

ASIA MAIOR

The Journal of the Italian Think Tank on Asia
founded by Giorgio Borsa in 1989

Vol. XXV
2014

**Engaging China / Containing China:
Asia in 2014**

Edited by
Michelguglielmo Torri
and
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CONTENTS

- 9 MICHELGUGLIELMO TORRI: *Foreword: «Asia Maior» and its Asia*
- 15 FRANCESCA CONGIU: *China 2014: China and the Pivot to Asia*
- 43 GIULIO PUGLIESE: *Japan 2014: Between a China Question and a China Obsession*
- 99 MARCO MILANI – BARBARA ONNIS: *Penisola coreana 2014: «ombre» all'interno e «luci» all'esterno*
- 137 MARCO VALLINO: *Indonesia 2014: Joko Widodo e la sfida all'élite del «new order»*
- 151 STEFANO CALDIROLA: *Malaysia 2014: Reforms and challenges in the year of flight MH370*
- 171 NICOLA MOCCI: *Cambodia 2014: The continuation of the Hun Sen-Sam Rainsy political duel and the surge in social conflict*
- 193 VITALIANO CIVITANOVA: *Thailandia 2014: nascita di una dittatura nel nome del re*
- 207 PIERGIORGIO PESCALI: *Myanmar 2014: un processo di democratizzazione molto lento ma reale*
- 223 MARZIA CASOLARI: *Bangladesh 2014: old patterns, new trends*
- 241 MICHELGUGLIELMO TORRI – DIEGO MAIORANO: *India 2014: the annihilation of the congress party and the beginning of the Modi era*
- 323 ENRICA GARZILLI: *Nepal 2013-14: breaking the political impasse*
- 337 DANILA BERLOFFA: *Sri Lanka 2014: la continuazione del regime autoritario e la crescente insoddisfazione popolare*
- 369 MARCO CORSI: *Pakistan 2014: gli attacchi al governo di Sharif e le tensioni con i militari*
- 383 DIEGO ABENANTE: *Afghanistan 2014: political transition without democracy?*
- 401 MATTEO FUMAGALLI: *Kyrgyzstan 2014: The painful march towards the Eurasian Union as the lesser evil?*
- 415 FABRISSI VIELMINI: *Kazakhstan 2013-14: surviving internal difficulties, facing external challenges*
- 449 FABIO INDEO: *Turkmenistan 2014: security concerns and unfulfilled diversification of export energy routes*

REVIEWS

- 461 PAOLO PUDDINU (a cura di): *Un viaggiatore italiano in Borneo nel 1873, Il Giornale Particolare di Giacomo Bove (Parte I), Regione Piemonte, Provincia di Asti, Astigrafica 2014; PAOLO PUDDINU (a cura di): Un viaggiatore italiano in Giappone nel 1873, Il Giornale Particolare di Giacomo Bove (Parte II), Ieoka, Sassari, 1999 (Nicola Mocchi)*

- 465 GUPTA AKHIL: *Red Tape: Bureaucracy, Structural Violence and Poverty in India*, Durham, NC: Duke University Press 2012 (Sara Bonfanti)
- 468 TADD FERNÉE: *Enlightenment and Violence. Modernity and Nation-Making*, New Delhi: Sage Publications India, 2014, pp. LXVII/386 (Anadi Mishra)
- 472 *Decolonization and the Struggle for National Liberation in India (1909-1971). Historical, Political, Economic and Architectural Aspects/* edited by Thierry Di Costanzo and Guillaume Ducœur. Frankfurt am Main, Berlin, Bern, Bruxelles, New York, Oxford, Wien: Peter Lang, 2014 (Marzia Casolari)

Francesca Congiu

University of Cagliari
francesca_congiu@hotmail.com

1. *Introduction*

Differently from the approach used in the previous essays on China in *Asia Maior*, concerned especially with domestic politics, we have chosen here to privilege some aspects of China-US relations in order to investigate Chinese domestic politics and political economy through such a prism. The reasons for this preference lie mostly in the growing centrality this relation has acquired in the international geo-political and geo-economic context as well as in regional contexts.

In the history of the two countries' relations, China always represented a main pillar in what a part of literature close to the *International Political Economy* and the history of international geo-economic relations has defined as the United States' long-term project of a capitalistic world order.¹ At the turn of the 1900s, China already represented a very high potential market, strongly limited by a powerful and authoritarian state. With the advent of the communist government in 1949, that market became a lost opportunity. Only after about 30 years of frozen relations, was that pillar regained since 1979, that is, since the recovery of US-China diplomatic relations. Nevertheless, the US free trade project continued to face Chinese barriers and to look for the best strategies to break them down.

In 2014, the relationship was marked by a substantial economic interdependence and by serious tensions at both economic and political levels. In a regional context already marked by maritime disputes (in the South and East China Sea) – which were still giving rise to high military tensions among the countries of the area – the United States gave new life to their *Pivot to Asia* while China pursued an assertive approach both on the geo-economic and geo-political level. Both countries were carrying on those

¹ Leo Panitch, Sam Gindin, *The Making of Global Capitalism. The Political Economy of American Empire*, London, New York: Verso, 2012; Mark T. Berger, *The Battle for Asia. From Decolonization to Globalization*, London: Routledge, 2004; Massimo Galuppi, *Rivoluzione, controrivoluzione e politica di potenza in estremo oriente 1950-1975*, Napoli: L'Orientale, 2009; Joyce Kolko, Gabriel Kolko, *I limiti della potenza americana. Gli Stati Uniti nel mondo dal 1945 al 1954*, Torino: Einaudi, 1975.

foreign policy approaches that had already emerged in the previous five years.² There is no doubt the two approaches were self-perpetuating and it is not possible to establish a clear cause-effect connection between the two of them, unless we do not undertake very focused research. Nonetheless, the complexity of this relationship is well-mirrored in the then Deputy President Xi Jinping's words in February 2012 during a speech in Washington. Xi defined Sino-American relations as «a new type of major-power relations» (*xin xing daguo guanxi*). His aim was to re-balance a relationship where an emerging major power aimed for equal treatment while the other, still dominant, superpower tried to defend its position by maintaining the asymmetric relationship the former wanted to challenge.³ Xi Jinping's idea was fundamentally based on four key points: 1) mutual understanding and trust; 2) respect for each other's core interests; 3) cooperation for the benefit of both countries; 4) enhancement of cooperation and coordination in international affairs and global issues.⁴

The equal treatment issue also strongly emerged in the 2012 document by the then Deputy Minister of Foreign Affairs, Cui Tiankao (now Chinese Ambassador to the United States) and Pang Hanzhao. The document refers to a mutual equality which does not necessarily challenge the United States' position: «Equality does not mean China will sit with the United States on exactly the same status [...] Instead, either of the two countries should [...] regard the other as an equal partner of dialogue and cooperation, try to put itself in the other's shoes, accommodate the other's concerns in a reciprocal manner...».⁵ On the other hand, in a 2013 paper by Wang Yusheng (former Chinese Ambassador to the Asia Pacific Economic Cooperation Organization) the *Pivot to Asia* was perceived as an American attempt at maintaining its hegemony over China. According to Wang, the US did not accept not being able to interfere in China's internal affairs anymore. China was indeed becoming so powerful that it was able to effectively defend its territorial integrity and its sovereignty. For that reason, the US needed to «[...] 're-balance' so as to maintain their

² Francesca Congiu, 'La Cina sull'orlo di una crisi politica e internazionale. L'anno del 18° congresso del PCC', *Asia Maior 2012*; 'Dal G2 al Pivot to Asia. Le trasformazioni del rapporto Cina-Stati Uniti (2009-2012)', Francesca Congiu, Annamaria Baldussi, Barbara Onnis (Eds.), *Le trasformazioni della globalizzazione in Asia orientale: nuove polarizzazioni e nuove gerarchie*, Cagliari: Aipsa Edizioni, 2013.

³ Andrew J. Nathan, 'The «New Type of Major Power Relationship»: An Analysis of the American Response', *The 28th Asia-Pacific Roundtable*, 2-4 June 2014, Kuala Lumpur.

⁴ Xi Jinping, 'National Committee on United-States-China Relations', *Policy Speech*, Washington, 15 February 2012 (<https://www.youtube.com/watch?v=ioEzUQFFH0s>).

