relations. While the importance of the “Panchsheel” principles continued to be reiterated by India and China in the post-1962 era, the Galwan Valley clash (hereafter 15/6 clash) have now certainly thrown away all hopes of long-term goodwill between the two countries. Already mired by trust deficit, India-China relations have

continued to grow, albeit slowly since the 1962 war. The growing economic ties and high level of diplomatic visits between the two countries in the last decade have indeed hidden many of the apparent chokepoints in this relationship. However, the 15/6 clash has certainly derailed the same; whether the “disengagement” process will bear positive results, in the long run, is anyone’s guess. The latest round of violent skirmish in the high Himalayas has steered Sino-Indian relations into new territories where the costs of conflict can quickly spiral out of control. The paper has two crucial segments: this paper will first give a brief account of rapprochement as well as the skirmishes that have taken place along the Line of Actual Control. Secondly, it will reflect on the strategic choices for India while confronting China along the LAC. In the coming years, as India seeks to restrict and contain China’s belligerence in its vicinity and beyond, India’s diplomatic, as well as military prowess will be put to the test from different quarters.

2. The Line of Actual Control: Rapprochement and Skirmishes

In the absence of a well-demarcated border, the LAC continues to remain a contentious issue between the two neighbours. According to the Ministry of Home Affairs (Government of India), India shares a 3488 km long border with China.¹ However, for the Chinese, the length of the LAC is only about 2000 km long (*The Indian Express*, 2020). This discrepancy attributes to the fact that China claims Aksai Chin (Hoffman, 1987: 38) as well as Arunachal Pradesh (whom it refers to as “South Tibet”²) (Rehman, 2019: 134) as part of its territory. From India’s perspective, the LAC encompasses three sectors: The eastern sector (Sikkim and Arunachal Pradesh – 1140 km; known as the McMahon Line), the middle sector (Uttarakhand and Himachal Pradesh – 625km) and the western sector (Ladakh – 2152 km).³ China continues to dispute the legality of the McMahon line and refers to Arunachal Pradesh as Southern Tibet. Again, China continues to refuse India’s claim over the 1500 km long border in the western sector (Xinjiang and Tibet).

Among other legacies, the McMahon Line⁴ certainly left an indelible mark on India-China relations. Initially, Jawaharlal Nehru’s approach towards China was optimistic. However, as Wescott notes, despite “shared anti-colonial sentiments and pan-Asian ideas”, in the 1950s, the “undercurrent of suspicion between China and India” (Wescott, 2019: 160) was prevalent. The “ambiguities” (Maxwell, 1970: 56) of the boundary in the western sector (Ladakh⁵ and Aksai Chin) has certainly convoluted India-China relations. In 1954, when the maps of Government of India showed Aksai China as part of its territory, the “collision course” with China was inevitable (Maxwell, 1970: 57). Aksai Chin was once described by Nehru as an inhospitable region “without a vestige of grass.”⁶ China believes that it is part of the Hotan

County of Xinjiang province (Lau, 2017). During the 1950s, China started constructing a road through Aksai Chin in the north-eastern part of Ladakh (Chaudhury, 2020, June 11) which sought to connect Xinjiang with Tibet. From India's perspective, this 1455 km long road (NH219) also known as the "sky road" (Ying, 2014) passes through Indian Territory.

With the annexation of Tibet in 1951, the Sino-Indian rivalry had become "complex" with both positional and spatial issues in contention. The subsequent escape of Dalai Lama from Tibet to India in 1959 and the establishment of the Central Tibetan Administration or the Tibetan Government in Exile in Dharamshala generated considerable friction between India and China. While "Zhou offered to recognise India's position in the eastern sector if India accepted China's sovereignty over the Aksai Chin area in the west" (Fravel, 2005: 68), India insisted on negotiating the dispute "sector by sector". This border impasse was bound to stretch India-China relations. In 1961, the "Forward Policy" initiation and the border war seemed more apparent than before as it created a "zone of conflict" in Aksai Chin (western sector) (Maxwell, 1999: 142) and by October-November 1962, Chinese troops had breached the eastern sector and "swept through the Brahmaputra valley" (Guha, 2011: 55). The war left a deep imprint on Indian foreign policy, and subsequent relations with China have since been guarded and competitive. The 1963 Sino-Pakistan Frontier Agreement delimited the Pakistan-China boundary "on the basis of the traditional customary boundary line including natural features and in a spirit of equality, mutual benefit and friendly cooperation" led to the relinquishment of the strategically important Shaksgam Valley by Pakistan to China (Joshi, 2017: 503).

For the current political establishment of India, the importance of Ladakh has been reiterated from time to time. According to the present Indian Army Chief General Manoj Naravane, it is in the Shaksgam Valley that there is a maximum threat of collusion between China and Pakistan (Gurung, 2020). As such, Ladakh continues to be a high priority strategic region for the Government of India.⁷ Over the years, diplomatic overtures by India and China had led to some degree of uneasy calm along the LAC but, as things stand, both countries have become firmer when addressing the contentious border dispute.

2.1. Rapprochement: Maintenance of Peace and Tranquillity along the LAC

Very few countries have had as many peace treaties and agreements to resolve and strengthen bilateral issues as have India and China. While there was a lull in relations after the 1962 border war, it gradually moved forward, especially after PM Rajiv Gandhi visited China in 1988 and subsequently opened the doors for "engagement" with China. The visit of PM Narsimha

Rao to China in 1993 did bring about a certain degree of “normalisation” in relations between the two countries (Mansingh, 1994: 285). The “Agreement on the Maintenance of Peace and Tranquility along the LAC in the India-China Border Areas” (1993) emphasised that “No activities of either side shall overstep the LAC. In case personnel of one side cross the LAC, upon being cautioned by the other side, they shall immediately pull back to their side of the LAC.” The need for behavioural constraint by armies is elaborated in the agreement between the “Government of the Republic of India and the Government of the People’s Republic of China on Confidence-Building Measures in the Military Field along the LAC in the India-China Border Areas” (1996). It reaffirmed that “no activities of either side shall overstep the LAC”. Again, PM Vajpayee’s visit to China in 2003 was of great significance for India-China relations. The “Declaration on Principles for Relations and Comprehensive Cooperation between the Republic of India and the People’s Republic of China” (2003) clarified India’s stand on Tibet. It pointed out that:

The Indian side recognises that the Tibet Autonomous Region is part of the territory of the People’s Republic of China and reiterates that it does not allow Tibetans to engage in anti-China political activities in India. The Chinese side expresses its appreciation for the Indian position. It reiterates that it is firmly opposed to any attempt and action aimed at splitting China and bringing about “independence of Tibet.”⁸

A certain degree of “quid-pro-quo” in *China’s World Affairs Yearbook 2003/2004*, “stopped showing Sikkim as a separate country” (Joseph, 2004); both the countries have strived to put their historical baggage behind and move forward. “The Protocol on Modalities for the Implementation of the Confidence Building Measures in the Military Field along LAC” (2005) and the “Agreement on the Establishment of a Working Mechanism for Consultation and Coordination on India-China Border Affairs” (2012) further buttress the importance of tranquillity along the LAC. Importantly, Article VII of the “Agreement between the Government of the Republic of India and the Government of the People’s Republic of China on Border Defence Cooperation” (2013) states:

The two sides agree that if the border defence forces of the two sides come to a face-to-face situation in areas where there is no common understanding of the LAC, both sides shall exercise maximum self-restraint. To refrain from any provocative actions, not use force or threaten to use force against the other side, treat each other with courtesy and prevent the exchange of fire or armed conflict.

Likewise, Confidence Building Measures (CBMs), as well as several rounds of meetings of the Joint Working Group on the LAC, have contributed to dilution of tensions from time to time in a limited manner. Since assuming

the office of the Prime Minister in 2014, Narendra Modi and Jinping have met each other on several occasions, formally as well as “informally”. However, the “qualitative change” in relations is quite visible for all to see (Ganguly, 2017: 137).

After the Doklam⁹ (*India Today*, 2018) stand-off, the informal summit in Wuhan (2019) did help calm tensions, but it only meant that India would undoubtedly stand its ground, more firmly. Again, when the two leaders met in Chennai (2019), with emphasis on “business”, they wanted to ensure that they would not allow “differences to become disputes” (*The Hindu*, 2019). Much has changed since then. What it reflects is that there are “limits to cooperation” (Grieco, 1988). In a “hierarchical” (MacDonald and Lake, 2008) world order, India and China are not only striving to protect their national interests along the LAC but also in their immediate neighbourhoods and beyond. While there are several debates on China acting as a “revisionist power” (Johnstone, 2019; Kastner and Saunders, 2011), there is no doubt that the rapid rise of China has certainly made many countries feel rather uncomfortable. Again, while India is labelled as an “emerging power” (Pederson, 2016) or a “rising power” (Basur and Estrada, 2017), India’s immediate concern is to preserve its pre-eminent position in South Asia and to expand its role beyond its periphery. Given the weak foundations of India-China relations, achieving tranquillity and peace along the borders will depend on several factors which will test the tangibility of this relationship from time to time.

2.2. Skirmishes along the LAC

Post-1962 war with China, barring two critical incidents, the two nations has slowly worked towards reducing the trust deficit that had crept into this relationship. In 1967, the armies of India and China confronted each other in Nathula, leading to the deaths of 88 Indian soldiers. Again, in 1975, the last fatal incident due to firing was reported along the LAC in Tung La (Arunachal Pradesh) which resulted in the deaths of four Indian soldiers. However, through diplomatic parleys, both countries have ensured an uneasy calm along the LAC. It is unacknowledged that non-fatal skirmishes along the border have been a recurring feature along the LAC in the following years. Article VI – (1) of the “Confidence-Building Measures in the Military Field Along the Line of Actual Control” (1996) states – “Neither side shall open fire, cause bio-degradation, use hazardous chemicals, conduct blast operations or hunt with guns or explosives within two kilometres from the LAC.”¹⁰ Both countries effectively followed this article in principle. A fragile peace was maintained, which ensured that fatalities along the LAC did not occur due to the use of firearms. In 2018, PM Modi in a meeting with

President Jinping declared, “not a single bullet has been fired along the LAC (*Hindustan Times*, 2018)”. The “not a single bullet” (NSB) factor has helped India-China relations tide over many a crisis – at a “tactical” and “diplomatic” level. At a tactical level, the NSB formula is essential because it ensured that confrontation was highly localised and temporary. It showed “firearms” were not used. Hence, the non-fatal nature of the skirmishes provides enough scope for de-escalation of tensions between the troops and dialogue between army commanders at the ground level. At a diplomatic level, it left the channel of communication open; summit level and a certain degree of bonhomie expressed between the tallest leaders before the public.

The 73-day long stand-off in the Doklam plateau in 2017 was resolved without the use of “firepower”. However, the Doklam episode was a clear indicator that India’s response to Chinese transgressions along the LAC would not go uncontested. While several protocols were established, deal with occasional transgressions along the LAC, there has not been an exchange of maps between the two sides that could have identified the areas of differencing perception (ADP). Press reports suggest that 23 such areas exist and the Galwan Valley was not one of them (Singh, 2020).¹¹ Fortuitously, over the years, incidents along the LAC have been on the increase (see Table 1).

Table 1 Incidents on the Line of Actual Control¹²

Year	West	East	Mid	Total
2019	497	138	28	663
2018	284	89	31	404
2017	337	119	17	473
2016	208	71	17	296
2015	342	77	9	428

Despite growing skirmishes, the two countries maintain a fragile peace. The fragile peace with zero fatalities along the LAC did reflect a certain degree of “maturity” in relations, neither India nor China could say with certainty that peace would prevail along the LAC. Additionally, the success of the NSB formula to the establishment of long-term stable relations between India and China is also dependent upon one additional important factor: commerce. Trade relations between the two countries have simply galloped ahead in the last few years. The U.S. has replaced China as India’s top trading partner: China was India’s top trading partner since 2013–14 till 2017–18 (*The Economic Times*, 2020, February 23). What is very clear is that China’s ambition of leading the global economy and shaping world politics

is not achievable by ignoring the “fifth largest”¹³ economy of the world. The Belt and Road Initiative (BRI) and the Regional Comprehensive Economic Partnership (RPEC) are two critical corridors of economic progress for China; India has opposed both of them and is unlikely to join them anytime soon.

The stress along the LAC had been visible for a few days before the tragedy in the Galwan Valley. In May 2020, scuffles between the Indian and the Chinese troops had taken place in Pangong Tso in which several Indian army personnel faced injuries. Reports of scuffles in Naku La in North Sikkim were received. In the early weeks of June, the military commanders did seek to address the growing tensions by indulging in “disengagement” talks. The skirmishes finally turned fatal. For the first time in five decades, twenty Indian soldiers died along the LAC in a confrontation with the Chinese. Ironically, the deaths did not come from bullets but were a result of rather primitive means of warfare which included the use of iron rods with nails embedded on them. The use of firearms during the faceoff was avoided, partly because of the 1999 and 2005 agreements; but by avoiding a bloodbath, it gave both parties enough scope to engage in a meaningful dialogue. However, it did result in fatalities and injuries on both sides; several Indian soldiers were taken hostage and subsequently released after intense negotiations. Since then, China on its part continues to be silent because it wants to prevent “confrontational sentiments from escalating” (*Business Standard*, 2020).

3. Strategic Choices for India

The seventieth year of diplomatic relations between India and China should have seen more gaiety, events on the ground indicate otherwise. Coupled with the border dispute, the onset of Covid-19 pandemic and the Taliban takeover of Afghanistan, the “trust deficit” in Sino-India relations will only heighten in the coming years.

India’s claim over the Ladakh-Aksai Chin region has been disputed by the Chinese. Indeed, the “Hindi-Chini Bhai Bhai” model that could have showcased “Asian solidarity” truly stands transformed now. There is political pressure on the Modi government to respond to the deaths of twenty Indian soldiers along the LAC in the Galwan Valley. In response to China’s incremental expansionism along the LAC, India will undoubtedly need to ensure that the strategic choices it undertakes are healthy enough to limit the positional progress of Chinese troops along the LAC and contain China in the long run. Necessarily, India will need a multipronged strategic approach in dealing with China. India will have to fight its cause on three different levels: ground zero, South Asia and “beyond”; winning them all will be a herculean task.

3.1. Level I: Ground Zero

Dealing with the events at ground zero involves two kinds of measures – short and long term. In the immediate short term, there is need for de-escalation of tensions. India has stressed upon the importance of dialogue and peace but, as Prime Minister Modi reiterated, “India’s commitment to peace shouldn’t be seen as its weakness (Sagar, 2020)”. China continues to be apprehensive about India’s construction of infrastructure along the LAC. Difference in perception over the LAC does exist, and skirmishes in the Pangong Tso lake, Galwan Valley, Gogra-Hot springs have put the Indian and Chinese forces on high alert.

The military officials on both sides want the contested areas to be “patrol free” regions and the border impasse to an end (Gupta, 2020). At the 17th Working Mechanism Consultation and Coordination on India-China Border Affairs (WMCC), officially, both sides agreed for the “early and complete disengagement of the troops along the LAC and de-escalation from India-China border areas in accordance with bilateral agreement and protocols and full restoration of peace and tranquillity was essential for smooth overall development of bilateral relations”.¹⁴ India has been rather resolute in standing its ground in these strategic regions. At a meeting (September 11, 2020) of Foreign Ministers of the Shanghai Cooperation Organisation (SCO), a “five point agreement”¹⁵ was reached between the two countries that would guide the two countries in resolving the border standoff. Through dialogue, the mutual disengagement process has moved forward in Gogra, Galwan Valley, Pangong Tso and Hot Springs. Videos released by the Indian army show that the People’s Liberation Army (PLA) has started the dismantling of tents, bunkers and pullback of troops as well as tanks around the Pangong Tso lake; Indian troops too have started withdrawing from the Kailash range (Peri, 2021). The 15/6 clash has ensured that the Indian troops cannot afford to let their guard down; preventing the Chinese troops from reoccupying the same will undoubtedly be a significant challenge. At the ground level, for India, the issue of de-escalation and disengagement is linked with the Chinese troops reverting to its April 2020 position along the LAC.

