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FOREWORD

Reform, Opening and Adjustments: Issues in Chinese Public Policies and Foreign Relations

This third and final issue of Volume 1 of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* (2015) represents a collection of research articles covering some of the most pertinent aspects of the state and changes in the political economy and strategic relations of today's China.

Among the first five papers focusing on China's domestic political economy are Housi Cheng (程厚思), Qian Forrest Zhang (張謙) and John A. Donaldson's article on the impact of the Chinese government's reform and open-door (*gaige kaifang*, 改革開放) policy on the economic, social and political characteristics of the rural communities, Kwok Tong Soo (蘇國棟)'s on the policy debate over urban graduate unemployment in China and recent trend and nature of such unemployment, and Loo-See Beh (馬露絲)'s on the the implementation of public-private partnerships and the key challenges of managing them in China and Australia with the two countries' different stages of maturity in implementation framework.

Cheng, Zhang and Donaldson's article "On the social and political effects of opening in rural China", using three Chinese villages in the

Honghe Hani and Yi Autonomous Prefecture (紅河哈尼族彝族自治州) in the southeastern part of the southwestern province of Yunnan (雲南省) as case studies, explores the varied rural adjustments in response to the opening to the outside world during the present Chinese economic reform era. For instance, a village under study which is located adjacent to the prefecture capital of Mengzi (蒙自) responded to the opening, brought by the expansion of Mengzi from a medium-sized county town to an expansive prefecture capital due to the movement of the prefecture government there from the county of Gejiu (個舊), with a unique establishment of a shareholding company that controls the collective assets of the village and manages their commercial developments. On the contrary, the other two villages under study have responded to the opening in different ways – one involving agribusiness investment shifting mainly traditional subsistent family farming to corporate agriculture, and the other involving construction of new roadway which facilitated the implementation of government-led anti-poverty projects.

Moving from the rural to largely urban setting, in the next article in this journal issue, "Recent trends in graduate unemployment and higher education in China", Soo discusses the relationship between the expansion of the university sector in China and the rise in graduate unemployment. Proposing several possible explanations for graduate unemployment, and presenting data on the rapid expansion of the Chinese university system especially since the reform of 1999, Soo opines that this expansion might be an important cause of the rise in graduate unemployment. While government policies are already in place to address this problem, the author discusses some additional proposals for future reform of the system.

While Soo looks at the issues of education and unemployment, focusing on the broader provision of public goods is Beh's paper, "Managing across public-private partnerships: A review of implementation in China and Australia", which looks at public-private partnerships (PPPs), examining the development in mainland China and the Chinese Special Administrative Region of Hong Kong of this latest "new public management" of the provision of public infrastructure with a focus on services and/or outputs, juxtaposing it with Australian experience in the evolution of PPPs. Noting that PPPs may be a new initiative and still developing in mainland China, Beh suggests that China could benefit from PPP experiences in other countries in areas where the private sector has a proven track record in the successful delivery of assets and their ancillary service needs and even within China, the relatively better PPP governance in the Hong Kong Special Administrative Region. In short, she observes, there is a general need to explore what could be learned through global and local comparisons across all existing PPPs.

Two other papers here focus on China's strategic relations with foreign countries.

Beginning this collection of articles is Joseph Yu-shek Cheng (鄭宇碩) and Huangao Shi (史煥高)'s paper on China's resource diplomacy in Africa and the dilemma China faces amidst her distinct strategic and economic interests in the continent interfacing with the latter's overall domestic political and socioeconomic malaise and instability and the African political leaders' own political calculus when dealing with China. As presented in their engrossing article, "China's African policy – Increasing importance and active adjustments", Cheng and Shi's study is in-depth in analysis and expansive in scope, tracing the evolvement of Sino-African relations, and identifying the critical era-specific politico-economic factors in transition. In addition, the paper also brings forward a less emphasised area generally in studies on China's African policy – the Taiwan factor, and accords it the prominence it deserves.

Finally, in this collection's closing article Hasan Yaser Malik looks at the intense Sino-Indian politico-economic and diplomatic rivalry with particular reference to the playing field of the Eastern Himalayan region. His paper "Siliguri: A geopolitical manoeuvre corridor in the Eastern Himalayan region for China and India" approaches this critical subject by focusing on the strategically important but geopolitically volatile Siliguri Corrodor of the Indian West Bengal, located between Nepal, Bhutan, Bangladesh, and being gateway to India's Seven Sister States as well as in close proximity to China via the Chumbi Hills of the Eastern Himalayas.