⁵ Cui Tiankai, Pang Hanzhao, 'China-US Relations in China's Overall Diplomacy in the New Era', *Ministry of Foreign Affairs of the People's Republic of China*, 20 July 2012, (http://www.fmprc.gov.cn/mfa_eng/wjlb_663304/zjzg_663340/bmdyys_664814/xwlb_664816/t953682.shtml).

absolute superiority». Interestingly, in his above mentioned analysis of Xi Jinping's definition, Andrew Nathan sees in the US' use of international law and in their pressure on China to respect those norms an instrument aimed at defending their present hegemonic position.⁶ In this regard, Wang Yusheng writes: «US leaders have repeatedly claimed that so long as China abides by international rules and act like a responsible large country, U.S.-China relations will get better, stable or even become partners. The question is: what are the 'international rules'? [...]».⁷

In a long interview with Steve Inskeep of National Public Radio on 28 May 2014, US President Barack Obama underlined again how important it was to respect international norms, with specific reference to maritime disputes in East Asia: «[...] what we [also] want is to be able to strengthen and constantly reinforce international norms because we believe, I believe, that America benefits when those norms are not only being upheld by us individually but where all countries buy in, where there is a sense that all of us benefit from some basic rules of the road. And China now as a rising power needs to be part of that responsibility of maintaining rules that maintain peace and security for a lot of countries». Later on, with regard to the countries involved in the disputes, he pointed out: «[...] China is going to be a dominant power in Asia, not the only one, but by virtue of its size and its wealth, it is going to be a great power in Asia. We respect that. And we're not interested in containing it because we are in any way intimidated by China; we're concerned about it because we don't want to see constant conflicts developing in a vital region of the world that also, you know, we depend on in terms of our economy being successful. You know, those are a lot of markets out there, we sell a lot of goods out there, and, you know, we don't want to see these conflagrations that can end up impeding, you know, our own interests».⁸

In 2014, the United States' intention to propose the so-called *Trans-Pacific Partnership Agreement* (TPP) as a «model agreement» for all free trade agreements emerged with greater strength than previous years. This proposal could be considered as a part of a strategy to attract and discipline China by engaging it in a macro-regional neoliberal dimension as originally planned since the early 1900s.

⁶ Andrew J. Nathan, *The «New Type of Major Power Relationship»*.

⁷ Wang Yusheng, *Is it Possible for China and the U.S. to Build a New type Major-Country Relationship?*, 'Chinese People Institute of Foreign Affairs', the 107th Issue Spring 2013 (<http://cpifa.org/en/q/listQuarterlyArticle.do?articleId=254>).

⁸ *Transcript And Audio: President Obama's Full National Public Radio Interview* (<http://www.npr.org/blogs/thetwo-way/2014/05/29/316475458/transcript-and-audio-president-obamas-full-npr-interview>).

2. *The «Trade Issue» in US-China Relations: the US Perspective*

Since US-China normalization, the extent of bilateral trade has significantly increased from \$2 billion in 1979 to \$562 billion in 2013. China has become the US' second biggest trading partner, third biggest export market and main source of imports. Besides, China was the leading foreign holder of American bonds, which amounted to about \$1 billion at the end of 2014.⁹

It is worth emphasizing that the incomparable growth of the Chinese economy was, from the perspective of *International Political Economy*, a transnational phenomenon of growing interdependence between the Chinese market and international corporations, leading to the deeper and deeper integration of China into a global economy dominated by US corporations. In the first ten years of the 2000s the US continued to dominate the strategic sectors of the global economy: the four biggest corporations in the fields of *hardware* and *software* technology, aerospace and military as well as oil production were American. And so were fourteen out of the sixteen biggest global corporations in the pharmaceutical and healthcare industry and services and nine out of ten corporations in the field of global financial services.¹⁰ Between 1995 and 2005, China received a massive flow of foreign direct investments, as it was a favourite destination in the subcontract supply chain of global production networks and about two thirds of its export growth can be attributed to the Chinese subcontractors of the American corporations.¹¹

According to the 2013 report of the American Chamber of Commerce in Shanghai, in spite of a GDP drop below 8%, China still represented a growing market with a lot of potential for American companies. In 2012, the United States exported goods to China for a total of \$111.8 billion, which is an increase of about 476% compared to 2001. According to the report, these exports led to the creation of about 544,000 jobs in 2012 and the extent of such exports could not but grow thanks to the progressive expansion of the middle class and, consequently, of consumption: «U.S. companies are well positioned and have an enormous opportunity to tap China's explosion of consumer growth capturing billions of dollars [...]».¹² The same potential was attributed to the services sector. American

⁹ Wayne M. Morrison, *China-US Trade Issues*, 'Congressional Research Service', 5 December 2014, p. 2 (<https://www.fas.org/sgp/crs/row/RL33536.pdf>).

¹⁰ Leo Panitch, Sam Gindin, *The Making of Global Capitalism*, pp. 283-300.

¹¹ Pan Chengxin, 'What is Chinese About Chinese Business? Locating the 'Rise of China' in Global Production Networks', *Journal of Contemporary Asia*, 18, 58, 2009, pp. 15-20.

¹² The American Chamber of Commerce in Shanghai, *Viewpoint. U.S. Competitiveness in China. Opportunities and Challenges in America's Fastest Growing Overseas Market*, Shanghai, 2013, p. 4 (http://www.amcham-shanghai.org/amchamportal/infovault_library/2013/viewpoint-2013-us-competitiveness.pdf).

pharmaceutical companies in particular took a special interest in the Chinese market. They foresaw that by 2017 this market would be second only to the American one, for a number of reasons: the extension of health insurance to 95% of the population; the middle class growth; the aging of the population. The Chamber of Commerce stated that the Chinese government policies were «creating a larger pool of prospective customers for US healthcare products and services».¹³

The trade deficit was still strongly in favour of China. In the first eight months of 2014 it increased 4.1% compared to the previous year to a total of \$216 billion.¹⁴ With regard to the investment sector, American official data reported the foreign direct investment flow from China to the United States to be greater than the inverse flow for the first time in 2014, while according to Chinese official data this overtaking had already happened a few years earlier.¹⁵

From the viewpoint of US business and politics, the major issue concerning US-China trade relations was the Chinese incomplete transition to a free trade economy. China's entry into the international neo-liberal system was thus unsatisfactory because of the pervasive role of the state. The Chinese economic system was still a hybrid model that was frequently defined as «state capitalism».¹⁶ The main targets of these critiques were the Chinese state-owned companies (SOEs). Chinese SOEs were considered extremely and unfairly competitive both in the Chinese domestic arena and in the global market. Furthermore, as a result of Obama's incentives on direct foreign investment inflows, more and more Chinese SOEs were active in the US domestic market and, as a matter of fact, constituted a direct threat to domestic enterprises.

The 2012 report by the US-China Economic and Security Review Commission (USCC) included a whole section on Chinese state-owned companies and their impact on the US economy. The report emphasized the contrast between privatization attempts over the course of the 1990s and the opposite trend which has been particularly evident since the beginning of the 2008 global recession. Therefore, in recent years Chinese SOEs were perceived more and more as political actors and strong and unfair global competitors.

The report mentions a 2011 speech by the then Secretary of State, Hillary Clinton, which well illustrates the official US viewpoint on China's economic system: «We confront a special set of strategic challenges from the growing wealth in state hands today. Governments are entering markets directly through their cash reserves, natural resources, and business

¹³ *Ibid.*, p. 10.

¹⁴ US and China Economic and Security Review Commission (USCC), *2014 Report to Congress*, November, 2014, p. 38.

¹⁵ *Ibid.*, p. 62; Morrison, *China-US Trade Issues*, p. 16.

¹⁶ *Ibid.*, p. 29.

they own and control and they are shaping these markets not just for profits, but to build and exercise power on behalf of the state». ¹⁷ Among the commission's several witnesses, Washington lawyer Timothy Brithbill stated that China «more than any other country has created massive state-owned and controlled national champions that will compete unfairly with private enterprises [...] the rise of state involvement in the global economic arena is a significant threat to pure free market system and the free flow of private capital». ¹⁸ Apparently, this system was to blame for a sort of Keynesian tendency: «State-owned companies may not be required by their government owners to pay taxes or dividends or even make profit if the primary goal of government owners is to provide employment [...]». ¹⁹ Furthermore, the Chinese political system, state interventionism and autocracy were all equally considered a comprehensive global threat to neo-liberalism and democracy: «State capitalism is the most formidable foe that liberal capitalism has faced so far [...]. Across much of the world, the state is trumping the market and autocracy is triumphing over democracy». ²⁰

The competitiveness of Chinese SOEs was regarded as unfair for a number of reasons: those companies had preferential access to Chinese national banks (low interest loans and debt forgiveness); they were easily allowed government grants; they bought land at a lower price than private companies; they had preferential access to and lower prices for raw materials; and they had preferential access to public procurement (China had not joined yet the World Trade Organization's Agreement on Government Procurement). Because of this, US corporations operating within China were left at a disadvantage. For instance, the public procurement sector was an exclusive territory of local companies, and strategic sectors like steel, telecommunications, oil and natural gas presented barriers to foreign investments. Basically, foreign goods, services and investments faced a general discrimination: «[...] there is typically no market of 1.3 billion [people] for American exports and firms operating within China; there is whatever the SOEs leave behind...[And] if considered strategic, an entire sector can be closed [to imports]». ²¹ The American Chamber of Commerce in Shanghai, for example, reported on the US pharmaceutical and healthcare industry. According to the 2013 report, China was trying to keep American companies out of its domestic market in many ways: with regard to medical devices, China required standards which were different from those recognized internationally; for what concerns drugs, many foreign treatments were not reimbursed and were thus

¹⁷ USCC, *2012 Report to Congress*, November, 2012, p. 47.