In the long term, India will definitely shore up its defences. Newspaper reports suggest that India not only called in for more reinforcements but also upped up the ante by acquiring new military aircraft and related peripherals from France (Pandit, 2020) and Russia (Hussain, 2020). The tensions in the subcontinent has certainly fuelled an arms race. The need for India’s defence preparedness went into overdrive; media reports suggest that India’s Defence Acquisition Council Arms approved several domestic development programs and also approved arms procurement projects (Raghuvanshi, 2020). In the long run, it was estimated that the Government of India would “spend USD

130 billion for fleet modernisation in the next 5–7 years across all armed forces (*The Economic Times*, 2019, September 10)". In September 2020, despite the call for "respecting the LAC" and the need for "maintenance of status quo" by both sides, bullets have been fired and tensions continue to simmer in the northern bank of Pangong Tso.¹⁶

3.2. Level II: South Asia

India is the heart of South Asia, seldom do inter-governmental policies work in the region without active guidance of this "big brother". China will test India's resolve to protect its national interests in South Asia. India's neighbourhood policy seeks to tighten "the bond between India and its neighbours, and better serving India's economic and social development strategy by promoting regional and sub-regional connectivity (Kaura and Rani, 2020: 2)". While India has been at the forefront of providing humanitarian aid to countries of South Asia, it still has not been able to generate enough goodwill which could cement ties with its neighbours. Bilateral relations between India and its neighbours now seem to be on shaky ground. While the corona pandemic might have slowed down the pace of specific projects, the Jinping administration has been rather relentless in pushing forward Xi's dream project. Current estimation of the BRI-branded projects in Bangladesh has a value of around US\$10 billion which include the construction of a massive 6.5-kilometre road/rail bridge over the massive Padma river and an industrial park in Chittagong (Brewster, 2019). The \$120 million Sinamale Bridge or the Chinese-Maldives Friendship Bridge is a significant sign of Chinese investment into the Maldives (Macan-Markar, 2019). Likewise, reports suggest that "the value of cumulative Chinese infrastructure investment in Sri Lanka amounts to \$12.1 billion between 2006 and July 2019 or equivalent to 14 per cent of Sri Lanka's 2018 GDP."¹⁷ Nepal has signed a Memorandum of Understanding on the Belt and Road Initiative (BRI) with China; being landlocked, many in Nepal believe with continuous investment from China, Nepal's dependence on India will reduce over the next few years. Pakistan has steadfastly supported the CPEC and has committed to complete the CPEC project "at all costs". The importance of CPEC for both the countries stems from the fact that it is "the shortest possible route to China to connect with Central Asia (Khan and Khan, 2019: 81)". Chinese investment has resulted in the construction of the Gwadar International Airport and the Sahiwal Coal Power Project. Initiatives under the CPEC expect to "improve trade and transport will link the main industrial cities with the ports of Karachi, Bin Qasim and Gwadar (Faisal, 2019: 12)". It is no coincidence that, with the increase of Chinese investment in countries neighbouring India (see Table 2), this ambitious "Neighbourhood First" policy has run into rough weather.

Table 2 Year-wise Comparison of China-India Trade with Countries of South Asia (Afghanistan, Bangladesh, Bhutan, Maldives, Myanmar, Nepal, Sri Lanka and Pakistan) (US\$ billion)¹⁸

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
China's Trade with South Asia	9.19	11.42	14.52	16.58	16.57	23.25	30.01	33.57	41.04	60.41	54.71	52.81	55.84	59.99
India's Trade with South Asia	7.39	8.56	10.53	13.45	10.28	14.57	17.15	17.91	21.17	24.69	22.09	21.73	24.75	30.96

Among other things, one of the critical challenges for India will be its ability to compete with Chinese investment and involvement in South Asia. China has managed to establish “strategic partnership” with Bangladesh, Nepal and Sri Lanka. The all-weather strategic partnership with Pakistan is already well-proven (Ashok, 2019). India’s image of a regional hegemon has undoubtedly not helped; countries of South Asia too have realised that they have more bargaining capacity than initially envisaged. China is well entrenched in infrastructure projects in South Asia. India has objected to the CPEC as it “directly impinges on the issue of sovereignty and territorial integrity of India” and “passes through parts of the Union Territories of Jammu & Kashmir and Ladakh which are under illegal occupation of Pakistan.”¹⁹ For the Indian security establishment, the “latent” strategic component of the BRI is too conspicuous to be ignored. Furthermore, through the Covid-19 aid to countries and supply of PPE kits to countries of South Asia, China has ensured that it manages to portray itself as a responsible power which is keen to share its expertise in containing and tackling the spread of the coronavirus. The events in Afghanistan reveal that India has more problems in its neighbourhood than originally envisaged. The quick withdrawal of the US forces and the fleeing of Afghan President Ahsraf Ghani on 15th August 2021 have ominous implications for Indian foreign policy. While the Prime Minister of Pakistan Imran Khan said that the Afghans have “broken the shackles of slavery”²⁰; the Chinese on their part have kept their embassy open and have sought to play a “constructive role in Afghanistan’s peace and reconstruction”.²¹

China’s “cheque-book” diplomacy has certainly emboldened countries of South Asia to exercise greater autonomy in foreign policy issues. Legacy, as well as “big brother” image of India, is only quite overbearing for its neighbours; India’s interference is not accept-worthy in the domestic affairs of countries in South Asia. In contrast, China always comes across as a new rich neighbour looking to invest and give aid whenever needed, and this has certainly helped its cause. The silence of India’s neighbours, especially Bangladesh, Nepal and Sri Lanka in condemning China’s predatorial moves along the LAC should ring alarm bells for Indian foreign policymakers. China is seeking to consolidate its position in mineral rich Afghanistan and strengthen the infrastructural projects under the BRI; this does not augur too well for the security establishment of India.

The skirmishes along the LAC will have significant implications for India, for Chinese establishment will hurt India where it matters most – its role in South Asia. China’s incremental steps to control the “right hand palm and its five fingers”²² has certainly alarmed India. China will seek to further tie India up in knots whereby stretching the ensuring military and economic resources. Importantly, China will seek to ensure that India’s

diplomatic prowess in the subcontinent gradually withers away. Therefore, the critical challenge for India will not only be the ability to maintain its military hold along the LAC but rather to address the growing presence of China in the Indian subcontinent. India will need to give fresh impetus to India's "neighbourhood first" policy and will have to play a proactive role in the creation of new institutions that can address the changing security environment of the region. As of now, it is quite apparent that China has outflanked India and moved ahead at this strategic level.

3.3. Level III: Beyond South Asia, Indo-Pacific and "Penumbra Territories"²³

Relations between the China and India have oscillated between "competition and cooperation" and have global dimensions.²⁴ The growing belligerence of China through the adoption of a "salami slicing approach" (Haddick, 2012) has not gone unnoticed. China continues to become more vocal and has adopted more aggressive postures in the East and the South China Sea. While it was always a marginal player, India has slowly made its presence felt in the region. The transformation of the Look East policy to the Act East Policy was a signal that India was seeking to strengthen relations not only with the Association of Southeast Asian Nations (ASEAN) countries but also beyond it. As China continues to be more assertive in South Asia, India too can become an active player in the Asia Pacific region.

While China continues to encircle India through its "string of pearls" (Huang, 2018; Khurana, 2008) policy, India has moved strategically closer to the "Quad", albeit the "weakest link" (Grossman, 2018). India has sought to deepen its involvement in the Quadrilateral Security Dialogue.²⁵ At the Shangri La Dialogue in Singapore (June 1, 2018), PM Modi outlined India's vision for the Indo-Pacific Region, where he remarked that this concept was a "positive one" and it was a "natural region" and "home to a vast array of global opportunities and challenges." With Southeast Asia at the "centre", "it stands for a free, open, inclusive region."²⁶ Importantly, this is the region – especially the East and the South China Sea region – that China continues to flex its muscle. China has not only upped its ante in the South China Sea by not only building artificial islands in the disputed waters but also conducting naval exercises. Located in the Paracel archipelago, the Woody Island, though controlled by China, is a disputed island as Taiwan and Vietnam too have staked their claim over it. Again the ownership of the Spratly Islands has been a bone of contention between China and Taiwan, Malaysia, Vietnam, the Philippines and Brunei; additionally, the Senkaku Islands dispute between Japan and China has undoubtedly heightened tensions in the East China Sea. In April 2020, the sinking of the Vietnamese fishing boats was

by China (Chaudhury, 2020, May 27). Under these circumstances, the role of India will be critical in bringing about peace and stability in the Asia Pacific region. Importantly, the success of the Act East Policy also depends on India's maritime strategy. An estimated \$200 billion worth of Indian trade passes through the South China Sea (Sen, 2020) and these waterways need to be secured. India's Maritime Security Strategy (2016) which envisages on "freedom to the use of seas", has identified specific "choke points", which include the Malacca and Singapore Straits.²⁷

Securing freedom of navigation is an arduous task which India needs to undertake in conjunction with the ASEAN members, US, Australia and Japan. India-US maritime cooperation has moved steadily forward. Post-Doklam crisis, India has sought to shore up its defence cooperation with the U.S. The "2+2 Dialogue" paves the way for the Indian military to procure critical and encrypted defence technologies from the United States (*The Economic Times*, 2018, September 7). The Compatibility and Security Agreement (COMCASA) and the Logistics Exchange Memorandum of Agreement (LEMOA) and the Basic Exchange and Cooperation Agreement for Geo-spatial Cooperation (BECA) have further strengthened India-US defence ties. The Indian Navy in expectation will benefit particularly from the LEMOA (Thomas, 2019). As Khurana notes, while the military superiority of China is decisive, the Indian Navy could play an essential role in stretching "Chinese forces horizontally to the ocean waters (Khurana, 2017: 9)". The Malabar Naval Exercise (November 2020) sees the convergence of strategic interests between the U.S., Japan, Australia and India. As things stand, the withdrawal of the U.S. from another theatre of conflict (Afghanistan, August 2021) does not give too much confidence to its allies. Therefore, a working principle that gives 'teeth' to this collective dialogue process will undoubtedly be a significant boost for India. The Quad has identified a common adversary, but it is yet to manufacture a shared strategy which could successfully contain China. The distress along the LAC has undoubtedly ensured that India will have to reorient its foreign policy. As a multipronged approach, India will need to become an active player in the Indo-Pacific region and if needed, revisit "One China" policy in the future.

In international forums, China has never shied away from criticising India on a plethora of issues. In 2019, China raised the issue of Kashmir in a closed-door meeting at the United Nations Security Council (UNSC). China has repeatedly blocked the declaration of Masood Azhar as a global terrorist, only relenting after pressure from the international community (Web Desk, 2019). While "four out of the five permanent members of the U.N. Security Council have bilaterally expressed official affirmations to support India's candidature to a permanent seat in an expanded U.N. Security Council",²⁸ China has been rather diplomatic in opposing India's candidature to the same.

India will have to play the “tik-for-tok” strategy diligently. As China’s “string of pearls policy” (Granados, 2018) becomes more polished than ever before, India will need to deepen its relationship with the democratic world. The Sino-Pak nexus has been proactive in questioning India’s position on Jammu and Kashmir and Leh/Ladakh in international forums and the United Nations in particular. On the other hand, India’s foreign policy has been somewhat restrained when it comes to addressing issues that provoke China. India has adopted a passive stand on issues of Tibet, Hong Kong and Taiwan. At a time when the U.S. and its allies are scrutinising China’s new security law for Hong Kong, India has maintained a diplomatic stand by seeking to keep “a close watch on recent developments”. Paul (2018) noted that the “umbrella hedging strategy”, which implies a “wait and watch approach”, has been generally favoured by India as it helps “keep all options open”, and it opens up a window for dialogue. Nevertheless, if further provoked, it leaves the door open for India to become more vocal against “One China” policy. In an environment where global powers have severely criticised Chinese authorities on a plethora of issues, India’s multi-aligned foreign policy will be more stressed. Ideally, India would not like to fall into a “Thucydides trap” (Allison, 2019), but with its limited military capabilities, it will have to make a choice sooner or later.

4. Conclusion

Despite several summit levels talks between PM Modi and Chinese President Xi Jinping²⁹, the “protracted contest” (Garver, 2011) between India and China is visible for all to see. The “boundary question” is sensitive and complicated; the stand-off at Doklam plateau (Bhutan tri-junction) in 2017 should have been a warning sign to China that the impending future will be more than just competitive. The subsequent informal summits between Modi and Jinping provided an opportunity to bury the hatchet. Necessarily both the countries were looking at the broader picture where economic opportunities and trade could propel them to greater heights. The 15/6 clash in the Galwan Valley has undoubtedly laid to rest any further scope of camaraderie between the two Asian countries, at least for the next few years. The border stand-off could have significant implications on electoral politics in India. Therefore, no Indian government can afford to tone down its voice against China; the electoral costs will undoubtedly be high. The political relations between China and India have plummeted to new depths, and it will be tough for the political establishment to come out and support the Chinese government and companies.

The channels of communication at the highest levels have to be kept open, but “rules of engagement” has changed. India is keen to make sure that the “net progression” of Chinese troops along the LAC comes to a

grinding halt. The continuation of Commander level talks will be critical to the maintenance of peace and tranquillity along the LAC. The positional withdrawal of troops by China will not imply giving up of territorial claims; China will continue to stake claim over such territories. As of now, despite the withdrawal of Chinese troops from the Galwan Valley, the trust deficit will simply continue unabated. At ground zero, India has got bruised, but it has shown enough resolve to withstand advancement of Chinese troops along the LAC. It is probably for the first time in the post-cold war era that China too has lost its soldiers in combat; any further inroad into Indian Territory will undoubtedly come at a considerable cost.

By adopting a more resolute position, Indian forces have indeed halted the march of the Chinese troops in the Himalayas. India has shown the global community that Chinese “expansionism” can be challenged; the question is whether India can play the long innings in containing China? Through a “defensive approach”, India seeks to deter China’s incursions along the LAC and contain its growing involvement in South Asia. The pullback of Chinese troops from the June 15 clash site reflects that the process of disengagement seems to have worked along the LAC, but monitoring the sanctity of the LAC will examine the resilience of the Indian forces and the diplomatic prowess of India.

India’s multipronged approach to dealing with the “dragon” does have its limitations. In the aftermath of the 15/6 clashes, the Government of India has launched an economic blitzkrieg; the banning of 59 mobile applications by the Government of India and debarring of companies of Chinese origin from participating in infrastructural projects in India. The call for “Atmanirbhar Bharat”³⁰ has gained momentum, but it continues to be at an infant stage. Additionally, there have been calls for a nationwide boycott of Chinese products.³¹ While economic relations have taken a beating, complete decoupling of economic relations is neither viable nor possible for both the countries. Silently, trade relations between the two countries have bounced back.³²

At ground zero, there is no certainty that China will continue to maintain the sanctity of the LAC. The operational costs of maintaining peace and tranquillity along the LAC will undoubtedly be high, and both countries will have to bear the cost. In the coming years, India’s pre-eminent position in South Asia looks challenging; China’s role as an “external balancer” in South Asia is not a subject of discount. India’s civilisational bonds and its diplomatic overtures may just be weak to prevent its neighbours from moving out of the “elephant’s” shadow. The growing investment, as well as inducements from China, has certainly created a dilemma for India’s South Asian neighbours; India certainly has significant security challenges ahead. However, again, India can make it “difficult for China to have complete sway over the region (Pant, 2007: 68)”. India is seeking to shed off its image of being a peripheral

player in the Indo-Pacific region; rather, it can play a critical role in making the Quad more robust in the long run. Furthermore, its silence should come as leverage on “One-China” policy, using it tactfully when the right opportunity comes. Till then India will continue to hold the “One China” card close to its chest.