This journal issue ends with a book review by Chang Le (常樂) on Yanqing Jiang's edited volume, *China: Trade, foreign direct investment, and development strategies* (2014).

This present issue of *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*, the third and final issue (December) of this year thus significantly completes the 2015 inaugural volume beginning with the April issue (Vol. 1, No. 1), followed by the special issue of Vol. 1, No. 2 (August), *Crossing the Chinese frontier: Nation, community, identity and demographic mobility*, that focuses on the interconnecting issues of population mobility, community formation and shifting ethnic identity as related to the transmuting notion of the Chinese nation amidst the context of increasingly intricate cross-border business and economic nexus and growing transnationalism. The present issue, Vol. 1, No. 3, hence brings the inaugural volume to a close by returning its focus onto some of the most critical areas of the state and changes in the political economy and strategic relations of today's mainland China which the journal began to explore in the first issue in April.

Before ending this foreword, we would like to thank all the contributing authors and the anonymous reviewers for their invaluable efforts in making the publication of the three issues of this inaugural volume possible. We are also grateful to Mr Zhang Yemo (張夜墨) and Mr Chang Le (常樂) for their crucial assistance in proof-reading, and to both Miss Fiona Gill and Miss Chien-yi Wu (吳千宜), who took over from Fiona during the preparation of the August issue, for the journal's website construction and maintenamce. The responsibility for any errors and inadequacies that remain in these issues of this inaugural volume is of course fully mine.

Dr Emile Kok-Kheng ***Yeoh***
Chief Editor
Contemporary Chinese Political Economy and
Strategic Relations: An International Journal

Dr Emile Kok-Kheng Yeoh (楊國慶), editor of the triannual academic journal *Contemporary Chinese Political Economy and Strategic Relations: An International Journal* published by the Institute of China and Asia-Pacific Studies of Taiwan's National Sun Yat-sen University, is an Associate Professor at the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, Malaysia. He holds a PhD on ethnopolitics in socioeconomic development from the University of Bradford, West Yorkshire, England (1998), was the director of the Institute of China Studies, University of Malaya, from 13th March 2008 to 1st January 2014, the founder and editor of the institute's then top-tier Scopus-indexed triannual academic journal, the *International Journal of China Studies* (Vol. 1, 2010 – Vol. 5, 2014), and is currently a member of the international editorial committee of several journals in Asia and Latin America. His latest research projects include the Malaysian Ministry of Higher Education/University of Malaya High-Impact Research (HIR) Grant project "The China Model: Implications of the contemporary rise of China" (2013-2016, principal investigator) at the Department of Administrative Studies and Politics, Faculty of Economics and Administration, University of Malaya; Suntory Foundation/University of Tokyo international research grant project "Beyond 'China threat theory': Dialogue with China experts on the rise of China" (2014-2015, Malaysian component) and University of Malaya UMRG project "Public sector leadership and performance" (2014-2015, co-researcher). *<Website: http://emileyeo5.wix.com/emileyeoh / Email: yeohkk@um.edu.my, emileyeo@gmail.com>*

Articles

Contemporary Chinese Political Economy and Strategic Relations: An International Journal Vol. 1, No. 3, December 2015, pp. 551-608

China's African Policy – Increasing Importance and Active Adjustments[+]

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Abstract

As China's economy continues to grow, it wants to expand its markets and secure reliable supplies of resources in support of its economic development. Resource diplomacy therefore becomes a prominent feature of its modernization diplomacy. In turn, many African countries perceive political and economic ties with China an important asset which strengthens their international bargaining power, especially vis-á-vis the Western countries. African countries are also depicted as China's reliable political and economic partners. Chinese leaders have no intention of engaging in diplomatic and strategic competition with the United States and the European Union in Africa, but they certainly will not cooperate with Western governments in helping Africa because they want to push for multipolarity. China's approach to Africa has come under criticisms of neo-colonialism; and in recent years serious adjustments have been implemented. It is expected that Africa's significance within the Chinese foreign policy framework will continue to grow.