¹⁸ *Ibid.*, p. 57.

¹⁹ *Ibid.*, p. 59.

²⁰ 'The Visible Hand', *The Economist*, 21 January 2012.

²¹ USCC, *2012 Report to Congress*, p. 59.

not affordable to most of the population; clinics and hospitals could not hire highly qualified personnel unless they had a perfect knowledge of medical Chinese.²²

These difficulties were also stressed in the report presented at the Congress by USCC in 2014 as well as in the reports presented by the US Trade Representative (USTR) on China's compliances with WTO requirements. In particular in 2014, reference was made to an abuse of the Anti-Monopoly Law by Chinese authorities. This law had been introduced in 2007 and entered into force in 2008. However, it was in the year concerned that the representative institutions of the American as well as European business communities noticed an inappropriate use of it aimed at hindering foreign companies' economic operations and at creating favourable market conditions for Chinese competitors.²³ Among the investigated companies there were Microsoft and Mercedes-Benz.²⁴

A second fundamental reason for disagreement between the two countries, and a matter of concern for Obama's government, was the intellectual property rights issue and relatedly, the one on cyber security. According to American analysts, cyber space was one of the mechanisms used by China to steal industrial secrets, intellectual property rights, information technology and other sensitive information. In May 2014, the Federal US government took legal action for cyber espionage against a Chinese state actor: five members of the Chinese People's Liberation Army against which the US Department of Justice issued a 31-count indictment.²⁵

3. *China and the Pivot to Asia*

During 2014, the US continued its *Pivot to Asia*, in spite of unavoidably devoting its main attention both to the Islamic State and the Ukrainian Crisis. This project emerged in the framework of the historical maritime disputes among the countries of the area in the East and South China Sea, which had gained a new impetus since 2010. The main goal of the *Pivot* is to widen and fortify the United States' presence in Asia by strengthening established alliances with the countries of the region; negotiating for new economic and military agreements with potential allies; and strengthen-

²² The American Chamber of Commerce in Shanghai, *Viewpoint: U.S. Competitiveness in China*, pp. 10-11.

²³ USCC, *2014 Report to Congress*, pp. 59-63; US Trade Representative (USTR), *2013 Report to Congress on China's WTO Compliance, December 2013*, p. 2, (<https://ustr.gov/sites/default/files/2013-Report-to-Congress-China-WTO-Compliance.pdf>); Morrison, *China-US Trade Issues*, pp. 23-5.

²⁴ 'Multinationals Fret as China's Antimonopoly Probes Intensify', *Financial Times*, 6 August 2014.

²⁵ Morrison, *China-US Trade Issues*, p. 40.

ing multilateral initiatives.²⁶ The *Pivot* project had two main components, as in the best tradition of US foreign policy: the military and the economic factors.

3.1. *An overview of the military factor*

The *Pivot* called for a major shift of US military resources to the Asian region, for the expansion of defence alliances and for an increase in American defence industry exports together with a more radical circulation of US military training programmes. In particular, at the heart of the *Pivot* laid the decision to increase the presence of US Navy fleets in the Asia-Pacific area by 2020, concentrating more than half of naval resources in that area. This would have resulted, and in part already had, in a major increase of navy vessels, aircraft carriers, cruisers, destroyers, and littoral combat ships. Their presence was already substantial in Singapore. The project also included an increased presence of the Navy Task Force, in particular in Darwin, Australia. The presence – expected to reach 2500 units – had already gone from 200 marines in 2012 to 1150 in March 2014. Together with naval forces, the *Pivot* also called for an increase in the presence of the air force with fighters, jets, tankers, and bombers. Military bases hosting US forces were situated in the following countries: India, Thailand, Malaysia, Singapore, Indonesia, Australia, the Philippines, Japan, and South Korea.²⁷ In addition to these, there were countries generally collaborating with the US for the sake of regional military security (even at embryonic stages): Vietnam, Burma/Myanmar, New Zealand, and Taiwan.

In April 2014, during Obama's tour of four Asian countries (Japan, South Korea, Malaysia, and the Philippines), the United States and the Philippines signed a ten-year defence agreement, which reaffirmed the 1951 Mutual Defense Treaty.²⁸ In Japan, Obama made a public commitment to support Japan's administration of the Senkaku islands (Diaoyu in Chinese), disputed between China and Japan in the East China Sea: such a declaration reassured Japan about the US' willingness to defend the islands in the event of a Chinese incursion. Likewise, military cooperation agreements with South Korea were also strengthened in defence against North Korea's nuclear threats. A new military base for both South Korean and American naval forces had already been established on the Jeju island at 500 km from China's coasts.²⁹

²⁶ Francesca Congiu, 'La Cina sull'orlo di una crisi politica e internazionale'; 'Dal G2 al Pivot to Asia'.

²⁷ Vince Scappatura, 'The US 'Pivot to Asia', the China Spectre and the Australian-American Alliance', *The Asia-Pacific Journal*, 12, 36, p. 3, 9 September 2014.

²⁸ 'Analyzing the US-Philippines Enhanced Defense Cooperation Agreement', *The Diplomat*, 2 May 2014.

²⁹ 'So long, and thanks for all the naval bases', *The Economist*, 28 April 2014; 'U.S.

Moreover, the US and Vietnam's defence cooperation was also significantly strengthened: almost forty years after the Vietnam War, the US announced they would lift their embargo on selling lethal arms to Vietnam with the clear intention to improve its maritime security.³⁰

On the Chinese side, the country's assertiveness on a strategic-military perspective had been clear since November 2013, especially on three occasions: the creation of an Air Defence Identification Zone in the East China Sea in the context of the dispute with Japan over the Senkaku/Diaoyu's islands (November 2013); the attempts to block the Philippines' supplies to its outpost (warship *Sierra Madre*) grounded on Second Thomas Shoal in the South China Sea (March 2014); and the placement of a drilling platform, which was removed sooner than planned, in the South China Sea waters disputed with Vietnam (May 2014). Ely Ratner, Senior Fellow and Deputy Director of the Asia Pacific Security Program at the Centre for New American Security interpreted China's actions as follows: «[...] China is changing the status quo in Asia because it wants and thinks it can. Xi Jinping is a confident and powerful leader [...] Mix in an economic slowdown and a healthy dose of nationalism and you have a recipe for revisionism».³¹

Air Defence Identification Zones (better known with the acronym ADIZ) are publicly-declared areas under state control for national security issues. They are established in international airspace adjacent to a state's national airspace, where any foreign aircraft is located and controlled. ADIZs are not clearly regulated by international law and cannot impose any legal obligation on other states and their aircraft. However, most states tend to accept requests by new zones. The Chinese Ministry of Defence announced the establishment of an ADIZ in the airspace over areas claimed by China, Japan and South Korea (Senkaku/Diaoyu islands) in November 2013.³² The spokesman for the Ministry of Defence explained the establishment by stating that: «[...] the Chinese government sets up the East China Sea Air Defence Identification Zone with the aim of safeguarding state sovereignty, territorial land and air security, and maintaining flight order. This is a necessary measure taken by China in exercising its self-defence right. It is not directed against any specific country or target [...]».³³ China's decision was followed by the Secretary

and Philippines Agree to a 10-Year Pact on the Use of Military Bases', *The New York Times*, 27 April 2014; Vince Scappatura, *The US 'Pivot to Asia'*.

³⁰ 'United States Lifts Vietnam Arms Embargo (With a Catch)', *The Diplomat*, 3 October 2014.

³¹ USCC, *2014 Report to Congress*, p. 239 and p. 245.

³² 'Defense Ministry Spokesperson on China's Air Defense Identification Zone', *Xinhua*, 3 December 2013.

³³ 'Defense Spokesman Yang Yujun's Response to Questions on the Establishment of The East China Sea Air Defense Identification Zone', *Ministry of National Defense*,

of State John Kerry's statement, describing China's action as a «unilateral action attempting to change the status quo in the East China Sea and thus to increase tensions in the region». Two B-52s were then sent over the claimed waters, ignoring the brand new ADIZ's rules.³⁴

A few months later, China attempted to block Philippine marines' resupply of the *Sierra Madre* located in disputed waters with the Philippines and placed an oil platform (*Haiyang Shiyou 981*) in waters also claimed by Vietnam. The latter action in particular caused Vietnam's strong reaction against China. The placement of the *Haiyang Shiyou 981* – owned by the China's state-run *China National Offshore Oil Corporation*, but placed by another state-run oil company, *China National Petroleum Corporation* – was considered illegal by Vietnam because it was placed within Vietnam's exclusive economic zone without its permission. The situation became even more serious after the collision between a Chinese coastguard vessel and a Vietnamese ship.³⁵ Again, China's action was defined by the US Department of State as «unilateral and provocative» and part of a Chinese attempt at undermining peace and stability in the region.³⁶ According to the 2014 report by the US-China Economic and Strategic Review Commission, the last case demonstrated how the People's Republic of China was using state-owned companies (oil companies in this case) to pursue political and strategic objectives.³⁷

3.2. *An overview of the economic factor: TPP and China*

In the course of 2014 negotiations on the agreement on free trade, services and investment in the macro-region of the Asia-Pacific, also known as TPP (*Trans-Pacific Partnership*), were going on. China was clearly more and more interested in joining it.³⁸ As already mentioned in previous *Asia Maior* volumes, the negotiations involved some APEC (Asia Pacific Economic Cooperation) countries: Brunei, Chile, New Zealand, Singapore, the United States, Australia, Peru, Vietnam, Malaysia, Mexico,

People's Republic of China, 23 November 2013 (http://eng.mod.gov.cn/Press/2013-11/23/content_4476151.htm).