China has realised that the costs of military engagement will prove to be expensive in the short run. The “tik-for-tok”³³ policy between India and China will further fuel tensions across South Asia and the South China Sea in particular. But, relations cannot be “business as usual”; India will invariably need to become militarily more “atma-nirbhar” or “self-reliant” in the coming years. Skirmishes along the LAC have ensured that any kind of “hugplomacy” between PM Modi and President Jinping, at least publicly, is unlikely to happen in the next few years. The advent of social media and overzealous news media in India will ensure that the ruling establishment will find it hard to justify any kind of bonhomie between leaders at the highest level. The Chinese envoy to India stressed that Modi-Jinping should explore a “manufacturing relationship”, (*The Quint*, 2020) but “manufacturing trust” is the need of the hour. While “birthday wishes” have come to a grinding halt,³⁴ bilateral diplomatic relations at the bureaucratic level will invariably continue. India might have committed a “Himalayan blunder” (Dalvi, 1968) in 1962; however, with the skirmishes turning fatal in 2020, the “great wall of mistrust” in Sino-Indian relations seems more unbreachable than ever before.

Notes

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1. India shares its borders with seven countries. “International Land Border”, <<https://www.mha.gov.in/sites/default/files/BMIntro-1011.pdf>>, accessed on 7.3.2020.
 2. “For instance, China’s dogged insistence on naming the Indian state of Arunachal Pradesh ‘Southern Tibet’ is undergirded by the argument that any region that once fell under Lhasa’s writ should now be folded into a greater China” (Rehman, 2019).
 3. For details see “International Land Border”, <<https://www.mha.gov.in/sites/default/files/BMIntro-1011.pdf>>; “Not just in Ladakh, India, China moved troops in all three sectors last month,” *The Indian Express*, June 12, 2020, <<https://indianexpress.com/article/india/india-china-army-ladakh-lac-6454863/>>.
 4. Henry McMahon was the Foreign Secretary of the Government of India in 1913.
 5. In 2019, The Government of India accorded Union Territory status to Jammu and Kashmir. Additionally, Ladakh became a Union Territory.
 6. “Speech in Rajya Sabha (1959, August 31), Prime Minister on Sino-Indian Relations: In Parliament (New Delhi: External Publicity Division of External

- Affairs, Government of India, 1962), p. 98,” in M. Shankar (2015), “Showing Character: Nehru, Reputation, and the Sino-Indian Dispute, 1957–1962”, *Asian Security*, Vol. 11, No. 2, pp. 99–115. <https://doi.org/10.1080/14799855.2015.1042575>
7. “I wish to place on record that whenever I mention Jammu and Kashmir in the House, it means both Pak-occupied Kashmir and Aksai Chin... And the borders of Jammu and Kashmir, as decided by our Constitution and the Constitution of Jammu and Kashmir, include both Pak-occupied Kashmir and Aksai Chin”, Amit Shah, Home Minister, Government of India, in a speech in the Parliament of India, 2019. See “PoK and Aksai Chin are also part of Jammu and Kashmir: Amit Shah”, *The Economic Times*, August 6, 2019, <https://economictimes.indiatimes.com/news/politics-and-nation/pok-and-aksai-chin-are-also-part-of-jammu-and-kashmir-amit-shah/articleshow/70548871.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst>.
 8. “Declaration on Principles for Relations and Comprehensive Cooperation Between the Republic of India and the People’s Republic of China”, June 23, 2003, MEA, Government of India <<https://www.mea.gov.in/in-focusarticle.htm?7679/Declaration+on+Principles+for+Relations+and+Comprehensive+Cooperation+Between+the+Republic+of+India+and+the+Peoples+Republic+of+China>>.
 9. Doklam’s geographical position makes it a strategically important area as it is located between Tibet’s Chumbi valley to the North, Bhutan’s Ha valley to the East and India’s Sikkim state to the West.
 10. “Agreement Between the Government of the Republic of India and the Government of the People’s Republic of China on Confidence-Building Measures in the Military Field Along the Line of Actual Control in the India-China Border Areas, 1996” <https://peacemaker.un.org/sites/peacemaker.un.org/files/CN%20IN_961129_Agreement%20between%20China%20and%20India.pdf>.
 11. Sushant Singh (June 4, 2020), “De-escalation process underway: 2 LAC flash-points are not in list of identified areas still contested”, *The Indian Express*, retrieved from <<https://indianexpress.com/article/india/india-china-ladakh-border-lac-galwan-6441494/>>.
 12. Sushant Singh (May 22, 2020), “Big surge in Chinese transgressions, most of them in Ladakh”, *The Indian Express*, retrieved from <<https://indianexpress.com/article/india/aksai-chin-army-big-surge-in-chinese-transgressions-most-of-them-in-ladakh-6421674/>>.
 13. “Investopedia, The Top 20 Economies in the World,” <<https://www.investopedia.com/insights/worlds-top-economies/#:~:text=India%20Nominal%20GDP%3A%20%242.94%20trillion,the%20United%20Kingdom%20and%20France>>.
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16. Rahul Singh, "Indian, Chinese soldiers fired burst of bullets in air near Finger 4 before Moscow talks", *Hindustan Times*, September 16, 2020, <<https://www.hindustantimes.com/india-news/indian-chinese-soldiers-fired-burst-of-bullets-in-air-near-finger-4-before-moscow-talks/story-ISRSmKSVpf17QdDUIE3JhO.html>>.
17. Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara and Divya-Hundlani, "Chinese Investment and the BRI in Sri Lanka", *Chatham House*, March 24, 2020, <<https://www.chathamhouse.org/sites/default/files/CHHJ8010-Sri-Lanka-RP-WEB-200324.pdf>>.
18. Riya Sinha, Niara Sareen, "India's Limited Trade Connectivity with South Asia", *Policy Brief*, Brookings India, May 2020, p. 8, <<https://www.brookings.edu/wp-content/uploads/2020/05/Trade-Policy-Brief.pdf>>.
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20. "Afghans have broken 'shackles of slavery': Pakistan PM Imran Khan", *Business Standard*, August 17, 2021, <https://www.business-standard.com/article/international/afghans-have-broken-shackles-of-slavery-pakistan-pm-imran-khan-121081601134_1.html>.
21. Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on August 16, 2021, Ministry of Foreign Affairs of People's Republic of China, <https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1899785.shtml>.
22. According to Dr Lobsang Sangay, Sikyong (President) of the Tibetan-government-in-exile, "To understand the Doklam face-off, you have to look at China's supreme leader Mao Zedong's 'right hand palm and five fingers' strategy. In the 1950s, Mao described Tibet as the right hand palm, while Ladakh, Sikkim, Bhutan, Nepal and Arunachal Pradesh are five fingers." For details, see *The Tibetan Journal*, November 3, 2017, <<http://www.tibetanjournal.com/mao-described-tibet-right-palm-ladakh-sikkim-bhutan-nepal-arunachal-five-fingers/>>.
23. It refers to territories that lie beyond the 'mainland' China.
24. "Sino-India Relations including Doklam, Border Situation and Cooperation in International Organizations", Ministry of External Affairs, Government of India, September 2018, <http://164.100.47.193/lsscommittee/External%20Affairs/16_External_Affairs_22.pdf>.
25. It is an informal strategic forum consisting of the U.S., Japan, Australia and India.
26. "Prime Minister's Keynote Address at Shangri La Dialogue", Ministry of External Affairs, Government of India, June 1, 2018, <<https://www.mea.gov.in/Speeches-Statements.htm?dtl/29943/Prime+Ministers+Keynote+Address+at+Shangri+La+Dialogue+June+01+2018>>.
27. "The Straits of Malacca and Singapore link the Indian Ocean to the South China Sea and Pacific Ocean. Providing the shortest sea route from the Persian Gulf to East Asia/ West Pacific regions, it is a strategic choke point in the IOR. A dense shipping zone, more than 70,000 ships transit it each year. The narrowest point amongst the two straits is the 1.5 nm wide navigable stretch of the Phillip Channel in the Singapore Strait". For further details, see "Ensuring Secure Seas: Indian Maritime Security Strategy", <https://www.indiannavy.nic.in/sites/default/files/Indian_Maritime_Security_Strategy_Document_25Jan16.pdf>.

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29. “Both have met at least 18 times since Modi came to power in 2014. These include one-on-one meetings in each other’s countries and on the sidelines of the multilateral summits. The PM has visited China five times as the PM, the most by any Indian PM in the last 70 years”, in “Modi-Xi meetings, several pacts: killings breach consensus, dent diplomacy”, *The Indian Express*, June 17, 2020. <<https://indianexpress.com/article/india/india-china-standoff-diplomacy-lac-incident-mea-6462195/>>.
30. ‘Atmanirbhar Bharat’ means ‘self-reliant India’.
31. “Chinese investments in India,” Gateway House, Report No. 3, Map No. 10, February 2020, <https://www.gatewayhouse.in/wp-content/uploads/2020/07/Chinese-Investments_2020-Final.pdf>.
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33. ‘Tik-tok’ a popular app was banned by the Government of India following the clashes in the Galwan Valley in 2020. The phrase ‘tik-for-tok’ in place of ‘tit-for-tat’, necessarily connotes retaliatory measures in different ways by India and China.
34. In 2020, for the first time since 2016, Prime Minister Narendra failed to greet Xi on his birthday. For details, see Anita Joshua, “Modi punishes Xi: No ‘Happy Birthday’ this year”, *The Telegraph*, June 17, 2020, <<https://www.telegraphindia.com/india/narendra-modi-punishes-xi-jinping-no-happy-birthday-this-year/cid/1781445>>.

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Analyzing the Contrast between Chinese Economic Pragmatism and Iranian “Look to East” Optimism

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Abstract

In order to repel US pressures, Tehran has perpetually aligned itself with major non-Western powers through a ‘Look to the East policy’ with focus mainly on China. Iran and China are opposed to the United States’ so-called unilateralism and are similarly categorized as revisionist states which this common attitude culminated into the signature of the 25-year cooperation agreement in March 2021. But, China prioritizes its national interests defined by economic pragmatism; and its complex economic interdependence with the world economy has made it conservative. The present article analyzes this question of why China has been conservative in shielding Iran against the US’s paralyzing sanctions in Donald Trump’s era. It argues that the Chinese global strategy and its economic pragmatism require it to make compromises with the United States and Arab states alike, and at the same time, to preserve relationships with Iran with the least political-economic expenses.

Keywords: *China, Iran, Trump’s era, economic pragmatism, Look to the East policy*

1. Introduction

Since ancient times up to this date (2020), Iran and China have maintained tension-free relations. Beginning in the 1990s, economic and political cooperation between Iran and China expanded. In the same period, China progressively invested in important sectors of Iran’s economy such as the oil industry, power plants, cement production, and metro. The other strategic development which happened in this period and added new dimensions to the mutual relations was the inclusion of China in the rank of big oil-importing countries in the 1990s. China became an importer whose demand grew at a

pace significantly higher than that of the global demand. Besides, with the dissolution of the former Soviet Union, which happened around the same time, the international system was transformed and the security climate of the world, and by extension, the foreign policy agenda of Iran and China changed, too. Since 1979, Iran has been constantly altercating with the so-called international structure led by the United States. This is while China's relations with the United States have evolved in the framework of 'cooperative partnership'. Contrary to Iran's expectation, China, from 2006 to 2008, voted in favour of the United Nations Security Council resolutions under Chapter VII of the UN Charter concerning Iran's nuclear program. Moreover, after President Donald Trump's withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in May 2018, Iranian leaders, especially from the camp of conservatives, expected China to resist the US unilateral sanctions, on account of the Iranian leadership's 'Look to the East' policy (Ayatollah Khamenei Portal, 2018). However, this didn't happen in practice. Although China has on different occasions called for the suspension of unilateral sanctions against Iran and reiterated its non-abidance by them, the volume of bilateral trade severely declined from USD37 billion in 2017 to less than USD22 billion in 2019 and around USD18.71 billion in 2020, dropping by 36% (*Iran News Daily*, 2020; *Financial Tribune*, 2021). However, it was on March 27, 2021 that China and Iran signed a 25-year cooperation agreement to strengthen their long-standing economic and political alliance (Reuters, 2021). Besides, China agreed to Iran's full membership in the Shanghai Cooperation Organization (SCO) in September 2021. The announcement of both events have had extensive political repercussions internationally; however, the figures on economic relations and political rhetoric of the two sides point to different realities. The present paper addresses the question, "how does economic pragmatism direct China's foreign policy, and what limitations does this approach entail for Iran-China relations especially in Trump's era?" The paper is organized in four main parts: first, China's economic pragmatism governing its peaceful rise; second, limitations of the Iran-China relations on the regional level (Middle East); third, limitations of the Iran-China relations on the global level and the last part would be the concluding discussion.

The main argument of the present essay is that China is striving to adjust its relations with Iran in such a way that it neither upsets Tehran nor provokes the ire of the United States. Meeting the political expectations of the Islamic Republic of Iran is not an essential priority for China, because Beijing has defined its grand strategy in terms of economic pragmatism by maintaining cordial relations with major powers, particularly the hegemonic power as well as countries which are economically important for China.

Accordingly, the key conclusion drawn in this research is that Beijing is not prepared to pay high political and economic costs to support partners

such as Iran, even though it attaches great importance to these relationships politically. This idea has been proved in Trump’s era by concrete data.

2. China’s Economic Pragmatism for the Peaceful Rise

Beginning in 1979, thanks to the reforms introduced by Deng Xiaoping, China embraced a peaceful, pragmatic foreign policy in dealing with global powers. The leaders of this country, through prioritizing the ‘peaceful rise by economic pragmatism’ (Okuda, 2016), have strived to portray China, both in theory and in practice, as a responsible and moderate power in the international community; a power which is not necessarily satisfied with the status quo of institutional and structural relations, but is not after overthrowing this status quo in a revolutionary manner, either. On the other hand, this country has accepted the international norms for instrumental reasons, so that it first reassures other countries, particularly the great powers, and above all the United States, about the consequences of its rising, and at the same time preserves the global climate as an appropriate setting for its economic growth.