Keywords: *foreign aid, Taiwan issue, human rights, oil/resource diplomacy, Forum on China-Africa Cooperation, foreign policy adjustments*

JEL classification: *F21, F35, F53, F59*

1. Introduction

Africa has been seen as probably the most important part of the Third World in the Chinese leadership's world view. Despite occasional major encounters such as the Tanzania-Zambia railway project in the late 1960s, China's contacts with and influence on Africa remained limited until the twenty-first century in view of its constraints in resources and power projection capability (Larkin, 1971: 1-14).

Chinese leaders pursue a "major power diplomacy" today based on the assumption that China is a major power and should be accorded the status and influence of one. China's impressive economic growth also involves an expansion of trade and investment activities, as well as efforts to ensure a reliable supply of resources in support of its development. Africa therefore is no longer an element of the abstract "Third World" concept in China's diplomacy; it has become a significant political ally in international organizations, as well as an increasingly important trade partner and supplier of energy and other resources. In this context, China and Egypt established a strategic cooperation relationship facing the twenty-first century in 1999; and China established a strategic partnership with South Africa in 2004 and Nigeria in 2005 (Policy Research Department, Ministry of Foreign Affairs, PRC, 2005: 107 and 222).

Traditionally, the Ministry of Foreign Affairs (MFA) of the People's Republic of China (PRC) covers Africa by the West Asia and North

Africa Department and the African Department. The former mainly deals with the Arab world, while the latter, sub-Saharan Africa. This article examines China's African policy in the post-Cold War era from a continental perspective. It reviews briefly China's African policy in the past decades, analyses China's political and economic interests in Africa, and considers the opportunities and challenges in Sino-African relations at this stage.

2. China's African Policy in Retrospect

The Bandung Conference in 1955 placed Africa firmly in the "intermediate zone" between the socialist camp and the imperialist camp in Mao Zedong's world view and strategic considerations, with internationalism and world revolution being the main themes. This initial contact was followed by a period of ideological radicalism in the context of the Sino-Soviet split, the Vietnamese War and China's isolation in international affairs as well as the Cultural Revolution in the domestic scene. The commitment to build the Tanzania-Zambia railway costing more than US$450 million was made at the height of the Cultural Revolution (Yu, 1980: 170-72). Pragmatic considerations gradually entered into the picture in the 1970s, and became predominant in the 1980s (Lin, 1989).

A major issue of contention between the Communist Party of China (CPC) and other communist parties in the period of China's ideological radicalism was whether or not any Third World country, irrespective of its politico-social system, should be accepted as part of the main force against imperialism and hegemonism. The Chinese leaders' position was that the nature of the Third World countries' politico-social systems could not alter the fundamental contradiction between the Third World on one hand and imperialism and hegemonism on the other. They also presented a three-stage revolutionary process in the Third World as summarized by the following slogan: countries want independence, nations want liberation and people want revolution. All Third World countries should, therefore, be included in the anti-imperialist united front; and, in the struggle against imperialism and hegemonism, people's political consciousness would be raised and revolutionary forces would grow. Since revolution could not be exported, the success of revolution would be determined by the accumulation and expansion of revolutionary forces and the domestic conditions within each individual country.

In many ways, China in the Maoist era was probably the major power that was most forthcoming in supporting the Third World's demands. China was the only aid donor in the world whose foreign aid often went to countries with a higher per capita gross national product (GNP) than its own (Lin, 1996). Strengthening its distinction from the two superpowers while fully realizing its limited military and economic capabilities, China's support for non-alignment and neutrality served its purpose well. In the field of arms control and disarmament, China's declaration neither to be the first to use nuclear weapons, nor to use them against non-nuclear countries certainly won support in the Third World (Cheng, 1989: 190-94).

In the late 1960s and 1970s, a serious controversy in China's African policy was which national liberation movements to support. In those years, Chairman Mao Zedong certainly considered that Soviet social-imperialism was more dangerous than United States imperialism; and this consideration guided the Chinese leadership's choices of national liberation movements for support. In South Africa, for example, Beijing supported the Pan Africanist Congress (of Azania) against the African National Congress during the political struggles of Nelson Mandela. In Mozambique, it backed the Mozambique Revolutionary

Committee against the Liberation Front of Mozambique. In Angola, China supported the National Front for the Liberation of Angola (which was also supported by the United States Central Intelligence Agency and the South African apartheid regime) against the Popular Movement for the Liberation of Angola – Party of Labour. Unfortunately, the Chinese leadership backed the wrong horses in all three cases; and the Chinese position generated considerable resentment in many independent African countries as well.