³⁴ John Kerry, 'Statement on the East China Sea Air Defense Identification Zone', *US Department of State*, 23 November 2013 (<http://www.state.gov/secretary/remarks/2013/11/218013.htm>); 'U.S. Sends Two B-52 Bombers Into Air Zone Claimed by China', *The New York Times*, 26 November 2013.

³⁵ 'Vietnam says China's oil rig movement into South China Sea is «illegal», *Reuters*, 5 May 2014.

³⁶ U.S. Department of State, *Vietnam/China: Chinese Oil Rig Operations near the Parcel Islands*, 7 May 2014 (<http://www.state.gov/r/pa/prs/ps/2014/05/225750.htm>).

³⁷ USCC, *2014 Report to Congress*, p. 246.

³⁸ 'Will China Join the Trans-Pacific Partnership?', *The Diplomat*, 10 October 2014.

Canada, and Japan. Taiwan, South Korea, Thailand and the Philippines were also potentially interested. The initial draft originated in 2005 from a joint initiative by Brunei, Chile, New Zealand and Singapore. However, since their accession in 2008, the United States seemed to guide the negotiations.

The ultimate objective was to increase liberalization over the limits provided and regulated by the World Trade Organization (WTO) so as to dismantle all tariff as well as non-tariff barriers on the flow of goods, services and capitals. TPP should also have contained rules going beyond mere access to markets. Not only were they in the WTO's Uruguay Round agreements but they also represented the base of US free-trade agreements: protection of foreign investors' interests (anti-discrimination rules, expropriation rules and investor-state dispute settlement mechanisms); workers' rights; environmental protection; intellectual property rights; and financial markets rules, to name but a few.³⁹

The Indian economist Palit Amitendu interprets the recent bilateral and regional agreements but even more macro-regional agreements such as TPP or TTIP (*Trans-Atlantic Trade and Investment Partnership*), as clever defence mechanisms set up by a hegemonic West seriously challenged by large emerging markets. Amitendu states that emerging economies (such as China and India) – even though still far from being able to dominate global negotiations and to make their rules globally accepted – had the power to resist the global trade rules forged by Western countries on the base of their interests, making the WTO's liberalization mechanisms a dead letter.

TPP seemed to overcome such resistance, as it included matters which had been left unresolved by the WTO (norms on work, environment and intellectual property, to name but a few). Its composition, without China and India's input, seemed to reintroduce those conditions of economic hegemony which the US was losing at a global level. The dimensions of the US economy exceeded more than half the countries of the whole block: US economic output constituted 3/5 of the total output of the involved countries. This made the US regain the negotiating power it was losing mostly because of the growing Chinese and Indian competition. Within TPP negotiations, it enjoyed a stronger position than in the global context: it could use access to its market as a bargaining practice for pushing other economies to speed up the neo-liberal process. It goes without saying that the definition of TPP's terms, the conditions of negotiations, the regulation of trade and even of the political economy of each country, were modelled on the US global trade agenda, often at odds with the

³⁹ 'Pivot to the Pacific? The Obama Administration's «Rebalancing» Toward Asia', *Congressional Research Service*, 28 March 2012, p. 22 (<http://fas.org/sgp/crs/natsec/R42448.pdf>); 'Trans-Pacific Partnership: Time for Some American Hustle', *The Diplomat*, 11 March 2014.

trade interests and with the needs of emerging markets.⁴⁰ This is why the American accession to TPP in 2008, significantly coinciding with the beginning of the global economic crisis, can be considered the economic factor of the *Pivot*: «[...] The TPP's most important aims, [however], are strategic. A deal would solidify U.S. leadership in Asia and, together with the negotiations over a free trade pact in Europe, put the United States at the center of a great project: writing the rules that will govern the global economy for the next century...».⁴¹ We find the same strategic vision of the TPP in an essay by Michael Froman, US Trade Representative since 2013, entitled *The Strategic Logic of Trade*. In the essay, Froman identified the TPP as one of those strategic mechanisms aimed at re-balancing the global trade system, upset by emerging economies which were re-modeling the international stage. With reference to Obama's sentence «Just as the world changed, this architecture must change as well», Froman pointed out that rules needed to be updated and that the TPP represented an «unprecedented opportunity» to do so.⁴²

At the end of 2014, the agreement had not yet been finalized and many issues were still outstanding due to the concerns of involved countries and of the members of the US Congress as well. The latter, in particular, were puzzled by the fact that negotiations' documents were still being kept secret. Indeed, the Congress would not grant the US president the so-called «Fast-Track» authority to negotiate free trade agreements (also known as *Trade Promotion Authority*), which would have led to expedited and non-amendable legislative procedures. The outstanding issues included intellectual property rights, regulation of state-owned enterprises, liberalization of finance services, disciplines on agricultural production and export subsidies, and the textile industry.⁴³

The last TPP meeting in 2014 was held at the US Embassy in Beijing, on the margins of the APEC summit which took place from 8 to 10 November (the last meeting of ministers would then follow in December). From a diplomatic point of view, it was an occasion for the US government to explicitly stress its global leadership.

In the framework of the APEC summit and of one of its major scopes – the making of an integrated economic community in the Asia Pacific and the liberalization of trade and financial services – China put

⁴⁰ Palit Amitendu, *The Trans-Pacific Partnership, China and India: Economic and Political Implications*, Routledge, New York, 2014, pp. 1-10.

⁴¹ 'A Pivotal Time for the US and Asia', *The Washington Post*, 21 April 2014.

⁴² Michael Froman, 'The Strategic Logic of Trade. New Rules of the Road for the Global Market', *Foreign Affairs*, November-December 2014.

⁴³ Ian F. Fergusson, Mark A. McMinimy, Brock R. Williams, 'The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress', *Congressional Research Service*, 7 November 2014; 'The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress', *Congressional Research Service*, 30 January 2015.

even more emphasis than it had done before on the realization of the so-called FTAAP (*Free Trade Area of Asia-Pacific*). For a long time, regional economic integration had followed several pathways, including the TPP, the RCEP (*Regional Comprehensive Economic Partnership*, with negotiations guided by China and involving ASEAN countries, Japan, South Korea, India, Australia and New Zealand) and the FTAAP itself. None of them precluded the other; however, China's President Xi Jinping seemed to endorse the realization of the bigger and more inclusive FTAAP which involved all the twenty-one APEC members.⁴⁴ On the other hand, in his speech, Obama, while confirming that the FTAAP was to be the ultimate objective of the process, pointed out that the APEC members had chosen the TPP as one of the pathways to that objective; therefore, the TPP had to be given priority over the other pathways: «[] And I just met with several other members of the TPP who share my desire to make this agreement a reality, we're going to keep on working to get it done. For we believe that this is the model for trade in the 21st century». APEC's final statement, the *Beijing Agenda for an Integrated, Innovative and Interconnected Asia-Pacific*, mentioned the FTAAP as «a major instrument to further APEC's regional economic integration agenda».⁴⁵ The statement also set forth the need for a further two-year «collective strategic study» on the FTAAP, to report by the end of 2016.⁴⁶

Broadly speaking, in the 2014 APEC summit and in Obama's speech in particular, US references to China seemed to come from a hegemonic authority. Obama stated that «[] the one constant – the one global necessity – is and has been American leadership» and, almost in a patronizing tone, that: «We want China to do well». He also took the chance to reiterate the importance of a potential bilateral agreement on capital flow liberalization between the two countries.⁴⁷

The relationship between the economic *Pivot* and China was complicated. To summarize, in a way which does no justice to the complexity of facts, we could say that the US was setting the conditions for China's isolation – so that it could lose large portions of market share to the benefit of competitors from its own area, such as Vietnam or Malaysia – in order to achieve their ultimate goal: China's incorporation into the TPP and its adherence to much more binding rules than in the WTO, with significant

⁴⁴ 'Xi urges faster APEC talks on China-backed free trade area', *Reuters*, 11 November 2014; 'APEC roadmap on FTAAP a historic decision: Xi', *Xinhua*, 11 November 2014; 'Xi Jinping: FTAAP not against existing free trade arrangements', *APEC Press Release*, 12 November 2014.