The proposition of the Chinese Dream by President Xi Jinping in 2013 should be viewed in line with the reforms Deng had come up with. Turning China into a relatively affluent society by 2021 and rendering it a completely developed society by 2049 are the two principal objectives of the Chinese Dream. These two goals can be achieved by adopting a conservative foreign policy, not a revolutionary one. Some estimates indicate the shifting of the major strategy of China from ideological to a development-oriented or economy-oriented foreign policy will result in China surpassing the United States in economic terms in the 2025-2030 period, although even at this moment, from the standpoint of the purchasing power parity value, China’s economy is larger than that of the United States (IMF, 2019a). This is something that will transform China’s standing in the international system in addition to safeguarding China’s political achievements. However, a distinction must be made between the philosophical beliefs and the instrumental beliefs (Neack, 2018: 44-45), of Xi Jinping and his predecessors, especially Hu Jintao. Whereas both leaders share a common ideology and a worldview based on an interactive, optimistic and cooperative attitude toward the global community, particularly the United States, Xi Jinping is somewhat bolder in his strategic outlook. Therefore, such a feature in Xi Jinping’s character and psyche could drive the transformation of the future of Chinese foreign policy over the next decade into a combination of a substantively cooperative approach and a ‘bold’ *modus operandi*. Developments such as the removal of constitutional limits on the Chinese president’s permitted terms in 2018, the upward trend of Chinese military expenditures, the 2020 China-

India military skirmishes, and the tit-for-tat trade war of China and the United States in Trump's era are epitomes of this bold attitude (Bader, 2016). That said, the behaviour of China on the international scene during Xi Jinping's term is coherent with the requirements of economic pragmatism. This concept underlies the theoretical framework of China's foreign policy. What is clear is that under current circumstances, the Chinese moderate their bilateral relations with other actors, including big, medium and small actors, within such a framework (Lanteigne, 2019). China is well aware that swordplay with the world's leading economy, whose currency enjoys a hegemonic status and its capital makes up the benchmark of the global trade and plays a leading role in the development of world technology, is not in the interest of its economic growth and stability. The United States is the world's largest military and political power, thousands of American firms are active in China, and billions of dollars of Chinese funds are in circulation in the US financial system, stock market and business sector.

Moreover, China's five-year development plan, as the main document outlining the country's vision explains its foreign policy direction. Since 1990, in all such plans, potential economic partners were identified in broad terms; therefore, the focus has been set on pursuing constructive and peaceful economic relations with all the major global powers. That said, in line with its domestic and international capacities and constraints, China's 14th five-year development plan (2021-2025) put forward under Xi Jinping places special emphasis on reducing dependence on global markets and focusing more on the domestic market (Xin, 2020). The US economic pressures enforced on China during Donald Trump's term are gradually changing the course of China's economic market concentration. Xi termed US pressure on Huawei's supply chain an attempt to stifle China (Buckley and Myers, 2020). However, this change has not altered its overall grand strategy, i.e. economic pragmatism for the peaceful rise. There is consensus among scholars that China's red lines include foreign support for separatist movements in Hong Kong, Taiwan and Tibet that could undermine a unified China, challenging the China Communist Party, and the militarization of the South China Sea (*Global Times*, 2020). If the US violates these red lines in practice, not merely rhetorically, then China may adopt a more assertive foreign policy, which may contradict its economic pragmatism, and then go on to politically converge with states that oppose the status quo dictated by the United States.

Since the gravity of this function and economic considerations are more significant to China than its relationships with the so-called rogue states, the Chinese intrinsically face economic limits in their relations with the revisionist countries to solve the contradiction. The Iran-China relations can be explored within the limits of the same framework.

In what follows, the authors will attempt to point out what the implications of economic pragmatism are for the most significant limitations in the Iran-China bilateral relations on the regional and global levels.

3. Limitations of the Iran-China Relations on the Regional Level (Middle East)

In order to better understand the limitations of Iran-China relations on the regional level, it is necessary to primarily delineate China’s overall Middle East policy. As required by the Chinese economic pragmatism strategy, there are three main factors underpinning China’s policy in the Middle East: 1) energy security, 2) the initiation of a long-term economic footprint, and 3) gaining geopolitical influence through economic initiatives.

China needs the Middle East energy resources in order to continue to be the world’s second-largest economy and even to overtake the United States and become the world’s foremost economy. China’s compromised stance on the political developments in the Middle East and maintaining balanced relations with different countries in the region give testimony to the importance of the Middle East for China. On the one hand, China is the largest client of Iranian oil, and on the other hand, Saudi Arabia is the largest supplier of Chinese oil. The Chinese state is well aware that Iran is an indispensable power in the Middle East, and Saudi Arabia is by the same token a heavyweight in the Arab world. In order not to alienate the two countries, China has adopted a neutral Middle East policy. It was in this context that the Chinese Foreign Ministry stated in mid-September 2019, in response to the blasts striking Saudi Aramco oil facilities, that it was irresponsible to blame a country without having comprehensive evidence (*Reuters*, 2019, September 16).

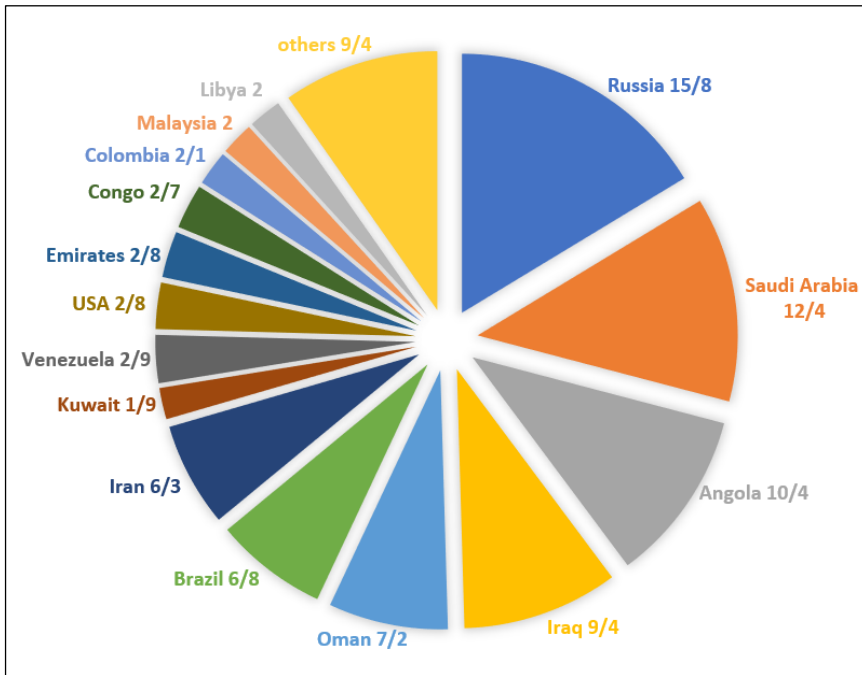
Establishing a long-term and sustainable market footprint is the other goal the Chinese are pursuing in the Middle East. This objective is pursued through investment and inking infrastructural contracts in the framework of the Belt and Road Initiative and other similar projects. According to China Global Investment Tracker, Beijing has invested nearly USD123 billion in projects in the Middle East since 2013. In 2018 alone, the Chinese government announced USD23 billion in investment in the Middle East (Fulton, 2019). China is, therefore, the largest foreign investor in the Middle East. Of the total investment made by China in the region, USD70 billion was dedicated to the Persian Gulf Arab countries in the energy, infrastructure and real estate sectors over the past decade. In the meantime, countries like Iran, which have ideological commonalities with China, are more favourable destinations for investment, but not at the expense of major economic benefits gained from other partners. All the same, it is believed that sooner or later, China will find

itself involved more inextricably in the region’s geopolitics, as it engages in a more serious political rivalry with the United States (Yahya, 2019).

However, China’s grand Middle East policy and its economic pragmatism have imposed limitations on Iran-China relations. The United States also, by encouraging Arab states to ramp up their oil production and exports, has been bent on decreasing China’s oil dependency on Iran. In fact, China’s oil imports from other countries, mostly the Arab states and Russia, has increased at the expense of reducing crude imports from Iran (Pieper, 2013: 308). In 2010, Iran supplied approximately 9% of China’s imported crude and followed Saudi Arabia and Angola as its third supplier (EIA, 2011). Maintaining the same 9%, Iran tumbled to fifth place in the list of China’s oil suppliers in 2014, because exports by countries such as Russia and Oman have been on the rise (EIA, 2015). In 2018, Iran supplied only 6.3% of China’s imported oil, falling to 7th place. Iran’s ranking further declined to ninth, and in 2019 it merely provided 3% of China’s imported petroleum (Workman, 2019).

The following diagram illustrates the shares of China’s oil suppliers of its imports in 2018 (Batmanghelidj, 2020).

Figure 1 China’s Oil Suppliers in 2018



Source: Workman (2019).

Although China’s strategy has been pivoted on diversifying its suppliers of energy, evidence suggests that with the enforcement of unilateral sanctions by the United States against Tehran in March 2018, the Islamic Republic’s standing as compared to its other energy-producing rivals has deteriorated. As Figure 2 indicates, Iran-China trade volume has been severely affected by the US extraterritorial sanctions. After the JCPOA came into being, mutual trade increased to more than USD40 billion, but after March 2018 and following the US abrogation of the Iran nuclear deal, a steady drop could be noticed, so the total Iran-China trade stood at USD35.13 billion in 2018 (Huang, 2020). The trade volume was aggravated in 2019, amounting to USD23.02 billion, showing a 34.3% decline compared to 2018 (*Financial Tribune*, 2020). According to China’s General Administration of Customs (GACC), trade volume with Iran almost halved to USD6.4 billion in the first five months of 2020, compared to USD10.9 billion during the corresponding interval in 2019 (Ghasseminejad, 2020).

Figure 2 Swing in Iran-China Trade Volume (1992-2020)



Sources: *Iran Primer*, *Financial Tribune* and *South China Morning Post*.

However, Iran-China relations cannot be merely confined to business and oil trade (Downs and Maloney, 2011: 18). John Garver, a prominent scholar on Iran-China relations, believes to reduce the two countries’ relations to just energy is an exaggerated and incorrect simplification (Garver, 2016: 180). The authors of the present article concur with Garver. It is undeniable that in the Tehran-Beijing mutual relations, oil is of vital importance, but geopolitical equations are important, too (Hong, 2014: 409). Iran and China

view each other as significant in political and security terms, and the most noticeable manifestation of this is the conviction shared by the two sides that the influence of Washington in the Middle East and Central Asia has to be countered. However, the modality of the interactions between Iran and China has been such that the said commonalities have mostly benefited the Chinese side, rather than Iran. Besides, the explicit confrontation of Iran with the United States in the Persian Gulf and West Asia has created an exceptional opportunity for China; because Iran's actions not only engender a regional equilibrium against the United States in favour of China, but Washington also won't be able to fully focus on East Asia in order to contain China (Leverett and Leverett, 2015: 142). This is because part of the United States' strategic might is being consumed to confront Iran and Iran-backed proxies in West Asia (Alterman, 2013: 4; Harold and Nader, 2012: 2) and naturally, the US strategic might in China's neighbourhood in East Asia would be lessened. Consequently, even if the Chinese authorities, in their official policies, are willing to see Iran-US differences settled through negotiations, it is quite unlikely that they do not have an eye on the creation of an equilibrium and the reduction of the United States' influence in West Asia and the Persian Gulf through Iran and its proxies (Garver, 2011: 97). There are even researchers who believe the US focus on Iran's nuclear program has diverted its attention from North Korea in China's backyard (Currier and Dorraj, 2010: 61).

Iran, currently (2020-21) living through extensive political pressure and harsh economic sanctions enforced by the United States, is compelled to forge a strategic partnership with China. Beijing, on its part, has so far assumed a multilateral approach to Iran and has normally endeavoured to stay on the sidelines without paying a heavy price to support Iran. However, in the future, as China's differences with the United States escalate, Iran's position in China's foreign policy agenda may become more of a priority (Fassihi and Myers, 2020). With that in mind, Iran will probably welcome the escalation of differences between the United States and China, because more differences will translate into increased US focus on China and the East Asian region, and reduce US fixation on the Middle East. This situation, while giving more weight to Iran in China's overseas agenda, will to some extent mitigate the current asymmetric state of relations between the two countries and allow Iran to play a greater role in the Middle East. Nevertheless, the realization of all these hypotheses depends on how far the US-China tensions move forward; otherwise, China's political commitment laid out in Section 5 of Article 1 of the 25-year draft Comprehensive Strategic Partnership Plan (signed in March 2021) is a watered-down one, not sober political protection (Official Website of the President of the Islamic Republic of Iran, 2019a).

The official statements of Iranian authorities lay bare the willingness of Tehran to employ China's capability in shielding the Islamic Republic

against the United States’ threats. For example, as Iran’s ex-president, Hassan Rouhani had said, “the resistance of Iran and China against the United States unilateralism benefits the region and the world (Official Website of the President of the Islamic Republic of Iran, 2019b).” In a phone call with Xi Jinping, Ebrahim Raisi, the Iranian new president appreciated China’s strategic stance vis-à-vis US unilateralism, and emphasized: “Promoting cooperation with China is one of the top priorities of the Iranian government in the field of foreign policy (IRNA, 2021).” He also reiterated in a press conference that “He will implement the Iran–China 25-year Comprehensive Strategic Partnership” (*Anadolu Agency*, 2021).

However, the significant point is how the two countries resist in order to create equilibrium against the United States. A case in point is the Syrian crisis. Without doubt, China’s vetoing the UN Security Council resolutions against the Syrian state has been coherent with Iran’s regional goals. Even so, in order to create equilibrium in Syria, China has not entangled itself in a military rivalry and the high costs associated with it, and is rather using the soft equilibrium approach. In fact, Beijing has diverted part of the costs of the hard equilibrium in Syria to Iran, enjoying a free ride from the role-playing of Iran and Russia in the Syrian crisis. This is while China is bending over backward to penetrate the West Asia region through the ‘Belt and Road Initiative’ (HKTDC Research, 2016). Meanwhile, it has paid the lowest price possible to bring about stability in Syria, while it can be foreseen that whatever the political destiny of Syria, China will achieve a better economic standing in the post-crisis period as compared to its allies (Fallahi and Shafiei, 2019: 12).

The signing of the 25-year Iran-China Comprehensive Strategic Partnership Plan by the two states on March 27, 2021, should be interpreted against the backdrop of Iran’s ‘Look to the East’ policy. Iran’s Ex-First Vice-President Eshaq Jahangiri, in a meeting with the head of the International Liaison Department of the Communist Party of China, pointed out the US efforts to disrupt order in the Persian Gulf and the Middle East, stating that “the foreign policy of the Islamic Republic of Iran is predicated on supporting multilateralism and confronting the US hegemony, and to that effect, we are ready to cooperate with China on regional and global levels (Jahangiri, 2019)”. However, it appears that rather than being concerned about the US presence in the Persian Gulf, China is concerned about the stable supply of energy through the Strait of Hormuz waterway, since its energy diplomacy is contingent upon importing oil from different world regions including the Persian Gulf without getting involved in the security dynamics of those regions (Djallil, 2011: 233). Therefore, it is understandable that Wang Yi, Chinese Foreign Minister, before arriving in Iran to hammer out the 25-year agreement, landed in Saudi Arabia and Turkey. Ankara is very important in the Belt and Road Initiative. On this basis, following the September 2019

drone attacks on the Aramco oil facilities, Chinese President Xi Jinping had a phone conversation with the Saudi Crown Prince Mohammad Bin Salman and emphasized his neutral stance, condemning the attacks without blaming any country, urging restraint on behalf of all parties (*Reuters*, 2019, September 20). This is while the United States, Britain, Germany and France had pointed the finger of accusation at Iran as the culprit behind the attacks. Accordingly, the military presence of the United States in places such as the Strait of Hormuz cannot be considered an existential threat to China, because presently, the priority of China is to shore up its security presence in the South China Sea and the Strait of Malacca (Jacques, 2009: 335). While more remote regions such as the Persian Gulf do not count as security priorities. For the same reason, the US presence in the Persian Gulf can even be considered a plus point for China in terms of safeguarding security and precluding disruption to the navigation of oil tankers (Scobell and Nader, 2016: 1–2). This is important since approximately 50% of China's imported oil is supplied by the Persian Gulf countries or passes through the Strait of Hormuz.