Regarding foreign aid, China in 1977 offered US$1,500 million to 49 countries. After the termination of aid to Vietnam and Albania in 1978, China's foreign aid had probably been reduced by more than one third. The post-Mao leadership would not like to see foreign aid drain too much resources away from China's Four Modernizations programme. Though China's foreign aid was maintained at a much lower level, its terms were generally much more favourable than those of other aid donors; in this way, it was still welcomed by the Third World because of its demonstration effect. After all, China was not able to compete with the major aid donors in terms of the amount of aid provided.

In the 1980s, China devoted considerable attention to South-South cooperation, and this emphasis on cooperation helped to cover the Chinese reduction in foreign aid. In his tour of Africa at the end of 1982 and the beginning of 1983, the then Premier Zhao Ziyang put forward four principles on strengthening South-South cooperation, namely, equality and mutual benefit, stress on practical results, diversity in form and attainment of common progress (*Beijing Review*, 24 January 1983: 19). This was in sharp contrast to Zhou Enlai's eight principles on Chinese foreign aid enunciated nineteen years ago during his African tour; Zhou's principles practically guaranteed that Chinese aid would be the most generous in the world. China had been firmly supporting the establishment of a New International Economic Order since the 1970s; in the 1980s, however, it became more specific in its proposals. Moreover, it became quite active in supporting the United Nations (UN) and its specialized agencies in organizing projects, seminars, and so on, for the benefit of the developing countries. Premier Zhao's African tour and his later trip to South America in October and November 1985 obviously demonstrated the Chinese leaders' efforts to cultivate important areas of the Third World which hitherto had been much neglected (Mu, 1985: 4).

China's foreign aid to Africa in the 1980-1992 period largely stayed at the same level. Meanwhile, China's gross domestic product more than doubled, and its annual trade grew from US$4.4 billion in 1981 to US$10.3 billion in 1988 (Taylor, 1998). Philip Snow observed that China's retreat from aid commitments to Africa was camouflaged by the rhetoric of South-South cooperation, while the African countries concerned were expected to contribute to the maintenance of many of the aid projects (Snow, 1994: 306). While China itself began to receive foreign aid from Japan and some Western European countries from 1979 onwards, Africa's strategic value in the 1980s was more and more rhetorical in nature as the Chinese leadership could not see much economic significance in a remote and impoverished continent (Harding, 1984: 184).

The post-Mao leaders in theory affirmed the Third World's important role, but in the actual implementation of their foreign policy, their focus had been on the handling of China's relations with the two superpowers and the developed countries. This, in fact, was the case throughout the 1970s, though such trends became more conspicuous in the pursuit of their modernization diplomacy. Taking a long-term view, the progress of a global socialist revolution could not rely too much on the exploitation of the contradictions among the imperialist powers and the expansion of the anti-imperialist united front; these were but tactical measures in the short run. The long-term progress of a global socialist revolution ultimately had to rely on the accumulation and strengthening of revolutionary forces, and priorities among the components of the anti-imperialist united front had to be clearly defined. This was why the post-Mao leaders still emphasized the important role of the Third World from a theoretical, long-term point of view: the ultimate judgement as to whether or not their foreign policy line had violated the obligations of a socialist country had to depend on whether or not it had contributed to the accumulation and strengthening of revolutionary forces in the long run. This was the implicit ideological defence of Deng Xiaoping's foreign policy line, though it did not appear to be convincing in the eyes of the African countries.

The Tiananmen Incident in June 1989 altered the balance. The Political Bureau of the Communist Party of China (CPC) made the following observation after the Tiananmen Incident: China in the past had been too close to the West and the rich countries, and had neglected the Third World and the old friends in Africa. In the crucial moments, as had been demonstrated in the recent disturbance, it was the old friends and the Third World that had shown China sympathy and support. China therefore should strive to resume and develop relations with these old friends (Lo, 1989: 8).

Soon after the Tiananmen Incident, the then Chinese foreign minister, Qian Qichen, visited Africa in August and the Middle East in September (*South China Morning Post*, 9 September 1989). These visits were designed to raise China's international profile among Third World countries and reassure them of its renewed commitment. No dramatic results were achieved, but they symbolized a significant shift in Beijing's pro-Western tilt since 1978, which had been resented by many of China's Third World friends.