⁴⁵ '2014 Leaders' Declaration', *APEC Meeting Papers*, Beijing, 11 November 2014.

⁴⁶ 'Remarks by President Obama at APEC CEO Summit', *The White House Press Release*, 10 November 2014; 'Trans-Pacific Partnership Leaders' Statement', *The White House Press Release*, 10 November 2014.

⁴⁷ 'Remarks by President Obama at APEC CEO Summit'.

effects on the internal regulation of its own political economy. However, all this would not be without consequences. According to Palit, China's accession to the TPP would have reduced the US' negotiating power and, from the inside, would have determined a necessary transformation of the agreement's perspectives and terms.

Several documents express the interest in China's incorporation into the TPP with the aim of regulating a situation which was detrimental to the US' economic interests. This is particularly clear in the 2012 USCC report in the above mentioned section on state-owned companies. The report states that, in order to press China to carry out a thorough reform of Chinese state-owned companies, Obama's administration had adopted the Organization for Economic Cooperation and Development's (OECD) principle of «competitive neutrality», and that such a principle was to be included in the TPP accession criteria, in the expectation that China would join: «While China is not a participant, the Obama Administration plans to invite China to join, providing that Beijing is willing to comply with the terms of the Trans-Pacific Partnership Agreement». The principle required state-owned companies to be ruled as private companies, so as to eliminate their competitive and unfair advantages.⁴⁸

In her works on the TPP, Jane Kelsey, professor of Law at the University of Auckland, suggests that it was the first time that the SOE's issue was part of the negotiations for a free-trade agreement and that the ultimate target was to lay the foundations for a new global set of rules applying to all free-trade agreements, including bilateral or multilateral negotiations with the People's Republic of China. In this respect, the author referred to a statement by Obama's spokesperson at the TPP leaders' meeting on the fringe of the APEC leaders' meeting in Honolulu in 2011: «[...] the President talked about establishing international norms that would be good for the United States, good for Asia, good for the international trading system – good for any country in dealing with issues like innovation and the discipline of state-owned enterprises, creating a competitive and level playing field».⁴⁹ She also pointed out that most of the TPP's rules on state-owned companies were still secret and that six trade associations were working on the text together with the American Chamber of Commerce. As pointed out by Michela Cerimele,⁵⁰ information on the treaty's text was made available by WikiLeaks, which, between 2013 and 2014, published the drafts of some chapters on intellectual property and environmental protection. At the end of 2014, no draft was available on state owned companies' discipline. According to Kelsey, the reform model was based

⁴⁸ USCC, *2012 Report to Congress*, p. 70.

⁴⁹ Jane Kelsey, 'The Trans-Pacific Partnership as a Lynchpin of US Anti-China Strategy', *Foreign Control Watchdog*, 128, 2011, p. 22.

⁵⁰ Michela Cerimele, 'Il 2013 vietnamita tra liberismo economico e autoritarismo politico: l'anno dei paradossi', *Asia Maior 2013*, pp. 303-328.

on models from Australia, New Zealand and the US. It was not a reform aimed at a rapid privatization; however, in order to pave the way for this last scope, the proposed rules would transform state owned companies into private corporations.⁵¹

As we will see in the next section, and as it is clear from the previous essay on China in the previous volume of *Asia Maior*,⁵² Beijing did not have a unanimous position on the TPP, as well as on the general guidelines for the domestic political economy. However, in the course of 2014, the Chinese government's official stance expressed deep interest on the agreement, provided that a fair trade environment was ensured and that the WTO's central role in a multilateral trade system was preserved. These were the key-points of a speech made by the Premier Li Keqiang, in Hainan, at the *Boao Forum* opening ceremony in April 2014. Besides declaring his interest in the TPP, he also stressed that the structural adjustments put forward by developed countries in the context of the economic crisis, had added uncertainty for developing countries. Furthermore, he reiterated the fundamental importance of solidarity in Asian regional economic integration in a joint effort to build a mutual support system for the emerging economies of the area. According to Li, one of the macro-regional agreements which could grant such an evolution was the RCEP because it was based on a purely Asian industrial, economic and social model.⁵³

The same interest in the TPP was shown in October 2014 by the Deputy Minister of Finance, Zhu Guangyao, in a talk at the Peterson Institute for International Economics in Washington. Zhu stated that China «understood» and «welcomed» the high standards of the TPP and that such a stance matched the economic goals of the structural internal reforms pushed through by Xi Jinping and confirmed in the statement of the Third Plenary Session of the 18th Chinese Communist Party Central Committee. As happened in the 1990s when the interest in joining the WTO had galvanized economic reforms under Jiang Zemin, in 2014 advocates for reforms believed that the possibility of joining the TPP would boost structural reforms, including SOEs' reform. In these official communications, international trade negotiations and internal economic reforms seemed thus to be strongly linked and complementary. Besides, Zhu reiterated China's commitment to a Bilateral Investment Treaty (BIT). How-

⁵¹ Jane Kelsey, *The Trans-Pacific Partnership as a Lynchpin of US Anti-China Strategy*, pp. 21-29; *The Risks of Disciplines on State-Owned Enterprises in the Proposed Trans-Pacific Partnership Agreement*, 'It's our Future', September 2013 (<http://www.itsourfuture.org.nz/wp-content/uploads/2013/09/Kelsey-TTP-SOE-paper.pdf>).

⁵² Francesca Congiu, «Due sistemi politici, un'economia»: autoritarismo cinese e democrazia taiwanese alle prese con il neoliberalismo', *Asia Maior 2013*, pp. 339-368.

⁵³ 'Full text of Li Keqiang's speech at opening ceremony of Boao Forum', *Xinhua*, 10 April 2014.

ever, he also underlined that the key question for the BIT as well as for the TPP was on «how high those standards would be». China was facing serious domestic challenges and was therefore forced to keep some key economic sectors off-limits to foreign and/or American investment.⁵⁴

3.3. China's «peripheral diplomacy» (*zhoubian waijiao*)

In an overview of the dynamics which linked the US *Pivot to Asia* and China, we should not omit a reflection on China's «peripheral diplomacy», which cannot be dealt with in a single section because of its wide, complex and deep-rooted developments in several fields and countries. Therefore, here we will only consider some issues that emerged between 2013 and 2014.

«Peripheral diplomacy» has been officially adopted by the People's Republic of China – with more emphasis than in the past, when China, however, already paid a great deal of attention to neighbouring countries – since October 2013. Between 24 and 25 October 2013, China's Communist Party organized the first *Work Forum on Chinese Diplomacy Toward the Periphery*. Such high-profiled and wide forums on foreign policy had not been held since 2006. All members of the Politburo Standing Committee, several authorities of the Central Committee, State Councillors, the Foreign Affairs' Working Leading Group, and some Chinese ambassadors took part in the forum. Basically, the Forum's official objective had been to improve Beijing's relations with neighbouring countries from different points of view: economic, political and cultural. These intentions had been already expressed at the 18th Party Congress in 2012 and reiterated on several occasions by the Foreign Minister, Wang Yi, who stated that relations with countries on China's periphery had become the «priority direction» for foreign policy.⁵⁵

At the Forum, Xi Jinping outlined the objectives and guidelines of such good neighbourhood foreign relations. Xi stressed the necessity to strengthen good neighbourhood relations and cooperation; he also stressed the importance of national sovereignty, security and development; and he reiterated the necessity to consolidate political and economic relations with countries on the periphery. To achieve such objectives, Xi provided the following guidelines: 1) enhancing political good will; 2) deepening regional economic integration; 3) increasing China's cultural soft-power; and 4) improving regional security cooperation.⁵⁶

⁵⁴ 'Will China Join the Trans-Pacific Partnership?', *The Diplomat*, 10 October 2014; 'UPDATE 1-China's Zhu: Asia-Pacific trade deal would be incomplete without Beijing', *Reuters*, 8 October 2014.

⁵⁵ 'Diplomacy Work Forum: Xi Steps Up Efforts to Shape a China-Centered Regional Order', *China Brief*, 13, 22, November 2013.