Furthermore, China is going to benefit from Iran's geopolitical trump cards in its grand strategy of economic pragmatism. Hence, China maintains significant trade relations with both Iran and its regional rivals such as Saudi Arabia. Since the mid-1980s, China has been one of the main arms providers to Iran. In September 1996, China and Iran signed a deal whereby China would meet the plurality of Tehran's military requirements (Byman and Cliff, 1999: 8). It is expected that after the expiry of the prohibition of arms trade with Iran as stipulated by the UN Security Council resolution 2231 in October 2020, China will provide Iran with advanced fighter aircraft such as J-10s, advanced tanks such as VT-4 tanks, and satellite navigation facilities for military purposes (Fulton, 2020). Despite this, since 2013, China has been complying with the UN arms embargo against Iran. According to data by the Stockholm International Peace Research Institute, China sold a total of USD75 million in arms to Saudi Arabia in 2017 and 2018, while its arms deal with Iran totalled up to almost zero (SIPRI, 2019). Moreover, the volume of Saudi Arabia's foreign trade with China in 2018 equalled roughly USD61.8 billion, accounting for 17% of Saudi Arabia's foreign trade in that year (*Global Times*, 2019), whereas China's trade with Iran amounted to nearly USD23.02 billion in 2019 (*Financial Tribune*, 2020). The volume of China's trade with the Arab states of the Persian Gulf in 2017 exceeded USD197 billion. Between 2008 and 2019 and despite Washington's concerns (Harris, 2020), China's investment in the United Arab Emirates and Saudi Arabia surpassed USD62.55 billion, while in the same period, the value of its investment in Iran was only close to USD10 billion (Gurol and Scita, 2020). This means that China's categorical support for Iran will entail large costs for this country, therefore China inevitably has concurred with the US sanctions against Iran in Trump's era.

4. Limitations of the Iran-China Relations on the Global Level

The Islamic Republic of Iran has every so often faced international pressure by the West and particularly the United States because of its ideological differences with them. To ward off the pressures, it has pinned its hopes on the assistance of countries such as China, as Iran considers China a potential ally in the international arena. Similarly, the People's Republic of China has been traditionally willing to expand its relations with states such as Iran in order to create equilibrium against the major powers on the global scene (Harold and Nader, 2012: 5). Nonetheless, Beijing is working at the same time to present itself as a responsible stakeholder and a pragmatist player in the global system so as to assuage international concerns over the rise of China (Currier and Dorraj, 2010: 60). This paradox has become evident in Iran-China relations on a global scale. For example, one of the most notable issues in the Iran-China relations which has taken on marked international dimensions is Iran's nuclear program. Tehran is of the opinion that with the help of China, it can whittle away the pressures it's facing over its nuclear activities, and moderate the policies of the US and its allies on itself. Despite this, China agreed to the referral of Iran's nuclear case to the UN Security Council in 2006 (Leverett and Leverett, 2015: 143) and subsequently never voted against any of the Security Council resolutions on Iran's nuclear program at that time. At the outset, China was opposed to the fourth round of sanctions against Iran in 2010. However, after obtaining assurances from the United States that the new sanctions would not obstruct the activities of Chinese companies in Iran, it voted in favour of the UNSCR 1929 which slapped the toughest sanctions against Iran. This situation resulted in the withdrawal of foreign companies from Iran and the emergence of an exclusive economic monopoly for Chinese companies before the JCPOA (Conduit and Akbarzadeh, 2019: 474).

Strategic relationships are usually characterized by bilateral streams, and the allies employ all the facilities at their disposal to support their partners, while China's approach to Iran's nuclear case and the US sanctions has not been predicated on such strategic alliances. Even so, Hassan Rouhani, the president of Iran, believes, "relations with China have always been strategic for Iran and will remain so (Official Website of the President of the Islamic Republic of Iran, 2019a)." Elsewhere, Ali Akbar Velayati, the international relations advisor to Iran's Supreme Leader had said in a meeting with the advisory committee of the Chinese Ministry of Foreign Affairs, "the relations between the two countries are constructive and strategic, and such meetings will add to the depth of the relations (Velayati, 2018)." However, given the United States supremacy over the global financial system and the Chinese grand strategy of economic pragmatism, Beijing lacks the capability and even willingness to function as a strategic preventive factor against the anti-Iran policies of Washington. In the most optimistic scenario, China is an actor

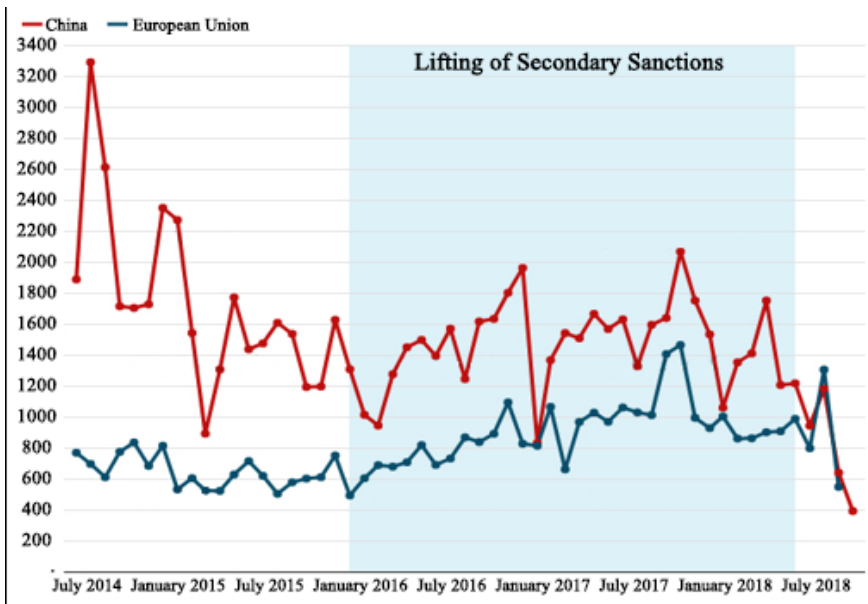
that can modify the impact of the hostile policies of the United States against Iran, as it did in the case of sanctions Donald Trump slapped on Tehran. It appears that Tehran's emphasis on the strategic nature of relations with China and its optimistic view to the 'Iran–China 25-year Comprehensive Strategic Partnership', is rather due to political optimism and an outcome of despair than being rooted in reality. Although, they have been voicing their opposition to the US secondary sanctions rhetorically, while in practice, they have been mostly complying with them (Hong, 2014: 420).

In June 2017, a contract worth USD5 billion was signed between the China National Petroleum Corporation retaining 30% of the total shares, the French Total S.A. company retaining 50% of the total shares and the Iranian Petropars Company retaining 20% of the total shares of a project to develop the phase 11 of the South Pars gas field. However, after the reinstatement of the sanctions by Donald Trump in May 2018, Total S.A. withdrew from the consortium. China built on this opportunity and took over the 50% share of the French firm. As pressure by Washington was ratcheted up, the Chinese company also pulled out of the project in September 2019 (Islamic Consultative Assembly News Agency (ICANA), 2019). That said, the intensive sanctions by the Trump administration against Iran never resulted in China's petroleum imports from Iran plummeting to zero in the 2018–2019 period, and the two sides came up with workarounds to circumvent the sanctions. This is indicative of the geopolitical position of Iran in China's foreign policy, underlining the long-term geopolitical motives of China against the US unilateralism. This is while Beijing has not been prepared to undertake strategic costs for sustaining this partnership.

It is noteworthy that the Bank of Kunlun, representing the financial arm of the China National Petroleum Corporation, has been the main channel facilitating economic exchanges between Iran and China. In the previous round of sanctions slapped on Iran under the presidency of Barack Obama, almost the entire revenues for the oil exported from Iran to China were remitted by the Bank of Kunlun, as a result of which, the volume of foreign trade between Iran and China increased (Figure 2). Nonetheless, with the withdrawal of Donald Trump from the JCPOA and the reinstatement of secondary sanctions, the Bank of Kunlun announced that it would be unable to offer services to the Iranian side (Motamedi, 2019). The decision of the Bank of Kunlun, which unfolded under a total news blackout, demonstrates that the mutual fiscal interdependence of China and the global economy, especially the US, has resulted in the growth of the sensitivity of this country toward the shifting of US foreign policy approach concerning Iran, eventually leading to the Iran-China relations being impacted. In other words, the vulnerability of Iran-China relations on the global level is a function of the complex interdependence of China and the United States.

Pointing out some economic figures faring in China's trade relations will be helpful in making sense of China's cautiousness about Iran. The following diagram illustrates the monthly value of exports by Europe and China to Iran, dropping to their four-year minimum in the last months of 2018 following the reinstatement of US secondary sanctions. The fall has been such that China's exports to Iran plummeted from USD1.2 billion in October 2018 to nearly USD400 million in December 2018, undergoing a 70% decline in less than two months.

Figure 3 Monthly Value of Exports by China and the European Union to Iran Before and After the JCPOA

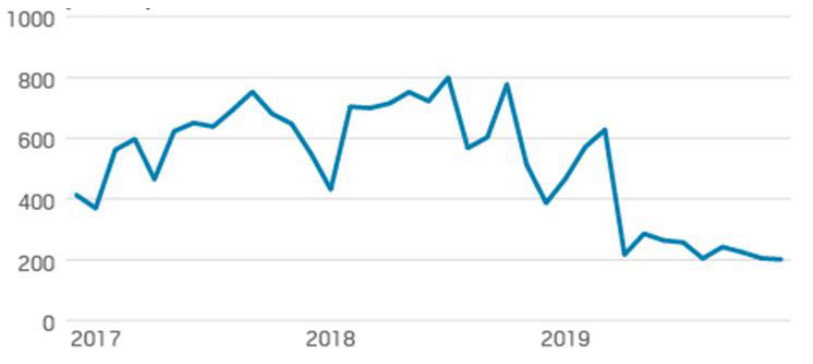


Source: Chamber of Iran Commerce, 2018.

Considering the position of major powers in China's foreign policy, the Tehran-Beijing relations should be seen in the light of China's deals with powerful countries. Iran-China relations, as compared to China's relations with powers such as the United States, Japan, and the European Union, are at a relatively low level. The priority of China on the global stage is forging relations with the major powers, reflected in Xi Jinping's call for establishing the 'new type of great power relations' (Hong, 2014: 410). Although China considers itself a leader of the developing countries, or in other words the Third World, it is, at any rate, a member of the club of major powers. For this reason, it is not surprising that based on the economic logic ruling China's foreign relations, China's support for Iran in bypassing the sanctions is not

significantly effective and determining (Shariatinia, 2010). Nevertheless, it has tried to preserve an economic lifeline for Iran by maintaining its oil imports from the Islamic Republic. As the S&P Global Platts illustrate in the following figure, although China’s petroleum imports from Iran decreased to one fourth from 800,000 barrels per day in 2018 to 200,000 barrels per day in 2019, it never came to a complete halt (Scheid and Gupte, 2020).

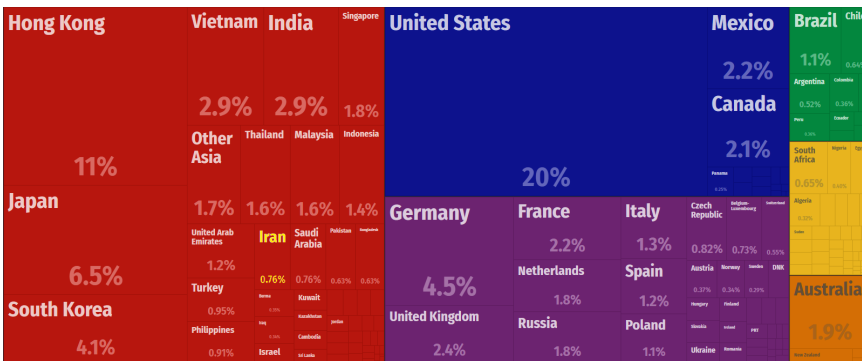
Figure 4 China-Iran Oil Trade (2017-2019)



Source: Scheid and Gupte, 2020.

But, as the following diagram depicts, Iran’s share of China’s export market totalled a minuscule 0.76% compared to the position of other countries. The United States alone accounted for 20% of China exports while the European countries, which are collectively shown in purple, represented 22% of China’s export market (Observatory of Economic Complexity (OEC), 2019).

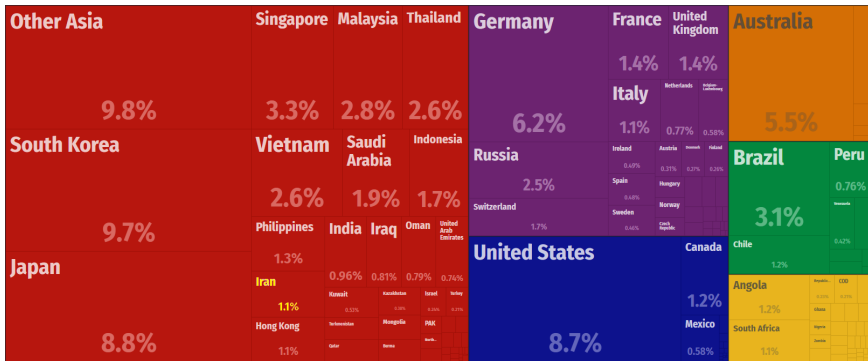
Figure 5 Position of Different Countries in China’s Exports Market



Source: OEC, 2019.

According to data by the International Monetary Fund (IMF), China is Iran's first trading partner. However, Iran ranked 33rd in China's export market in 2018 as China exported a total of USD14 billion in goods to the Islamic Republic, less than what it exported to nations such as UAE, Saudi Arabia, Turkey and Pakistan. With a total of USD480.7 billion in imports from China, the United States retains the largest share in China's export market. However, thanks to oil, more than 98.1% of Iran's exports to China comprises oil and its derivatives, 1.6% is metals and 0.3% includes other goods (OEC, 2018), Iran's status in China's import market is somewhat better. Valued at USD21.9 billion, Iran retains the 24th rank in China's import market. Despite this, countries like Saudi Arabia, Iraq and Angola have a better standing than Iran. The United States, exporting a total of USD156.3 billion to China, ranks fourth (IMF, 2019b). The following diagram shows the position of different countries in China's import market. Iran accounts for 1.1% of China's imports, while the United States stands at 8.7% and the European countries together represent 19% of China's import market (OEC, 2019).

Figure 6 Position of Different Countries in China's Imports Market

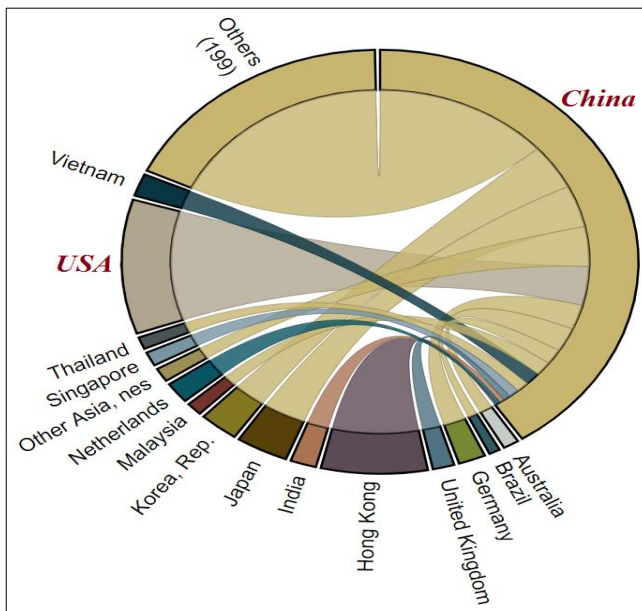


Source OEC, 2019.