During Qian's visit of Africa, he noted at a press conference in Harare, capital of Zimbabwe, that of the 137 countries that had established diplomatic relations with China, only some 20 had reacted adversely to what had happened in China; the majority, including African countries, neighbouring Asian countries, Latin American countries, and socialist countries, considered it China's internal affairs and that other countries should not poke their noses into it (Chang, 1989: 10).

As China's comprehensive national power improved in the 1990s, the Chinese leadership expected China to be taken seriously as a "major power" and accorded its "rightful place" in the international community (Cheng and Zhang, 2002). Michael D. Swaine argued that China's foreign policy in the 1980s exploited "the development of common interests with most Third World (and especially Asian) states, to raise China's global stature and increase Beijing's bargaining leverage with the United States …" (Swaine, 1995: 87) In the post-Cold War era, the world was perceived as a unipolar one; and Chinese leaders wanted to contain United States hegemonism, as reflected by the then Premier Li Peng's comment in 1990: the Western countries should not be allowed "to interfere in the internal affairs of the developing countries, or pursue power politics in the name of 'human rights, freedom and democracy'". (Xinhua Domestic Service, 12 March 1990)

China's relations with the Third World were not without difficulties. Despite its claim of being a developing country belonging to the Third World, it was not even a member of the Group of 77 and the non-aligned movement. Partly because of its pledge not to become a superpower and probably because of its shortage of seasoned diplomats, China adopted a low profile regarding the leadership of the Third World and had, until the turn of the century, few initiatives and concrete proposals to offer.

In diplomatic competition with Taiwan, China sometimes encountered difficulties too. In the aftermath of the Tiananmen Incident, Taiwan hoped that the offer of generous economic aid and the international opposition to the bloody suppression of the Chinese students' pro-democracy movement would encourage some Third World countries to re-establish diplomatic relations with Taipei. The first breakthrough came in July 1989 when Grenada announced the establishment of diplomatic relations with Taipei while trying to maintain formal ties with Beijing. China responded by breaking off diplomatic relations with Grenada (*South China Morning Post*, 8 August 1989). Grenada was followed by Liberia and Belize (*South China Morning Post*, 11 and 14 October 1989), and Nigeria and Senegal were then considered to be the next targets potentially.

In the first decade or so after the Chinese leadership had adopted a development strategy of economic reforms and opening to the external world, with the open admittance of the failure of the Maoist development strategy, China could no longer claim to be an attractive model of socioeconomic progress offering a successful alternative to the Third World. China's economic development strategy became not unlike that of other developing countries in East and Southeast Asia; it was also competing with other Third World countries for aid and loans from international organizations such as the World Bank, and from the Western and Japanese governments. As China joined the Multi-Fibre Arrangement and began to negotiate to participate in the General Agreement on Tariffs and Trade (and later the World Trade Organization), it also entered into hard bargaining for export quotas from the developed countries and into competition with the developing countries.

In this period, the impact of China's development on the African economy remained very limited. However, as the Chinese economy has been achieving respectable growth, China's economic ties with Africa have also been strengthening. Africa has been an important target in China's "resources diplomacy" in the two decades. When China, as a major power, assumes an increasing role in providing aid to the developing world, Africa naturally becomes a significant recipient, especially with regard to aid going to the least developed countries. In 2005, China began to offer tariff-free treatment to part of the imports from 25 least developed African countries. Altogether 16 African countries qualified as Chinese tourists' destinations then. China now engages in cooperation with Africa in environmental protection and population development; it has initiated a Young Volunteers Programme similar to the Peace Corps of the United States, and the first batch of volunteers had arrived at Ethiopia. Human resource development programmes have been one of Beijing's priority areas, and it claimed that more than 4,000 African participants received training in China in 2005. The Forum on China-Africa Cooperation (FOCAC) just held a summit meeting and its third ministerial meeting in Beijing in the same year.

The first ministerial meeting of FOCAC was held in Beijing in 2000 at the initiative of the then Chinese President Jiang Zemin. In contrast with the previous Third World meetings which were heavily political in orientation, this forum was business in nature with the Chinese Minister of Foreign Trade and Economic Cooperation (now Minister of Commerce) Shi Guangsheng as the honorary president. The forum focussed on the following two topics: how to push ahead with the establishment of a new international political and economic order that is fair and just in the new century; and how to promote Sino-African economic and trade cooperation (Anon., 2002). The second ministerial meeting of FOCAC took place in Addis Ababa, Ethiopia, in 2003. It had mainly concentrated on the implementation of the Beijing Declaration and the programme for China-Africa cooperation in economic and social development. It was noteworthy that a China-Africa business conference was held during this forum to facilitate exchanges among entrepreneurs, and between entrepreneurs and officials (Anon., 2003). The third ministerial meeting of FOCAC was held in Beijing in November 2006 followed by a summit meeting; and the fourth ministerial meeting moved to Sharm el-sheikh in Egypt in November 2009. The fifth ministerial meeting took place in Beijing in July 2012, while the following meeting is scheduled to be held in South Africa in 2015.