⁵⁶ *Ibid.*

Michael Swaine points out that in the framework of Xi's policy guidance the economic sphere was actually given a particular emphasis.⁵⁷

A number of PRC's foreign policy actions can be described as *zhoubian* diplomacy: these include of course the «Silk Road Economic Belt» and the «21st Century Maritime Silk Road». The public announcement of the two projects dates back to the end of 2013. The first project was started during President Xi Jinping's trip to Kazakhstan in September 2013. On that occasion, in a speech delivered at Nazarbayev University in Astana, Xi proposed the establishment of a new Silk Road along the old trade routes which could connect the coasts of North China and Europe through Central Asia and the Middle East, in a joint effort to enhance regional economic and cultural integration. For that purpose, representatives from 24 cities in China, from Georgia, Iran, Kazakhstan, Kyrgyzstan, Tajikistan, Turkey, and Turkmenistan signed an agreement to establish the Silk Road Economic Belt.⁵⁸ One month later, Xi introduced the «21st Century Maritime Silk Road», joining in a cooperative effort the maritime interests of China and ASEAN countries in particular, reaching to the Mediterranean Sea and the African coasts through the Indian Ocean. Among the implications connected to the establishment of these two commercial routes, there was the development of a variety of infrastructural projects shared by the nations involved: for the benefit of those countries, China launched the so-called *Asia Infrastructure Investment Bank*. The Memorandum of Understanding on the establishment of the bank was signed in October 2014 by 21 countries (Kuwait, Qatar, Oman, in West Asia; Kazakhstan and Uzbekistan, in Central Asia; Pakistan, India, Nepal, Sri Lanka and Bangladesh in South Asia; Burma/Myanmar, Thailand, Malaysia, Singapore, Cambodia, Laos, Brunei, the Philippines and Vietnam in South-east Asia, China and Mongolia in East Asia) and Beijing was chosen as its headquarters. The bank was expected to start its activity by the end of 2015. One month later, at the APEC meeting, Xi announced the establishment of a special fund to finance the «Silk Road Economic Belt» and the «21st Century Maritime Silk Road», with a \$40 billion initial contribution.⁵⁹

The *zhoubian waijiao* diplomacy was further enriched by two other actions which aimed at favouring the development of involved countries' rural zones, especially through the implementation of infrastructure

⁵⁷ Michael D. Swaine, 'Chinese Views and Commentary on Periphery Diplomacy', *China Leadership Monitor*, 44, Summer 2014 (<http://www.hoover.org/research/chinese-views-and-commentary-periphery-diplomacy>).

⁵⁸ USCC, *2014 Report to Congress*, p. 234; 'President Xi Jinping delivers speech at Nazarbayev University', *CCTV*, 8 September 2013 (<https://www.youtube.com/watch?v=dHkNzMjEv0Y>).

⁵⁹ 'China to Contribute \$40 Billion to Silk Road Fund', *The Wall Street Journal*, 8 November 2014.

projects such as: the Bangladesh-China-India-Myanmar economic corridor and the China-Pakistan economic corridor.⁶⁰

Those projects complemented the above mentioned plans of regional economic integration and liberalization (RCEP and FTAAP), and with other integration and liberalization regional contexts pursued by China: ASEAN + 1 (China); ASEAN + 3 (China, Japan and South Korea); the East Asian Summit; the bilateral negotiations with South Korea; and the trilateral negotiations, including Japan.⁶¹

Clearly, China's approach was well-rounded, to the point of making it problematic to define the boundaries of «peripheral diplomacy».⁶² We should not forget China's efforts to promote the international use of the *renminbi* for regional transactions on several levels and its contribution to the New Development Bank established in July 2014 by the BRICS countries (Brazil, Russia, India, China, South Africa). The bank was intended to finance infrastructure projects in developing countries and Shanghai was chosen as its headquarters. China contributed 41% of the initial contribution, which amounted to \$50 billion, thus gaining a significant negotiating and controlling power in this new international financial institution.⁶³

4. *Taiwan, Hong Kong and Beijing's attitude: the Sunflower Movement and the Umbrella Movement*

Beijing's stance in relation to Taiwan and Hong Kong had different historical features from its stance in relation to the overall regional context; however, it fitted well into regional economic integration projects.

During the last five years, in Taiwan a strong opposition movement has started against the integration projects guided by Beijing. In particular, between 2013 and 2014 the so-called «Sunflower» movement (*taiyanghua xieyun*) led to the occupation of the Parliament and the Central Government between March and April of the same year.⁶⁴ At the end of the year, the Sunflower Movement obtained an important political result: the Guomintang's (GMD) defeat in November's local elections and the victory of

⁶⁰ Li Keqiang, 'Report on the work of the government. Delivered at the Second Session of the Twelfth National People's Congress on March 5, 2014', *Xinhua*, 14 March 2014, §2 (http://news.xinhuanet.com/english/special/2014-03/14/c_133187027.htm).

⁶¹ 'China-Japan-South Korea Hold FTA Talks Despite Political Tension', *The Diplomat*, 5 March 2014; 'China says FTA with South Korea may be effective in 2015', *Reuters*, 17 November 2014.

⁶² Michael D. Swaine, *Chinese Views and Commentary on Periphery Diplomacy*.

⁶³ 'Brics Agree to Base Development Bank in Shanghai', *The Wall Street Journal*, 15 July 2014.

⁶⁴ Francesca Congiu, 'Due sistemi politici un'economia', pp. 356-364.

the independence party (Democratic Progressive Party – DPP). The GMD only won six out of the 22 local seats and, what was even worse, lost Taipei, after having governed it for 16 consecutive years.⁶⁵ The movement saw Hong Kong as a negative example of economic integration with China. It was argued that since the signing of the free trade agreement between the special administrative region of Hong Kong and the PRC (known as CEPA – Mainland Hong Kong Closer Economic Partnership Arrangement) in 2003, there had been an increase in Hong Kong's economic dependence on China, social-economic divide and the possibility for Beijing's government to influence the composition of the Hong Kong political arena.⁶⁶

The latter point was particularly clear in Hong Kong's political dynamics and it was basically at the root of the Umbrella Movement that emerged in mid-2014. If at the heart of the principle «One Country-Two Systems» there had always been the CPC's commitment to refrain from political intervention in the region, the CEPA provided an open and legitimate platform for a more intensive dialogue between the CPC and the region's political and business elites, so as to allow Beijing a more direct control over the local political system.⁶⁷

While Beijing has absolute authority in Mainland China, this is not the case with Hong Kong. Since 1997, the CPC has to comply with a multiparty political system and an active and independent civil society, which since the early 1990s has been organizing protests pushing for the democratization of the electoral system. The Hong Kong electoral system does not yet allow a direct election of the Chief Executive and Legislative Council. The *Basic Law* provided for the legal ground of such a democratic reform without establishing a fixed deadline. The main request of the so-called «Umbrella Movement», started in 2014 mainly by Hong Kong students, remained the call for universal suffrage.

Beijing's strategy towards Hong Kong has always been based on the construction of a political-economic axis. Since the early 1990s, the CPC has been co-opting Hong Kong's trade and financial corporations, thus giving rise to a loose pro-China political alliance, whose main expression was the 10,000 members strong Democratic Alliance for the Betterment of Hong Kong (DAB). Such corporations were also the main components of the Preparatory Committee set up in 1996, which then created the Electoral Committee, currently with 1,200 members. The distinctive feature of the Electoral Committee is its representative composition divided between geographical constituencies and functional constituencies. The latter represent professional interest groups, granting big commercial

⁶⁵ 'Why the KMT failed in Taiwan's local elections', *The Diplomat*, 9 December 2014.

⁶⁶ Samson Yuen, 'Under the Shadow of China', *China Perspectives*, 2, 2014, pp. 70-72.

⁶⁷ *Ibidem*.

and financial corporations a privileged position in the electoral arena, while allowing the CPC to control a large number of seats. The calls for universal suffrage aim at reforming such a system as it does not represent the majority of the population. Alongside a call for merely procedural democratic reforms, some see the need to resist the advance of China and its economic integration process, thus keeping a certain degree of business autonomy.⁶⁸

During protests in 2014, Beijing strengthened its bond with Hong Kong's business community through an intensive exchange of visits. In particular, Xi Jinping welcomed the larger Hong Kong delegation since the signing of the CEPA (2003). Among the 60 members of the delegation, there were the President of the Hong Kong Chamber of Commerce, the Chairman of the Federation of Hong Kong Industries, and Li Ka-shing, the richest businessman in the whole of Southeast Asia.⁶⁹

The strengthening of control over Hong Kong also took place on a more formal basis. In March 2014, in Li Keqiang's Work Report delivered to the National People's Congress, references to Hong Kong's special autonomy were removed. Not to mention the fact that in June, the State Council issued a White Paper on the «One Country-Two Systems' Principle», stating that the Hong Kong Special Administrative Region was under China's sovereignty and stressing the importance of a closer economic cooperation.⁷⁰

Finally, in August the National People's Congress took a decision on universal suffrage, prompting further protests. The decision provided for universal suffrage to be adopted in the 2017 Chief Executive elections, reaffirming, however, a hypothesis already partially made in 2007: the establishment of a nominating committee, with the task of nominating a shortlist of candidates by qualified majority voting. In choosing the candidates, the Committee should give priority to an effective and proved «love for the country».⁷¹

⁶⁸ 'Fight against universal suffrage is all about money', *South China Morning Post*, 27 February 2015.

⁶⁹ 'Xi reassures HK of stability', *China Daily*, 23 September 2014.

⁷⁰ Samson Yuen, 'Under the Shadow of China', *China Perspectives*, 2, 2014, p. 74; Full text: 'Chinese State Council white paper on 'One Country, Two Systems' policy in Hong Kong', *South China Morning Post*, 10 June 2014.