The significant point is that China has a mercantile governance and its trade balance with the United States is positive. The implication of this matter for the Iran-China relations is that in case China defies the unilateral US sanctions, its export market will be damaged more. In 2018, China exported a total of USD480.7 billion to the United States and imported approximately USD156.3 billion from that country, meaning that China's trade balance with the United States has been +USD324.5 billion. At the end of 2017, 65.79 million individually-owned businesses and 27.26 million private enterprises operating in China contributed more than 60% of the nation's GDP (*China*

Daily, 2018). They are very vulnerable and sensitive to any punitive measure by the United States, including economic sanctions. Hence, if the Chinese companies and banks are sanctioned, China's trade balance with the United States will sustain a significant negative shock. The following diagram, which illustrates China's trade flows with its top 15 trading partners, would explicate this notion better. As can be seen in the diagram, China's export stream to the United States is more expansive than its import chokepoint, which means China benefits more from trade relations with the United States, and therefore it is more sensitive and vulnerable to US actions. Nevertheless, in addition to the trade flow, the dominance of the US Dollar over the global markets, the influence of the United States in the financial markets, and the structural power of the United States in the international political economy have collectively led to China being more susceptible to United States policies. This is while according to the following diagram, Iran is one of the "other" 199 countries trading with China, maintaining an insignificant trade balance. As a result, China is not remarkably sensitive or vulnerable to change of policies in Iran. Rather, the main sensitivity and vulnerability lie in the change of US policies vis-à-vis Iran. If we approach the Iran-China-US triangle from a different perspective, we should bear in mind that China is Iran's first trading partner. So, Iran is more sensitive to the change of

Figure 7 China's Trade Balance with Top Trading Partners



Source: World Integrated Trade Solution (WITS), 2018.

policies on behalf of China and its vulnerability is also higher in such a way that a change of China’s policies results in notable shifts in Iran’s economic indicators. Moreover, with the enforcement of the sanctions by Donald Trump, Iran’s access to alternative options has been restricted. This means enduring the costs affiliated with the change of China’s policies has become more difficult for Iran.

Even though China subscribes to a predominantly economic approach to mutual relations with other world countries, it has embraced Iran in periods when it faced political and military pressures on the global level. For example, after the Tiananmen Square massacre in 1989, the sanctions and human rights pressures of the West and the United States against China mounted and isolated the PRC. At that time, China strengthened its diplomatic links with Iran, which was undergoing a similar challenge, in order to lessen the pressures ahead of it and evade isolation (Harold and Nader, 2012: 4). One can also give reference to the question of Taiwan. Whenever China has been dismayed by the US policies concerning Taiwan, it has retaliated through emboldening Iran. For example, in the mid-1990s, when the United States was selling F16 fighter aircraft and FIM-92 Stinger surface-to-air missiles to Taiwan, China increased its arms sales to Iran. In fact, Taiwan and Iran have underpinned the emergence of a spectrum of competition and collaboration in China-US relations (Pieper, 2013: 300). Raisi as Iranian new president is aware of Chinese sensitivities, so that in his conversation with President Xi Peng, he reiterated: “The Islamic Republic of Iran, with full support for the principle of a united China, condemns the blatant interference of the United States in the internal affairs of the country (IRNA, 2021).” As stated by the former Chinese Deputy Foreign Minister, Fu Ying, China would be “proactive” in playing its cards, if the US violated its red lines such as Taiwan. Iran is considered one of China’s main cards (Yuwen, 2020). Even when President Biden poised confrontational policy against China, the latter gave space to Iran by approving its full membership in the SCO. Nevertheless, the SCO provides a forum for China and Iran to represent their shared opposition to Western sanctions, hegemony and unilateralism. But the realities of international political economy and the conflicting agendas of the body’s member states do not meet Iran’s concerns on the US sanctions (Figueroa, 2021). Therefore, it is understandable that when China opposed extending a UN arms embargo against Iran at the Security Council on August 16, 2020, the United States retaliated by finalizing a deal to sell 66 F-16 fighter jets to Taiwan. During the recent decades, China has at times tried to leverage US relations with Taiwan by giving space to Iran (Capaccio, 2020). Alternatively, on occasions when trade and political relations between the US and China declined, China opposed the US bidding against Iran at the International Atomic Energy Agency (Mai, 2020).

5. Conclusion

The foreign policy approaches adopted by Iran and China are both similar and different. Both countries are unhappy with the existing international order led by the United States and this has generated an existential similarity in the foreign policy of the two countries, rendering each nation mutually important for the other side. Although the Chinese have tried to strike a balance between economic and political interests for attaining a geopolitical equilibrium with the United States in the long term. The economic pragmatism stipulates that it does not get involved in costly political and military manoeuvres in favour of third parties, refraining from facing off major powers directly, particularly the hegemonic power. Accordingly, China is striving to adjust its relations with Iran in such a way that it neither disappoints Tehran nor provokes the ire of the Western world, spearheaded by the United States. For this reason, investigating the Iran-China relations merely on the basis of political motives would be out of touch with reality. At the same time, mere emphasis on the economic motives cannot represent the whole reality, either. In other words, meeting the political expectations of the Islamic Republic of Iran is not an essential priority for China, because Beijing has defined its grand strategy in terms of maintaining cordial relations with major powers, particularly the hegemonic power as well as Iranian regional rivals. The most reliable justification backing up this assertion would be a comparison of China's trade with Iran and the United States, which in 2018, totalled USD36 billion and USD646 billion respectively. This means China's trade deals with the United States were approximately 18 times larger than its trade with Iran.

Nonetheless, the stance of Chinese authorities indicates that Beijing is intent on moderating the international order in a creepy manner and within the framework of a long-term agenda. The Chinese leaders are determined to realize relative welfare for their country by 2021 (the 100th anniversary of the establishment of the Communist Party of China) and achieve the standing of a fully developed power in the world by 2049 (the 100th anniversary of the establishment of the People's Republic of China). Therefore, every sort of political or military tension in China's relations with the developed countries, particularly the hegemonic power, would challenge the process of China's development.

So, if the Iran-China relations are explored in a realistic light, it will be proved that Iran's expectations of China on the regional and international levels are not adequately met. Iran-China relations are influenced by four components including energy, trade and investment, the Belt and Road Initiative and strategic cooperation. Accordingly, oil is the first and key element of Iran-China relations. Although US sanctions have shifted Iran's

position from a major supplier to a sub-supplier of Chinese oil market, however China remains one of Iran's main oil export destinations. In trade and investment, Saudi Arabia and the UAE are China's most important economic partners in the Middle East. Turkey, Kazakhstan and Pakistan have also overtaken Iran in Chinese investment projects. The Belt and Road Initiative which has been at the heart of China's economic diplomacy in the last decade has benefited Iran lesser than other interested countries, mainly for the US sanctions reason. Last, but not least, Iran and China are strategically aligning against the US unilateralism, but such overlapping political interests do not guarantee Chinese economic involvement in Iran. Political commonalities with North Korea, Venezuela, Cuba, etc., did not guarantee Chinese economic investment in those countries. In the case of Iran, although China has continued to buy a minimum amount of oil and try to ease the pressure of sanctions for Tehran, but it has stopped all its major investment activities in Iran since when President Trump exerted maximum pressure against Iran. The main reason is that Chinese business corporations including private and state-run have a global outlook and would not risk the US terrible fines for ignorable economic dividends in Iran. On the basis of evidence cited in the present research, it can be concluded that Beijing is not prepared to pay high political and economic costs to support partners such as Iran. Therefore, despite the media fanfare on the Iran-China 25-year Comprehensive Strategic Partnership Plan or Iran's full membership in SCO, it will not change the balance of power in favour of Iran vis-à-vis the US significantly. It also does not make a difference that Iranian president is Rouhani or Raisi.

Notes

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Empirical Evidence for Commercial Bank Efficiency and Corporate Directorship in China

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Abstract

This study examines the links between bank efficiency and the profile of corporate directorships of listed banks in China. We focused on the composition of independent, foreign and women directors, human and social capital of the directors, and their diligence for board meetings. We collected the individual director profiles of a panel of 28 commercial banks data from 2010 to 2018. GMM estimation is employed to address the endogeneity issues. In general, we found that independent and foreign directors have a positive impact on bank efficiency, as well as educational level, professional qualification, political connection, and their board meeting attendance. These findings suggest that a certain profile of corporate directorship can significantly drive listed bank efficiency.

Keywords: *bank efficiency, director profile, DEA, China*

1. Introduction

Over the last decade China's commercial banks have an overwhelmingly dominant position in the Chinese financial system, and they have become an extremely important and unreplaceable engine of Chinese economic growth. Chinese listed commercial banks have achieved tremendous progress even under the scenario of the world economic downturn in recent years, as can be observed in Table 1 which summarizes global bank rankings reported by a famous British magazine – *The Banker*. Since 2012 to 2018 China always have four commercial banks in this top-10 list, which is at par with the USA. In the latest 2018 ranking, the four Chinese banks even ranked among the top four positions. In addition, according to the statistical data released from the China Banking Regulatory Commission (CBRC), China's commercial bank's domestic total assets is approximately RMB261.4 trillion at the end of 2018, which is more than three times the value of 2010.

Table 1 Headquarter Location of Top 10 Global Banks from *The Banker* (ranking of 2010-2018)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
USA	4	4	4	4	4	4	4	4	4
Europe	4	1	1	1	1	1	1	1	1
China	1	3	4	4	4	4	4	4	4
Japan	0	1	1	1	1	1	1	1	1

Source: Collected from <<https://www.thebanker.com>>.

Among a range of different governance mechanisms, the Chinese supervisory authority has underscored corporate board as an essential part of the commercial bank governance reform. As early as in 2005, CBRC has published “Guidelines for Board of Directors Code of Conduct of Joint Stock Commercial Banks”, aiming to standardize board structure and establish the boards of China’s commercial banks to be as strong and functional as those in developed countries. In 2010, the last state-owned commercial bank of China completed the board system reform and was listed; at the same time the board of directors was established.

This paper explores the role of corporate boards in the Chinese banking sector. Our study aims to provide and renew some useful information about banks’ board director’s characteristics in the context of Chinese banking reforms, and more importantly we investigate the influence of diversity in corporate directorship towards Chinese commercial banks efficiency, especially when China’s economy has moved into the post crisis recovery period.

This study contributes to the literature in twofold. First, many of the earlier bank efficiency studies concentrated on developed countries and documented a significant role of corporate governance in bank operations, but past research on China’s commercial banks efficiency (An and Zhou, 2006; Han and Su, 2016; Ke and Feng, 2008; Xi and Zeng, 2003) do not pay much attention on corporate governance aspect, especially the function of corporate board which charts the strategic direction of firms. Although corporate governance reforms in China borrow advanced concepts and successful practices from developed countries, the mechanism and effectiveness of commercial bank governance in China are quite different relative to other developing countries. Our paper intends to fill this gap. Empirical evidence and perspective on commercial bank governance in this biggest emerging economy in the world can provide more robust evidences against the potential data-snooping bias in the past literature. Second, we extend the bank governance literature in China by dealing with the various dimensions of corporate directorship. We refer to a stream of existing research

that documents the various governance mechanisms in China's banking sector and finally we focus on board members and their background towards bank efficiency. We explored how the different dimension of corporate directorship affects bank efficiency so one can gauge what type of directors should be hire to improve bank efficiency.

The rest of this paper is organised as follows: the next section establishes the hypotheses to be tested based on the wisdom of the literature. The following section discusses the methodology and data which include the modelling used. Section 4 gives the results and findings and the final section concludes.

2. Literature Review

Berle and Means (1932) were the first to highlight that agency issue is the core concern of modern corporate governance. Another seminal paper in this regard is Jensen and Meckling (1976). Later, Fama and Jensen (1983) put forward that the core of corporate governance is the structure of the board of directors. The board of directors is positioned in between shareholders and managers and they are playing a pivotal role to closely monitor and supervise every strategic decision made by the managers in a corporate. The board is important to ensure that decisions made by managers can bring positive benefits to the corporate and reduce agency cost. Jensen (1993) believed that a well-structured and orderly board of directors must be a high-quality board, which will inevitably bring a catalytic role in corporate efficiency. Yu and Chi (2004) also pointed out that an excellent board of directors absolutely has its own distinctive common characteristics, through the analysis and search for this feature will greatly accelerate the reform process of enterprises.

The concept for the corporate governance of banks is based on this similar corporate governance theory (Li and Yang, 2008). However, corporate directorship of commercial banks needs to take greater responsibility than ordinary companies. The reason is that the maintenance of shareholders' benefits is no longer the sole target of the corporate governance of a commercial bank, it needs to reduce the bank's market risks to maintain a stable financial system (Ciancanelli and Reyes-Gonzalez, 2000). In order to accomplish these goals, the board of commercial banks should be at highest degree of quality and diversity; the board should have a large number of independent and foreign directors, with diverse background and education, and high diligence to assume the corresponding responsibilities. This is even critical for China, a centrally planned command economy. In this study, we examine three aspects of corporate board directorships in the case of the listed commercial banks in China: directors' profile, directors' human and social capital, and their diligence in meetings.

2.1 Director Profile

Generally, the higher the proportion of independent directors, the stronger the independence, professionalism and objectivity of board's decision-making, as well as the supervisory capacity of the managers (Fama, 1980). Independent directors need to maintain their good reputation and so they have stronger incentive to effectively supervise the managers. Independent directors also represent the interests of other stakeholders and minority shareholders in the board, so their existence can effectively coordinate the conflict of interest between major shareholders and managers, and ultimately maximize the firm's profits (Fama and Jensen, 1983). Mishra and Nieisen (2000) also supported the above point of view. They found that increasing the number of independent directors, especially those not controlled by senior bank managers, played a crucial role in improving the performance of commercial banks in the US. Zhong et al. (2005) even found that a positive relationship between increasing the number of independent directors and the degree of voluntarily disclosure on business information of the firm.

However, Hermalin and Weisbach (1991) and Bhagat and Black (2001) pointed out that improving the number of independent directors cannot significantly help promote bank performance. The main reason is that the appointment of independent directors in commercial banks are mainly nominated by the chairman of the board or other directors, thus leading to the lack of independence of independent directors. In addition, the independent directors mainly obtain information from internal bank documents for bank decision-making process. Therefore, the internal limitations on information sources lead to their failure to make fair judgments.

Most literature from China, like Li (2013), Sun (2008), Wang (2007) and Xie (2008) have already documented the negative relationship between independent directors and bank performance. They explained the result is due to the traditional culture of the Chinese which prefer to pursue harmony in communication. When independent directors have different opinions, they will always try to hide their opinions to agree with the other directors or chairman. Some independent directors are often absent from board meetings, and entrust other internal directors to vote instead. When there are more independent directors on the board, the commitment and responsibility of an individual independent director become even diluted, and the tendency of agreement with the majority becomes stronger. Therefore, based on the above perspective, we deduce the following hypothesis:

Hypothesis 1: the number of independent directors is negatively related to the efficiency of China's listed commercial banks.

With the accession of China into the WTO, market entry barriers have been removed. Thus since 2006, the competition for market share between

foreign and local Chinese commercial banks has been intensified. In order to improve the internationalization level to respond to this unprecedented market competition, China's commercial banks began to gradually introduce overseas strategic investors as important shareholders (Li and Wang, 2018).

Among others, foreign directors have been identified as a significant part of corporate governance (Choi et al., 2007). The presence of foreign directors has been proven to improve firm's performance through monitoring function, they also improve board independency by reducing expropriation and restrict the power of existing board members (Oxelheim and Randoy, 2003). Foreign directors bring different ideas and views, professional experiences, and heterogeneity (Ararat et al., 2010). In addition, learning from foreign governance practices is as important as learning from connected domestic firms (Lliev and Roth, 2018). The board could converge to the outstanding governance characteristics and practices of international standard through their foreign directors.