At the international organization level, China is grateful for support from African countries on the issues of Taiwan's representation and China's human rights situation. On issues such as reform of the UN and negotiations at the World Trade Organization (WTO), China and Africa have a lot in common. China has become involved in a number of peacekeeping operations in Africa under the UN auspices including those in Congo (Kinshasa), Liberia, and Darfur in Sudan. At the end of 2005, Chinese personnel involved in peacekeeping operations in Africa numbered 843. Beijing offers the African Union grants for material and for specific peacekeeping operations, and China's ambassador to Ethiopia also serves as ambassador to the African Union. After the tsunami attack in the Indian Ocean in December 2004, China was involved in the disaster-relief operations in the affected African countries (Policy Research Department, Ministry of Foreign Affairs, PRC, 2006: 32-33). In March 2014, in response to the Ebola outbreak in West Africa, China claimed to be the first major country outside Africa to provide emergency aid, and its nine chartered flights were the first to arrive with aid materials. It also declined to withdraw its medical teams from Sierra Leone, Liberia and Guinea. Altogether China provided aid amounting to 750 million yuan[1], the largest aid project in its history in response to foreign public health crisis.

In September 2005, Chinese President Hu Jintao announced a package of aid measures in support of developing countries in a fund-raising conference of the UN: a) China would offer 39 least developed countries with diplomatic relations with China tariff-free treatment for most of their exports to China; b) China would expand its assistance for poor countries in heavy debts and the least developed countries; in the coming two years, it would, through bilateral channels, waive the remaining repayment of all their low-interest and interest-free governmental loans from China scheduled till the end of 2004; c) in the next three years, China would offer developing countries US$10 billion of preferential loans and preferential export buyer credits to support their infrastructural development and to promote bilateral joint ventures among enterprises; d) in the next three years, China would increase its medical assistance to developing countries, especially those in Africa, including pharmaceutical supplies in particular those against malaria, the establishment and improvement of medical facilities, and the training of medical personnel; these medical assistance programmes would rely on mechanisms such as FOCAC and bilateral channels; and e) in the next three years, China would provide various types of training to 30,000 people from developing countries, in support of their human resource development (Zhang *et al.*, 2006: 283). Apparently, Africa is the main beneficiary of these aid programmes, reflecting China's enhanced inputs to Sino-African ties.

As a symbolic gesture, since 1989, China's foreign minister visits African countries in his first foreign visit every year. In 2005, the Chinese Ministry of Foreign Affairs organized its first open day for the public on the theme of Africa to promote understanding of Africa and Sino-African relations. The year 2006 happened to be the fiftieth anniversary of the beginning of China's diplomatic relations with Africa; and on 12 January 2006, the Chinese government formally released a document on "China's African Policy". (Ministry of Foreign Affairs, 2006) This was the first document of its kind; and the Chinese assistant foreign minister, Liu Guozeng, then indicated that: "Our objective is to show the international community the importance China accords to Africa, and to demonstrate China's strong will to develop friendly relations with African countries."[2] (Zhang *et al.*, 2006: 284) The document is divided into six sections: Africa's position and role, China's relations with Africa, China's African policy, the enhancement of all-round cooperation between China and Africa, FOCAC and its follow-up actions, and China's relations with African regional organizations.

The document states that China will establish and develop a new type of strategic partnership with Africa, featuring political equality and mutual trust, economic win-win cooperation and cultural exchange. Several concrete measures were proposed to strengthen Sino-African economic cooperation, including a) the setting up of a China-Africa Joint Chamber of Commerce and Industry; b) the initiating of negotiations for free trade agreements with African countries and African regional organizations when conditions are ripe; c) the provision of preferential loans and buyer credits to encourage Chinese enterprises' investment and business in Africa; d) the conclusion of agreements on bilateral facilitation and protection of investment and agreements on avoidance of double taxation with African countries; e) agricultural cooperation in agricultural technology, training courses on practical agricultural technologies, experimental and demonstrative agricultural technology projects, and the formulation of a China-Africa Agricultural Cooperation Programme; f) cooperation in transportation, communications, water conservancy, electricity and other infrastructural projects; g) resource cooperation; h) human resource development through Beijing's African Human Resources Development Foundation in training African personnel, and its increase in the number of government scholarships to promote the exchange of students; i) science and technology cooperation; and j) medical and health cooperation.