⁷¹ Francesca Congiu, 'Il partito alla ricerca di un compromesso. La «società armoniosa» nella Cina di Hu Jintao', *Asia Maior 2007*; Full text: 'NPC Standing Committee decision on Hong Kong 2017 election framework', *South China Morning Post*, 31 August 2014; 'Beijing to 2017 candidates: You don't have to love us - but you can't oppose us', *South China Morning Post*, 19 September 2014.

5. *Authoritarianism, economic reforms and rule of law*

On the domestic level, the situation reflected the same conditions and trends registered before 2014: high social conflict; authoritarian and repressive rule; an emphasis on the unity of the Party and on the rule of law; very gradual structural economic reforms.⁷²

Under the big cover of the «rule of law», in an institutional form, three main tendencies of Chinese politics seemed to melt together: economic liberalization, authoritarian means of control and repression, centralization of powers in a single person.

5.1. *Conflict and control*

In terms of social conflict, although it is very difficult to refer to reliable and updated figures, it will suffice to rely on the report by the Chinese Academy of Social Sciences on the year 2012, mentioned in the 2014 USCC report, to state that each year there were about 100,000 social protests.⁷³

No or low compensations for rural land expropriations, working conditions in factories, ethnic-religious issues, bad environmental conditions, and corruption, the latter seen as the primary cause of all other problems, were the main reasons for social protests.

For what concerns expropriation, a recent report by the World Bank states that, in China, compensation for land requisition was no more than 15-20% of the market price.⁷⁴ At the same time, labour protests, also in the wake of a greater awareness of labour rights resulting from the 2007-2008 Labour Contract Law, were a constant concern in industrial China. The main reasons for the several illegal strikes were low salaries, the demand for overdue payments and social security, factory closures and production reallocations, and bad working conditions. In April 2014, one of the largest strikes in the history of China's labour movement took place in Dongguan, against the Yue Yuen Industrial Holdings – the giant Taiwanese manufacturer of sport shoes and supplier of big brands such as Nike and Adidas. The protest involved about 40,000 workers and was organized by non-governmental labour rights organizations with little involvement of the official trade union. The

⁷² Francesca Congiu, 'Il ritorno dello stato centrale e le implicazioni per la politica interna e estera cinese', *Asia Maior 2011*; 'La Cina sull'orlo di una crisi politica e internazionale. L'anno del 18° congresso del PCC', *Asia Maior 2012*; '«Due sistemi politici un'economia»: autoritarismo cinese e democrazia taiwanese alle prese con il neoliberismo', *Asia Maior 2013*.

⁷³ USCC, *2014 Report to Congress*, p. 348.

⁷⁴ Shijin Liu, Jun Han, et al., *Urban China: Toward Efficient, Inclusive, and Sustainable Urbanization*, World Bank, June 2014, p. 27.

protests ended with the fulfilment of some requests, but also with the detention of the main organizers.⁷⁵

In the course of 2014, tension was also very high among ethnic minorities. Starting from October 2013 until September 2014, a series of violent episodes took place, officially or unofficially attributed to Uighur separatism. In October 2013, a car exploded in Tian'anmen Square; in March 2014, a group of knife-wielding people killed about 30 people; in April a bomb went off in a train station of Urumqi, in Xinjiang; the same thing happened one month later, in a market; in July, violent clashes between police forces and the local population took place in a Xinjiang county; finally, in September, a number of explosions occurred in one single day in different places in Bugur, in the Xinjiang province.⁷⁶

As it had been for a long time, the serious environmental situation, mainly attributed to local corruption, was another reason for several social protests. In early 2014, particularly violent protests took place in the city of Maoming in the Guangdong province, against the local government. The Maoming government had allowed some petrochemical companies to expand their projects for the production of paraxylene, a chemical extracted from petroleum, used in the manufacture of plastic bottles or polyester. The protests involved more than 10,000 people and were violently repressed by the local police.⁷⁷

Two further aspects fomented and increased social protests: on one hand, the increasingly significant growth of the middle class; on the other hand, the extreme proliferation of social networks' users among young Chinese. The enlarging of the middle class produced higher life education standards' expectation and also higher levels of education which could not find a good match in the domestic labour market in terms of adequate job offers. This led to high levels of unemployment and discontent among young graduates who usually canalized and organized their discontent throughout social networks.⁷⁸

Xi Jinping dealt with social conflicts by tightening social control. The political institutions dealing with internal security – namely the Ministry of Public Security and the police - were brought together with the military,

⁷⁵ 'Waging Nonviolence: A striking pose – labor resistance explodes in China', *China Labour Bulletin*, 2 May 2014.

⁷⁶ 'Chinese police hunt for two Xinjiang men after deadly Tiananmen car crash', *The Guardian*, 29 October 2013; 'Chinese court sentences three to death for railway station knife attacks', *The Guardian*, 12 September 2014; 'Urumqi car and bomb attack kills dozens', *The Guardian*, 22 May 2014; 'Dozens of Uyghurs Killed in Xinjiang clashes', *Asia Times*, 30 July 2014; 'China's Xinjiang region hit by series of explosions', *The Guardian*, 22 September 2014.

⁷⁷ Lee Kingsyhon, Ho Ming-sho, 'The Maoming anti-PX protest of 2014', *China Perspectives*, 3, 2014.

⁷⁸ Barry Naughton, 'China's Economy: Complacency, Crisis, and the Challenge of Reform', *Daedalus*, 143, 2, Spring 2014, pp. 14-25.

in a newly formed and pervasive social control apparatus. For its part, the CPC Propaganda Department dealt with media censorship, supported by a specific Internet control organization, the Central Internet Security and Informatization Leading Group (*zhongyang wangluo anquan he xinxi hua lingdao xiaozu*). This working group had been created in February 2014 by Xi, who chaired it himself; a fact that witnesses to how destabilizing the Internet was perceived by the central leadership.⁷⁹

For three years in a row, from 2011 to 2013, the increases in the internal security budget exceeded those in national defence. In March 2014, the National People's Congress, differently from what had been the case in the previous years, did not make public the overall increase in the internal security budget. Of course, this by itself makes one suspect that it was indeed conspicuous.⁸⁰

Furthermore, Xi chaired the Central National Security Commission, the highest body in the whole apparatus for social control, also established by his administration.

However, the PRC's authoritarian regression was not the only strategy implemented by the Chinese leadership to face increasing social instability. A further instrument adopted by the government was the anti-corruption campaign. In last year's chapter on China in *Asia Maior*, the fight against corruption had already been defined as a «CPC political instrument»; a judgment which cannot but be confirmed by the 2014 political dynamics. The fight against corruption enthusiastically carried out by Xi, represented an instrument for political legitimacy as well as for the internal party stability. On the latter level, it was a way to hold the Party together under Xi Jinping's rule through the removal of members of rival political factions who did not adhere to Xi Jinping's line. The Party's unity was considered essential to maintain social stability. In December 2014, Zhou Yongkang, a leading member of the Party, holding important charges in both the national security apparatus and the state-run oil sector, was expelled from the Party and arrested on charges of corruption and disclosure of state secrets.⁸¹ Before Zhou's awaited expulsion, six high level officials were also expelled from the Party. Three of them belonged to the Central Committee: Li Dongsheng, Yang Jinshan (former Deputy Commander of the Army) and Jiang Jiemin (former executive of *China Petroleum Corporation*). The other three were alternate members: Wang Yongchun (former Vice-President of PetroChina), Li Chuncheng (former Party chief in the Sichuan province), and Wan Qingling (former

⁷⁹ 'Zhongyang wangluo anquan he xinxi hua lingdao xiaozu chengli: cong wangluo daguo mai xiang wangluo qiangguo', *Xinhua*, 27 February 2014.

⁸⁰ 'China withholds full domestic-security spending figure', *Reuters*, 5 March 2014.

⁸¹ 'Unity crucial to realising reform', *South China Morning Post*, 2 October 2014; 'Zhou Yongkang arrested, expelled from CPC', *Xinhua*, 6 December 2014.

Guangzhou Party secretary). As specified above, the main targets of this campaign were the leading exponents of the state companies' network, which adhered to a state-controlled approach to political economy.⁸²

5.2. *Economic reforms and rule of law*

Unlike the previous leadership generations which entrusted the prime minister in office with the leadership of political economy, Xi Jinping also took over the presidency of the so-called Reform Leading Small Group, constituted in 2013. However, at the end of 2014 Xi's structural reform plan was still at an embryonic stage.⁸³

One of the first among the very few reforms which, after having been set out in the 2013 Third Plenum Communiqué, were carried out in 2014 was the fiscal reform. In particular, the new rules provided for the taxation of multinationals' profits, even retroactively, thus prompting a number of investigative procedures against international tax avoidance.⁸⁴ At the same time, albeit gradually, the controversial reform of state-owned companies continued to be implemented, even if these were still the subject of an intense internal debate. The reform aimed at bringing about the introduction of private investments in and the opening to private shareholders of public sector firms, creating a «mixed-ownership». The main advances in this direction were achieved at a local level, especially in Shanghai, Chongqing and Guangdong. Shanghai's local government had already planned to open up about 60% of state-owned companies under its jurisdiction to private investments.⁸⁵ A similar reform plan, by way of pilot projects, also covered state-owned companies controlled by the central government operating in «strategic» sectors such as oil and pharmaceuticals, to name but a few.⁸⁶ The reform also provided for a set of rules which would make the scheme of state-owned companies much more similar to private ones, in line with international requirements, as specified above.⁸⁷ In 2014 the reform of the top executives' salaries and

⁸² Francesca Congiu, «Due sistemi politici un'economia», pp. 341-349; 'Anti-graft war has to be carried on', *China Daily*, 30 December 2014; Special Report: Fear and retribution in Xi's corruption purge, *Reuters*, 24 December 2014.