On the other hand, however, the appointment of foreign directors may also weaken the effectiveness of board monitoring. This is due to the long geographical distance of the foreign director and their unfamiliarity with local working business environment (Masulis et al., 2012). In contrast, Oxelheim and Randoy (2003) after studying Swedish companies indicated that foreign shareholders who can keep at least one foreign representative in the boardroom, is a signal of greater commitment towards corporate governance and transparency, and this signal may help the firm to gain a better reputation in the financial market and results in higher market value in the end. As we do not have any empirical evidence on how foreign directors perform in Chinese listed bank efficiency, therefore, based on the above literature perspective, we propose the following hypothesis:

Hypothesis 2: the number of foreign directors is positively related to the efficiency of China's listed commercial banks.

Powell and Mainiero (1999) points out that if the gender proportion of the board of directors can be better representative of the gender ratio of all employees of the company, the staff in general will think they can get equal promotion opportunities and possibilities; this in turn will increase the incentive role of employees, thereby enhancing firm performance. Past studies on gender postulate that a positive relationship between woman on board and firm's performance also supported the above point of view (Adams and Ferreira, 2009; Catalyst, 2007; Erhardt et al., 2003). Previous studies also showed that the presence of women directors would enhance the independence of the board (Fondas and Salsalos, 2000), because they play a role in contributing to enhance quality of governance in boardroom by providing different opinions in board meeting and make a board more

interactive (Ruigrok et al., 2007). Women directors concentrated more on their role by avoiding political behaviour thus leading to enhance the efficiency of board (Sing et al., 2008), and reduce the chances of financial crimes on the board (Zhang, 2014).

However, Adams and Ferreira (2009), Farrell and Hersch (2005) and Liu et al. (2014) found insignificant or negative relationship between women directors and firm's performance. These empirical studies found that board diversity incur extra cost to foster mutual trust among directors, and the heterogeneity of members creates more differences and internal conflicts, which increases decision-making costs. In addition, women directors are more inclined to avoid risks and prefer conservative operations, and this tendency will sometimes lead to the firm losing profit opportunities in the market. Again, as there is no literature on female directors on Chinese listed bank efficiency, therefore, based on the above literature having negative perspective on feminism, we propose the following hypothesis to be tested:

Hypothesis 3: the number of women directors is negatively related to the efficiency of China's listed commercial banks.

2.2 Human Capital and Social Capital of the Directors

Recent corporate governance research started to do in-depth investigation on the social and human capital of the board of directors, for example see Carpenter and Westphal (2001), Kim and Lim (2010) and Wincent et al. (2010). Human capital generally refers to the skills, abilities and knowledge to generate a given set of benefits (Becker, 1983; Hitt et al. 2001). Studies such as Gradstein and Justman (2000) and Souitaris (2002) document the advantage of adopting greater diversity in board's human capital by arguing that the formal education, working experience and other skills of the board could provide excellent solutions and alternatives to the firms. Westphal (1999) also indicated that board comprising members with different fields of expertise, such as public affairs and marketing specialists, lawyers, government officials and community leaders, can facilitate the role of counsel to the managers.

For commercial banks, the directors' human capital is essential as the banking industry is a service sector which requires complex business strategies and is highly regulated by a central bank. Due to the difference of the commercial banking industry from other industries like agriculture and manufacturing, which do not need too much changes of strategy and operation, banking in contrast requires frequent or even immediate response to business challenges to meet the rapidly changing market environment (Gropper, 1991). As the core decision-making body of the bank, the education level of its corporate directors has a crucial impact on the effectiveness of its

strategies. Jiang and He (2015), Wu (2013) and Zhang and An (2005) through their investigations showed that the education level of board members in the financial industry has a more significant positive impact on firm performance than other industries. Kim and Lim (2010) also showed significant positive effect of board's education diversity on Tobin Q, as well as Wincent et al. (2010) on the positive effect of expertise diversity of directors on corporate innovation performance and network entrepreneurial orientation. In short, these studies indicate that greater diversity in board's human capital provides opportunities for networking corporates to be proactive in developing new innovation which could indirectly improve the firm's performance. Therefore, we propose the following hypotheses:

- Hypothesis 4:* the level of education of directors is positively related to the efficiency of China's listed commercial banks.
- Hypothesis 5:* the number of directors with overseas education is positively related to the efficiency of China's listed commercial banks.
- Hypothesis 6:* the number of directors with professional qualification is positively related to the efficiency of China's listed commercial banks.

Another equally important aspect is the social capital. Social capital is defined as the sum of the potential and actual resources available to an individual's and a social unit's network of relationships (Nahapiet and Ghoshal, 1998). In the context of China's economic transformation, the political relations remain the most important social capital for corporate directorship in this central planning capitalism. Faccio (2006) indicated that the phenomenon of corporate political connections is widespread in all countries (Claessens et al., 2008; Khwaja and Mian, 2005; Leuz and Felix, 2006; Wijantini, 2007). Li et al. (2011) pointed out that under current China's political and economic system, Chinese companies have stronger incentives to establish a good relationship with the government as compared to foreign companies. This relationship can be used as corporate competitive strategy, and the reason behind this strong motivation is due to China as a country that implements one-party dictatorship and there never was an alternate government existing since its independency in 1949. Therefore, all listed companies must maintain long-term and good relationships with the government if they want to seek competitive advantages. Once this relationship is destroyed, the company's losses can be fatal and is difficult to repair permanently. In fact, the government also hopes that through this kind of benign interaction and reciprocal cooperation, enterprises can help the government to complete national construction goals and social responsibilities, thus helping the government to win more public trust and good reputation. Yu and Pan (2008) found that the private enterprise managers who have membership in the Chinese

Communist Party will bring a range of significant positive impact on their business efficiency, especially in areas where the market is ineffective and the institutional environment is poor (Luo and Liu, 2009; Luo and Tang, 2009). On top of that, they can also assist to obtain more bank loans, government support and relatively easily expand business with easier access to the government regulation industry. Therefore, we propose the following hypothesis:

Hypothesis 7: the number of political linked directors is positively related to the efficiency of China's listed commercial banks.

2.3 Board Diligence

Johl et al. (2015) pointed out that board diligence is a key corporate governance mechanism that helps in guiding and advising the management towards the pursuit of shareholder interest amidst other control functions. The diligence of board members is usually measured by their board meeting attendance rate (Ghosh, 2007; Ilaboya and Obaretin, 2015; Johl et al., 2015). Ntim and Osei (2011) also concluded that the board that meets more generated a higher level of performance than those who do not. Ghosh (2007) also found a statistically significant relationship indeed exists between board diligence and firm performance.

The contribution of a non-executive corporate director is only through board meetings. For board members to effectively perform their duties, meetings need to be held frequently (Vafeas, 1999). Francis et al. (2012) revealed that boards with a low frequency of meeting performed poorly as compared to a board with high frequency meeting. However, Jensen (1993) thinks that board meeting is only formalism. The frequent meeting leads to a waste in managerial time, increase financial burden in terms of travelling expenses and sitting allowance given to board members. Others found that bank performance did not increase as the number of board meeting increased (Ntim and Osei, 2011; Oyerinde, 2014; Taghizadeh and Saremi, 2013). Based on the above literature perspectives, we propose a test on both board meeting frequency and attendance with the following hypotheses:

Hypothesis 8: The frequency of board meeting is positively related to the efficiency of China's listed commercial banks.

Hypothesis 9: The attendance rate of board meetings is positively related to the efficiency of China's listed commercial banks.

3. Methodology and Data

According to the 2018 statistics report of the Chinese Banking Regulatory Commission, until the end of 2018, there are 28 Chinese commercial banks

listed in the A-shares market on the Chinese mainland. Among them, the type of bank's property rights from 1 to 4 are state-owned, 5 to 13 are large nationwide joint-stock and 14 to 28 are small city joint-stock. All sample data are collected from their annual reports shown by the respective bank's official website, the "Almanac of China's Finance and Banking" published by the People's Bank of China from 2010 to 2018 and also from the China Banking Regulatory Commission official website released data. The list of our sample banks is reported in Table 2 below.

Table 2 Sample of China's Listed Commercial Banks Until 2018

No.	Commercial Bank Name	Year Established	Year Listed	Registered City
1	Industrial and Commercial Bank of China	1984	2006	Beijing
2	China Construction Bank	1954	2007	Beijing
3	Bank of China	1912	2006	Beijing
4	Agricultural Bank of China	1951	2010	Beijing
5	Bank of Communications	1908	2007	Shanghai
6	China Merchants Bank	1987	2002	Shenzhen
7	China Citic Bank	1987	2007	Beijing
8	China Everbright Bank	1992	2010	Beijing
9	Shanghai Pudong Development Bank	1992	1999	Shanghai
10	Industrial Bank	1988	2007	Fuzhou
11	China Minsheng Bank	1996	2000	Beijing
12	Ping An Bank	1987	1991	Shenzhen
13	Hua Xia Bank	1992	2003	Beijing
14	Bank of Beijing	1996	2007	Beijing
15	Bank of Nanjing	1996	2007	Nanjing
16	Bank of Ningbo	1997	2007	Ningbo
17	Bank of Shanghai	1995	2016	Shanghai
18	Bank of Chengdu	1996	2018	Chengdu
19	Bank of Guiyang	1997	2016	Guiyang
20	Bank of Hangzhou	1996	2016	Hangzhou
21	Bank of Jiangsu	2007	2016	Nanjing
22	Bank of Changsha	1997	2018	Changsha
23	Bank of Zhengzhou	2000	2018	Zhengzhou
24	Jiangyin Rural Commercial Bank	2001	2016	Jiangyin
25	Changshu Rural Commercial Bank	2001	2016	Changshu
26	Suzhou Rural Commercial Bank	2004	2016	Suzhou
27	Wuxi Rural Commercial Bank	2005	2016	Wuxi
28	Rural Commercial Bank of Zhangjiagang	2001	2017	Zhangjiagang

This study covered two step analyses. In step 1, we used data envelopment analysis (DEA) to measure relative bank technical efficiency scores cross time. DEA is a non-parametric method of linear programming. In DEA, the term “decision making unit” (DMU) refers to a bank that uses input resources to produce output. We can calculate the result of bank efficiency performance with a score between 0 and 1. The firm with the highest efficiency of 1 is considered to be the most efficient reference bank in comparison with other banks. Selecting inputs and outputs is important in the DEA method. In this study, we consider the primary function of commercial banks as finance intermediation agencies in the financial market, so we use the intermediation approach (Benston et al. 1982). After referring to the part of previous literature from China, we selected fixed assets, operating expenses, total deposit and number of employees as inputs, total loans, net profit, and net interest income as outputs. Step 1 produces a panel series of $Efficiency_{it}$ that measures i as number of efficiency scores across time t . We obtained a series of bank efficiency scores that lie between 0 and 1 for China’s listed commercial banks annually from 2010 to 2018; a higher value indicates higher efficiency relative to the sample, and a lower value means a lower efficiency relative to the other sample banks.

To test the effect of corporate board profile on China’s commercial bank efficiency, in step 2, Model 1 is constructed to examine the relationship between the bank efficiency score obtained from the DEA method and the various director profiles.

$$\begin{aligned}
 Efficiency_{it} = & \beta_0 + \beta_1 BankSize_{it} + \beta_2 Leverage_{it} + \beta_3 Profitability_{it} + \\
 & \beta_4 StateOwnership_{it} + \beta_5 ForeignOwnership_{it} + \\
 & \beta_6 CEORemuneration_{it} + \beta_7 BoardSize_{it} + \\
 & \beta_8 Independent_{it} + \beta_9 Foreign_{it} + \beta_{10} Women_{it} + \epsilon_{it}
 \end{aligned} \quad (1)$$

where $Efficiency_{it}$ is the dependent variable, which is estimated from the DEA technical efficiency score of China’s listed commercial banks annually. The control variables are bank fundamentals which can generate sustained competitive advantages and influence bank efficiency. $BankSize_{it}$ is represented by the natural logarithm of total assets. $Leverage_{it}$ is represented by percentage of long-term debts to total assets. $Profitability_{it}$ is represented by percentage of return of assets. These variables are widely used as control variables in the research area of corporate governance focussing on bank performance. The board governance variables include the following: $StateOwnership_{it}$ is represented by percentage of state-owned controlled shareholding in the top ten shareholders, $ForeignOwnership_{it}$ is represented by percentage of foreign controlled shareholding in the top ten shareholders, $CEORemuneration_{it}$ is represented by the CEO remuneration in each board, and $BoardSize_{it}$ represents total number of directors sitting on the board.

The variables for directors' profile include $Independent_{it}$ representing percentage of independent directors to total board size, $Foreign_{it}$ representing percentage of foreign directors to total board size, $Women_{it}$ representing percentage of women directors to total board size.

Model 2 is designed to examine the relationship between bank efficiency and directors' social and human capital.

$$Efficiency_{it} = \beta_0 + \beta_1 Bank\ Size_{it} + \beta_2 Leverage_{it} + \beta_3 Profitability_{it} + \beta_4 State\ Ownership_{it} + \beta_5 Foreign\ Ownership_{it} + \beta_6 CEO\ Remuneration_{it} + \beta_7 Board\ Size_{it} + \beta_8 Board\ Edu_{it} + \beta_9 Oversea\ Edu_{it} + \beta_{10} Professional_{it} + \beta_{11} Political_{it} + \epsilon_{it} \quad (2)$$

where $BoardEdu_{it}$ represents the whole board of directors' average education value (note: Diploma = 1, Bachelor = 2, Master = 3, Doctor = 4). $Overseas Edu_{it}$ represents percentage of directors who have overseas education degree. $Professional_{it}$ represents percentage of directors who have professional qualifications. While $Political_{it}$ represents percentage of politically-linked directors to total board size.

Model 3 examines the relationship between bank efficiency and frequency of board meeting and the attendance rate.

$$Efficiency_{it} = \beta_0 + \beta_1 Bank\ Size_{it} + \beta_2 Leverage_{it} + \beta_3 Profitability_{it} + \beta_4 State\ Ownership_{it} + \beta_5 Foreign\ Ownership_{it} + \beta_6 CEO\ Remuneration_{it} + \beta_7 Board\ Size_{it} + \beta_8 Board\ Meeting_{it} + \beta_9 Attendance_{it} + \epsilon_{it} \quad (3)$$

where $BoardMeeting_{it}$ represents the number of board meetings, and $Attendance_{it}$ represents percentage of board members' meeting attendance rate.

The complete model that examine the various aspect of board influence on bank efficiency is comprehended in the following generalized Model (4).

$$Efficiency_{it} = \beta_0 + \beta_1 Bank\ Size_{it} + \beta_2 Leverage_{it} + \beta_3 Profitability_{it} + \beta_4 State\ Ownership_{it} + \beta_5 Foreign\ Ownership_{it} + \beta_6 CEO\ Remuneration_{it} + \beta_7 Board\ Size_{it} + \beta_8 Independent_{it} + \beta_9 Foreign_{it} + \beta_{10} Women_{it} + \beta_{11} Board\ Edu_{it} + \beta_{12} Oversea\ Edu_{it} + \beta_{13} Professional_{it} + \beta_{14} Political_{it} + \beta_{15} Board\ Meeting_{it} + \beta_{16} Attendance_{it} + \epsilon_{it} \quad (4)$$

4. Results and Discussion

Table 3 presents the descriptive statistics for all variables used in this study. The average bank technical efficiency is 97.49 per cent. The high score suggests that China's listed commercial banks are performing well in the post crisis recovery era. In terms of board size, there are 15 board members on average in a bank with a median of 35.29 per cent for independent directors.