Sino-African trade grew from less than US$10 million per annum in the 1950s to almost US$40 billion in 2005. In 2014, it exceeded US$200 billion and a target has been set at US$400 billion for 2020. In the past half a century, China offered about 800 aid projects to Africa, and Chinese enterprises contracted construction and labour service projects amounting to US$38.9 billion by October 2005. Mutual investment flows remained limited until recent years: China's investment in Africa was about US$1.075 billion by October 2005, and only a few African countries like South Africa had investment in China. But in 2014, China's investment in Africa almost reached US$30 billion, rising at an average annual rate of over 20 per cent in recent years. China has basically fulfilled its pledge made at the second ministerial meeting of FOCAC in December 2003 to offer training for 10,000 African personnel in 2004-2006, i.e., about 3,000 to 4,000 people per annum. Since China first dispatched its medical team to Algeria in 1963, Beijing claimed to have sent 14,000 medical personnel in various missions to 37 African countries up to the end of 2005. In 2013, China had sent altogether 18,000 medical personnel/times to Africa, providing treatment to 250 million patient/times[3]. (Zhang *et al.*, 2006: 284-85)

In the Beijing summit under the auspices of the third ministerial meeting of FOCAC in November 2006, the Chinese leadership made further offers of aid which amounted to US$10 billion. Such aid commitments have considerably enhanced China's influence in Africa in support of its strategic partnership with the continent; and as an aid donor, China can gradually compete with the United States and France. The pledges made by the Chinese government during the summit include: a) to double the amount of aid to Africa in 2006 by 2009; b) to offer US$3 billion of preferential loans and US$2 billion preferential export credits for purchasers to African countries in the following three years; c) to set up a China-Africa Development Fund expected to reach US$5 billion eventually to promote investment in Africa by Chinese enterprises; d) to build the African Union Convention Centre; e) to waive the repayment of interest-free government loans scheduled till the end of 2005 for all poor African countries in heavy debts and the least developed countries in Africa with formal diplomatic relations with China; f) to offer tariff-free treatment to more than 440 import items (formerly 190 items) to the least developed African countries with formal diplomatic relations with China as a gesture to open the China market to Africa; g) to establish three to five offshore economic and trade cooperation zones in African countries within three years; and h) to provide training for 15,000 Africans in three years, and to offer 300 million yuan for the prevention of malaria as well as the construction of medical, agricultural and educational facilities in Africa (*Ming Pao*, 5 November 2006). Obviously these pledges are further expansions of existing commitments. The summit also facilitated the conclusion of US$1.9 billion of contracts between African countries and Chinese enterprises (*Ming Pao*, 6 November 2006).

The fourth ministerial meeting of FOCAC in November 2009 maintained the momentum of strengthening Sino-African relations. Africa's significance in China's economic development increased considerably as China's development moved to the stage of emphasis on heavy industries and infrastructural projects. The global financial crisis in 2008-2009 slowed down the immediate expansion of Sino-African trade; but in view of the economic difficulties in the Western world, the relative importance of the bilateral economic ties probably further improved. In 2008, Sino-African trade grew from US$76.1 billion in the previous year to US$112.6 billion, then fell to US$97 billion in 2009 and rose back to US$128.5 billion in 2010; the share of this bilateral trade in

Africa's total trade, however, steadily increased from 9.22 per cent in 2007 to 10.67 per cent in 2008, 12.43 per cent in 2009 and 13.31 per cent in 2010. (Shinn and Eisenman, 2012: 381) When the then Vice-President Xi Jinping visited Pretoria, South Africa, in November 2010 on the tenth anniversary of the establishment of FOCAC, he indicated that China had become the leading trade partner of Africa the year before, and the latter had emerged as the fourth destination of China's overseas investment. It was also said that in recent years, China's contribution to Africa's economic growth exceeded 20 per cent.[4]