⁸³ Barry Naughton, 'It's all in the Execution: Struggling with the Reform Agenda', *China Leadership Monitor*, 45, 2014.

⁸⁴ 'China to prevent foreign companies from avoiding tax', *Xinhua*, 2 December 2014.

⁸⁵ 'China kicks-off second round of privatization', *Financial Times*, 10 August 2014; 'Over 20 Chinese provinces map out SOE mixed-ownership reforms', *Xinhua*, 31 December 2014.

⁸⁶ 'China state-owned firms chosen for reform plan', *The Wall Street Journal*, 15 July 2014.

⁸⁷ Barry Naughton, «Deepening Reform»: The Organization and the Emerging

extra-benefits in the state-owned companies was taken up and approved by the Politburo.⁸⁸

The conversion of the Chinese economic model in 2014 was a long and complex process. On one side, the government was making use of the anti-corruption campaigns to pave the way for liberal reforms and to break the control on the public sector by those political factions which opposed the government. On the other side, the government was trying to build a new model on solid legal bases. At the end of the year, at the Fourth Plenum of the 18th Party Congress, the rule of law issue (*yifa zhiguo* – «governing the country by law») and the importance of the respect for the Constitution became central in the domestic political debate, after having been put aside in 2012 and 2013. Before 2012, the official debate on the rule of law and on the constitutional values had indeed brought the emergence and strengthening of liberal movements among Chinese intellectuals, demanding deeper political liberalization. However, between 2012 and 2013, the central leadership rejected these requests and launched a vehement campaign against the «polluting» influence of Western values and for the consolidation of the Party unity.⁸⁹ Nonetheless, in 2014, the official debate on the rule of law was back. On 23 October 2014, the Party approved the so-called *Decision Concerning Some Major Questions in Comprehensively Moving The Country According To The Law Forward* (*zhonggong zhongyang guanyu quanmian tuijin yifa zhiguo ruogan wenti de jueding*), thus giving an immediate and great centrality in the reform plan to the restructuring of political institutions, a fact that was bound to trigger a process of formal and procedural emancipation from the Party.⁹⁰

In an official release, the Chinese news agency *Xinhua* underlined that the rule of law was the key to liberal economic reforms. Apparently, this specific plan of reforms was aimed primarily at reducing the Party's as well as the state's intervention in economic matters. These measures were considered a valid deterrent against corruption which was seen as essentially a consequence of the excessive economic power wielded by political officials. Furthermore, the rule of law would pave the way for the effective action of the market. In fact, according to *Xinhua*:

«Facing mounting downward pressure and a painful economic transition, promoting rule of law has raised high hopes of an orderly and effective market that might offer new dividends for the Chinese economy. This is especially true since almost all the pains currently

Strategy', *China Leadership Monitor*, 44, 2014.

⁸⁸ Barry Naughton, 'It's All in the Execution'.

⁸⁹ Francesca Congiu, 'Due sistemi politici un'economia', pp. 353-56.

⁹⁰ 'Zhonggong zhongyang guanyu quanmian tuijin yifa zhiguo ruogan wenti de jueding', *Xinhua*, 28 October 2014.

suffered by the Chinese economy – ranging from overcapacity, real estate bubbles, risks of local government debts and shadow banks, to restricted growth in non-public sectors and insufficient innovation – could find their roots in excessive administrative interference, corruption and unfair competition, all of which are the result of the lack of rule of law». ⁹¹

In fact, the *Decision Concerning Some Major Questions* state: «To ensure that the market play a decisive role in the allocation of resources and to give rein to the role of government even better, we must make protecting property rights, upholding contracts, unified markets, fair exchange, fair competition and effective supervision into basic orientations [...]». The text continues by stressing the need to protect both public and private forms of property rights. ⁹²

Nonetheless, the release continued: «past shadows of the ‘rule of man’ are not easily shaken off» both in the Party and in the state still tainted with that «obsolete ‘above-the-law’ privilege mentality». ⁹³ Ironically and paradoxically, Xi’s ruling methods seemed like a new institutionalized version of the old Mao and Deng’s charismatic and informal authoritarian leadership. Xi already seemed far away from the new collective and impersonal leadership model started by Jiang Zemin and masterfully continued by Hu Jintao. Xi was taking the party from a depersonalized political power and a collective leadership model to a strong and marked political centralization, legitimized by a process of legal institutionalization. After becoming Party Secretary and President of the People’s Republic of China, he immediately took over the presidency of the Central Military Commissions of both Party and state, unlike his predecessors. He also chaired several important «Small Leading Groups», on political economy, on Internet security, on foreign affairs. At the same time, the *Decision On Certain Major Questions In Comprehensively Moving The Country According To The Law Forward* basically put the Party above the law. In the Beijing political rhetoric, the Party’s rule – strengthened by a radical anti-corruption campaign and a self-discipline process promoted since 2013 – was not in conflict with the establishment of a rule of law, promoted, after all, by the Party itself: «Persisting in the leadership of the Chinese Communist Party. The leadership of the Party is the most essential trait of Socialism with Chinese characteristics, and is the most fundamental guarantee for Socialist rule of law [...]», stated the *Decision Concerning Some Major Questions*. ⁹⁴

⁹¹ ‘Xinhua Insight: CPC convenes first plenum on «rule of law» in reform, anti-graft drive’, *Xinhua*, 20 October 2014.

⁹² ‘Zhonggong zhongyang guanyu quanmian tuijin yifa zhiguo ruogan wenti de jueding’, cit., sez II, § 4.

⁹³ ‘Xinhua Insight’.

⁹⁴ ‘Zhonggong zhongyang guanyu quanmian tuijin yifa zhiguo ruogan wenti de jueding’, sez I.

Il presente capitolo analizza l'evoluzione politica ed economica della Cina nel corso del 2014 prendendo come punto di partenza alcuni aspetti delle relazioni Cina-Stati Uniti. È attraverso tale prisma che vengono lette la politica interna e le scelte di politica economica del governo di Xi Jinping.

Nel 2014 il rapporto tra i due paesi è stato contraddistinto da un'elevatissima interdipendenza economico-commerciale e da profonde lacerazioni sia sul piano economico sia su quello politico. In un contesto regionale già profondamente segnato dalle dispute marittime nel Mare Cinese Orientale e nel Mare Cinese Meridionale, gli Stati Uniti davano vigore al ridispiegamento della propria presenza nell'area Asia-Pacifico (il cosiddetto Pivot to Asia), mentre la Cina perseverava nel suo atteggiamento assertivo sul piano geo-economico e su quello geo-politico.

Da un punto di vista generale, il Pivot to Asia, in corso dal 2010, si è articolato nel rafforzamento delle alleanze già esistenti con i paesi dell'area, nel rinserrarsi dei rapporti economici e militari con nuovi e potenziali alleati, nel rafforzamento delle iniziative multilaterali. Sul piano militare, il Pivot ha trovato espressione nel ridispiegamento delle risorse militari americane nell'Asia-Pacifico, nell'espansione delle alleanze difensive, nell'aumento delle esportazioni di armi americane e nella diffusione dei programmi USA di addestramento militare. Sul piano economico, il Pivot ha trovato espressione nel tentativo di realizzare il Trans-Pacific Partnership Agreement (TPP - il partenariato trans-pacifico di libero scambio). Proprio nell'anno in questione, emergeva con più forza l'intenzione da parte degli Stati Uniti di proporre il TPP quale «accordo modello» per tutti gli altri accordi di libero scambio con il palese tentativo di attirarvi la Cina (facendole temere di rimanere isolata), al fine di incardinarla, disciplinandola, in una dimensione totalmente neoliberista.

Da parte cinese, l'assertività del paese sul piano strategico-militare nell'area regionale asiatica si era manifestata, a partire dal novembre 2013. Tuttavia, al tempo stesso, Pechino, attraverso la cosiddetta diplomazia periferica, aveva anche cercato di ampliare e di rafforzare la propria rete di collaborazioni e alleanze, in particolare attraverso la costituzione sia della «cintura economica della via della seta», sia della «via della seta marittima del 21° secolo». Correlato alla nascita delle due vie commerciali, vi era, inoltre, lo sviluppo di diversi progetti infrastrutturali condivisi fra i vari paesi attraverso i quali si articolavano le due.