Table 3 Descriptive Statistics for all Variables (Obs. = 252, 2010-2018)

Variable Name	Mean	Median	Std. Dev.	Min	Max
Efficiency (%)	97.4978	98.0000	2.3135	86.3600	100.0000
Bank Size (millions)	6.0390	6.1183	0.7953	4.6593	7.4424
Leverage (%)	5.5669	5.3300	0.9109	4.0000	8.8300
Profitability (%)	1.0924	1.0850	0.2374	0.5900	1.8259
State Ownership (%)	35.6619	35.7000	22.7877	0.0000	85.2400
Foreign Ownership (%)	12.2819	11.8700	12.1525	0.0000	40.5600
CEO Remuneration (millions)	1.7505	1.2500	1.5243	0.2322	8.6900
Board Size	14.6587	15.0000	2.2016	9.0000	19.0000
Independent (%)	35.3221	35.2941	5.8892	7.1428	50.0000
Foreign (%)	13.8755	16.6667	11.5484	0.0000	46.1538
Women (%)	12.9536	12.1323	8.8386	0.0000	40.0000
Board Edu	3.0992	3.1000	0.1845	2.0000	3.3800
Oversea Edu (%)	20.0738	20.0000	6.3411	6.6013	25.0000
Professional (%)	72.0261	73.3334	4.6891	55.2567	78.9473
Political (%)	65.0326	66.6667	5.8614	44.3681	73.6842
Board Meeting	9.4603	9.0000	3.4987	3.0000	26.0000
Attendance (%)	92.0259	92.5474	4.7628	76.4705	100.0000

This implies that a majority of the banks only fulfil the minimal requirement of the China Banking Regulatory Commission which requires the firms to adopt one-third of the outside board in order to minimize agency problems. In terms of education level, the average value of 3.09 reflects that on average all directors in China's listed commercial banks have a Master degree, which is considered quite high in education level. About 20 per cent of these directors have an overseas education and about 72 per cent of them holds a professional qualification while about 65 per cent of them are considered politically connected. This high percentage of politically related directors implies that the board is more likely to be affected by politics. The frequency of board meetings on average is 9 times a year, with 92.02 per cent attendance rate on average. The correlations between the continuous variables used in this study are displayed in Table 4. Each of the variables show low variation inflation factor implying no multicollinearity issue.

Hermalin and Weisbach (1998) and Weisbach (1998) pointed out that a key concern for any corporate board analysis is the endogeneity of board and performance. Therefore, we estimate the GMM two-step system estimator with sample size adjusted standard error for potential heteroscedasticity as proposed by Arellano and Bond (1998). We use lagged board diversity at different levels as instruments. In order to test the validity of model

Table 4 Correlation Data

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	VIF
1. Bank size	1.0000																3.22
2. Leverage	0.1276	1.0000															2.02
3. Profitability	-0.1149	-0.3394	1.0000														1.42
4. State Ownership	0.6379	0.0134	0.0470	1.0000													3.02
5. Foreign Ownership	0.6237	0.1196	0.0161	0.4179	1.0000												2.92
6. CEO Remuneration	0.0693	-0.3228	0.0347	-0.3809	-0.0512	1.0000											2.27
7. Board Size	0.1984	-0.1406	0.1625	-0.1537	0.1131	0.3039	1.0000										2.17
8. Independent	0.3746	0.2039	-0.2405	0.1345	0.2692	0.0446	-0.1167	1.0000									1.54
9. Foreign	0.6840	0.0099	-0.0681	0.4801	0.7256	0.1043	0.0538	0.2961	1.0000								2.94
10. Women	0.1327	0.1468	-0.0592	0.1061	0.2261	0.0297	-0.0923	0.1664	0.1425	1.0000							1.19
11. Political	0.1690	-0.1247	0.2093	-0.1472	0.0576	0.2604	0.0578	-0.1584	0.0126	-0.1113	1.0000						1.55
12. Board Edu	0.4133	-0.1072	-0.0383	0.4077	0.3542	0.0579	0.1143	0.1232	0.3408	0.0532	0.1052	1.0000					1.44
13. Oversea Degree	0.7274	-0.2377	0.0142	0.6002	0.5435	0.2022	0.2361	0.1395	0.6450	0.1086	0.1906	0.4425	1.0000				1.82
14. Professional	0.1690	-0.1247	0.2093	-0.1472	0.0576	0.2604	0.0978	-0.1584	0.0126	-0.1113	0.1023	0.1052	0.1906	1.0000			1.36
15. Board Meeting	0.4626	-0.0190	-0.0297	0.3163	0.2611	0.1364	0.1508	0.1649	0.3302	0.1710	0.1443	0.2927	0.4282	0.1443	1.0000		1.42
16. Attendance	0.3158	0.0267	-0.0350	0.0820	0.1863	0.2817	0.0971	0.0473	0.2519	-0.0779	0.0952	0.2230	0.2646	0.0952	0.3113	1.0000	1.35

specification, we refer to the Hansen and Sargen tests on over identification. The Hansen tests show no rejection of the null hypothesis and confirm the validity of the choices of instrument variables.

The estimated coefficients are reported in Table 5 until Table 7. With GMM estimators the results show that five control variables are statistically significant. Bank size, leverage, profitability, state ownership and board size all show a positive and significant relationship with bank efficiency. The other control variables like foreign ownership and CEO remuneration do not affect bank efficiency statistically.

For director's profile, both independent, foreign and political directors all have significant positive impacts on bank efficiency, consistent with previous banking studies such as Andres and Vallelado (2008) and Cornett et al. (2009). The result implies that more and more Chinese banks already realize the role of independent directors on board. Although previous Chinese literature like Li (2013), Sun (2008), Wang (2007) and Xie (2008) pointed out that independent directors were ineffective on board due to the traditional culture of the Chinese which prefer to pursue harmony, however, with China's commercial bank business scope continuing to expand in recent years, challenges in laws, financial security and political complexity from domestic and international market is also increasing, thus appointing more capable independent directors becomes important. These banks have been proactive and regularly disclose the background, responsibility and work and replacement records of their independent directors to maintain corporate image and improve credibility to society. In addition, banks also actively hunt for independent directors from different industries, experience and nationality, especially those from the host country of their foreign businesses as this helps them to hedge against potential foreign business and political risks.

The estimates for foreign directors are positively and statistically significant at 10 per cent, supporting hypothesis 2 and consistent with literature such as Ararat et al. (2010), Choi et al. (2007), Lliev and Roth (2018) and Oxelheim and Randov (2003). Finally, the estimate for women directors is not statistically significant and hence we fail to find statistical support for hypothesis 3. As highlighted by Wang and Clift (2009), such outcome may be due to very few women directors in the test sample.

For directors' human and social capital, Table 6 shows both the board's education level, the directors who have professional qualification and the politically linked directors have significant positive effect on bank efficiency. These results are consistent with Gropper (1991), Ooi et al. (2015), Wincent et al. (2010) and Wincent et al. (2014) which all found that human capital diversity on board could enhance the performance or innovation of firms. The overall effect also indicates the human capital construction level and positive role of China's listed commercial banks has made great progress during this

Table 5 GMM Results on Board Diversity for Director Profile

	(1)	(2)	(3)
Constant	95.4940*** (0.0000)	93.7724*** (0.0000)	94.1076*** (0.0000)
Bank size	1.6986*** (0.0001)	1.3758*** (0.0001)	1.3805*** (0.0001)
Leverage	0.5730*** (0.0040)	0.6080*** (0.0020)	0.5365*** (0.0070)
Profitability	3.5080*** (0.0001)	3.1458*** (0.0001)	3.2038*** (0.0001)
State Ownership	0.0299*** (0.0020)	0.0263*** (0.0060)	0.0235** (0.0130)
Foreign Ownership	0.0207 (0.1190)	-0.0291* (0.0680)	-0.0160 (0.2360)
CEO Remuneration	-0.0361 (0.7340)	-0.0563 (0.6110)	0.0054 (0.9600)
Board Size	0.1839** (0.0100)	0.2364*** (0.0001)	0.2116*** (0.0010)
Independent	0.1719*** (0.0020)		
Foreign		0.0123* (0.0848)	
Women			-0.0414 (0.1130)
R ²	0.3061	0.2947	0.3191
Year Dummies	Yes	Yes	Yes
AR (1) test	0.1543*** (0.0010)	0.0097* (0.0674)	-0.0085* (0.0976)
AR (2) test	0.3310 (0.1878)	0.2650 (0.2143)	0.0612 (0.2580)
Hansen Test	1.3485 (0.6867)	0.8743 (0.8980)	0.5250 (0.7624)

Note: Standard errors are in parentheses. ***significant at the 1% level, **significant at the 5% level, *significant at the 10% level.

Table 6 GMM Results on Board Diversity for Board's Background Capital Aspect

	(1)	(2)	(3)	(4)
Constant	99.2435*** (0.0000)	93.9402*** (0.0000)	85.8901*** (0.0000)	89.8940*** (0.0000)
Bank size	1.3766*** (0.0001)	1.4075*** (0.0001)	1.5133** (0.0100)	1.4075*** (0.0001)
Leverage	0.7033*** (0.0010)	0.6300*** (0.0020)	0.2621** (0.0257)	0.6300*** (0.0020)
Profitability	3.2478*** (0.0001)	3.5054*** (0.0000)	3.4280*** (0.0000)	3.5054*** (0.0001)
State Ownership	0.0189* (0.0570)	0.0257*** (0.0070)	0.0310*** (0.0010)	0.0257*** (0.0070)
Foreign Ownership	-0.0161 (0.2420)	-0.0176 (0.2090)	-0.0315 (0.2100)	-0.0176 (0.2090)
CEO Remuneration	-0.0012 (0.9910)	0.0186 (0.8640)	-0.0881 (0.4150)	-0.0186 (0.8640)
Board Size	0.2518*** (0.0001)	0.1914* (0.0522)	0.2166*** (0.0010)	0.1914* (0.0522)
Board Edu	1.7464*** (0.0062)			
Oversea Degree		0.2001 (0.1500)		
Professional			0.8886*** (0.0050)	
Political				0.1287* (0.0746)
R ²	0.3053	0.2952	0.2936	0.2952
Year Dummies	Yes	Yes	Yes	Yes
AR (1) test	1.1420** (0.0232)	0.1072* (0.0898)	0.6340*** (0.0010)	0.0833* (0.0669)
AR (2) test	1.8422 (0.6520)	0.3390 (0.5249)	0.5144 (0.3208)	0.2280 (0.4360)
Hansen Test	2.0340 (0.8410)	0.7622 (1.3020)	1.5473 (0.9630)	0.6600 (0.8762)

Note: Standard errors are in parentheses. ***significant at the 1% level, **significant at the 5% level, *significant at the 10% level.

Table 7 GMM Results on Board Diversity for Board Meeting and Attendance Rate Aspect

	(1)	(2)
Constant	93.6923*** (0.0000)	86.4136*** (0.0000)
Bank size	1.3963*** (0.0000)	1.3148*** (0.0000)
Leverage	0.6016*** (0.0030)	0.6214*** (0.0020)
Profitability	3.2368*** (0.0001)	3.3115*** (0.0001)
State Ownership	0.0263*** (0.0060)	0.0261*** (0.0050)
Foreign Ownership	-0.0233 (0.8400)	-0.0253 (0.5700)
CEO Remuneration	-0.0509 (0.6420)	-0.1292 (0.2390)
Board size	0.2263*** (0.0010)	0.2344*** (0.0001)
Board Meeting	0.0272 (0.4950)	
Attendance		0.0896*** (0.0010)
R^2	0.2906	0.3210
Year Dummies	Yes	Yes
AR(1) test	0.0084* (0.0442)	0.0802*** (0.0001)
AR(2) test	0.0447 (0.8720)	1.0325 (0.7700)
Hansen Test	0.1025 (0.9980)	0.2450 (0.9930)

Note: Standard errors are in parentheses. ***significant at the 1% level, **significant at the 5% level, *significant at the 10% level.

period, it has been effectively providing a variety of options to meet market needs and improve bank efficiency. Column (2) shows a positive relationship with bank efficiency but not significant. This result can be explained due to two reasons, first the knowledge or practical experience from other countries may not be suitable for China's financial market, second with the deepening of globalization, whatever the standards or regulatory requirements of China's financial industry have all gradually begun to integrate with the world. Therefore, the refined knowledge about the financial industry studied by Chinese students whether domestic or overseas is also converging. Finally, on politically linked directors, the estimate is statistically significant at 10 per cent, consistent with previous studies on China, including Chen et al. (2013), He et al. (2019) and Zhu and Xu (2015).

For board diligence, only the meeting attendance is statistically significant at 1 per cent, consistent with Ntim and Osei (2011), Oyerinde (2014) and Taghizadeh and Saremi (2013). This implies that if China's listed commercial banks pay more attention to directors' attendance rate instead of meeting frequency, it could effectively improve bank efficiency. Finally, Table 8 reports the estimations for the comprehensive model, and these estimates are rather consistent with all the other tables.

Table 8 Comprehensive GMM Results on Various Aspects of Board Influence on Bank Efficiency

	(1)
Constant	90.7192*** (0.0000)
Bank Size	0.08226** (0.0320)
Leverage	0.3191* (0.0740)
Profitability	3.9798*** (0.0000)
State Ownership	0.0260*** (0.0080)
Foreign Ownership	-0.0118 (0.4660)
CEO Remuneration	-0.0655 (0.5610)
Board Size	0.2384** (0.0414)

Table 8 Continued

	(1)
Independent	0.0353** (0.0145)
Foreign	0.0005* (0.0997)
Women	-0.0372 (0.1080)
Political	0.1364* (0.0827)
Board Edu	1.4132*** (0.0094)
Oversea Edu	0.0016 (0.1750)
Professional	0.0826** (0.0140)
Board Meeting	0.0278 (0.4740)
Attendance	0.0758** (0.0470)
R^2	0.3683
Year Dummies	Yes
AR (1) test	1.0536** (0.0327)
AR (2) test	2.0622 (1.0452)
Hansen test	3.8900 (1.3270)

Note: Standard errors are in parentheses. ***significant at the 1% level, **significant at the 5% level, *significant at the 10% level.

5. Conclusion

In the context of the ongoing bank reform in China after the 2008 financial crisis, this paper examines the effect of corporate directorship and operating efficiency of China's listed commercial banks. We dealt with the three

dimensions of corporate directorship which include director profile, their social and human capital as well as their diligence. We collected data of 28 main listed commercial banks of China from 2010 to 2018. We use GMM estimators to address the concern of endogeneity. On director's profile, we found strong evidences that independent directors and foreign directors have significant positive relationship with bank efficiency, while for social and human capital, we found that directors that have higher education, professional qualifications and politically linked have positive significant impacts on bank efficiency. Finally, on diligence, we also found a positive significant relationship between board meeting attendance and bank efficiency.

Although corporate directorship may play an important role in bank governance, we show that only certain characteristics of directorship are influential for bank efficiency. While a sound corporate governance system is critical for China's banking industry to transform itself into a modern market-oriented financial group, among a series of reforms in the post crisis recovery years, some measures should be given priority. There is a need for the regulators to focus on improving a fair board environment to make sure that independent and foreign directors are highly qualified and have more voice in the meetings as well as joining the meeting. In short, this study shed light on the likely direction and effects of future board reforms. Although this study focused solely on the listed commercial banks in China, we believe our finding is also beneficial to other small commercial banks and listed firms in other sectors.

Notes

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