At the fifth ministerial meeting of FOCAC held in Beijing in July 2012, then President Hu Jintao pledged China's contribution to Africa's peaceful development in the five areas of investment and fund-provision, assistance, African integration, people-to-people exchanges and peace and security in Africa. In the following three years, China promised to offer African countries credit amounting to US$20 billion, with an emphasis on infrastructural facilities, agriculture, manufacturing industries and small and medium-sized enterprises, which would continue to be expanded; support for the establishment of agricultural technological demonstration centres would be improved; in terms of human resource development, China would provide training of various kinds for 30,000 people and 18,000 government scholarships, as well as assistance in the building of cultural,, vocational and technical training facilities; China would also send 1,500 medical personnel to Africa. Further, China and Africa would establish a cooperative partnership for building transnational and trans-regional infrastructural facilities and encourage China's enterprises and financial institutions to participate in the related projects. The Chinese authorities planned to initiate the "China-Africa People-to-People Friendly Action" programme; establish the "China-Africa News Exchange Centre" in China, and continue to implement the "China-Africa Joint Research Exchange Programme", offering funding for one hundred joint academic research projects between academic institutions and scholars from both sides. Finally, Beijing proposed the "China-Africa Peace and security Cooperative Partnership Initiative", including support for the Africa Union's peacekeeping efforts in the continent.[5]

When Premier Li Keqiang visited Africa in May 2014, he proposed six major cooperation projects and three major networks. The former included industries, finance, poverty alleviation, environmental protection, humanities exchange, and peace and security. The latter three networks covered roads and highways, railways and regional civil aviation.[6]

Chinese Foreign Minister Wang Yi visited Africa in January 2015. During his visit, he participated in the specific consultation on the peace progress in South Sudan which was proposed by Beijing, reflecting China's more active approach to Africa's peace and security. While in Nairobi, Kenya, he indicated China's commitment to the Mombasa-Nairobi railway as an early harvest of China's to the participation in the construction of a high-speed railway network linking African counties' capital cities. Partly in preparation for the sixth ministerial meeting of FOCAC later in the year, Wang discussed further China-Africa cooperation in a interview by China Central Television under three themes: convergence, transfer and upgrading. Convergence refers to that between the medium-and long-term development strategies of China and Africa. Transfer refers to the external transfer of China's surplus production capacity as well as equipment and technology in its stage of deepening economic transformation ad upgrading; Chinese leaders believe that this transfer meets Africa's needs. Finally, Wang expects that Sino-African cooperation will move from trade to industrial cooperation and technology transfer, and from traditional project contracts to investment and financial cooperation.[7]

3. China's Political Interests in Africa

Chinese leaders understand that it will take a long time for China to catch up with the most advanced developed countries in the world. Hence they will continue to strive to maintain a peaceful international environment to concentrate on economic development. In the first decade of this century, China's heavy industries enjoyed a higher growth rate than its light industries, and China had actually become a net exporter of steel, aluminium, auto parts and other machinery categories (Anderson, 2007: 18). However, as China's economy grows and as it moves to a higher concentration of heavy industries, it demands more raw materials and energy resources from abroad. China's expanding exports also call for new markets. From the first half of 2004 to the first half of 2007, China's monthly trade surplus jumped by nearly US$20 billion, of which only US$6 billion came from the United States (Anderson, 2007: 16). China's approach to Africa therefore has a strong "resource diplomacy" element. In some ways, China's position was similar to that of Japan in the 1973-74 oil crisis. In contrast to Japan, China certainly has much less trust in the United States and in the international market place dominated by multinational corporations based in Western countries.

China's impressive economic development enhances its "comprehensive national strength". Chinese foreign policy today adopts a considerably higher profile and the Chinese leadership engages in a "major power diplomacy" to strengthen China's influence in international affairs. Such efforts are part of its grand design to promote multipolarity. In the early summer of 2007, Beijing appointed a special envoy and began to exert some pressure on the government of Sudan to respond to the Western countries' demands (Holbrooke, 2007: A25). These two trends imply that China will be more involved in African affairs; it will seek recognition of its interests in the continent as a world power and will attempt to resist United States "unilateralism" in Africa. But China has no intention to confront the United States, including in its approach to Africa. In line with its support for European integration, it will promote African solidarity and the strengthening of the Africa Union (China Institutes of Contemporary International Relations, 2006: 193-214).

Chinese leaders realize China's limited power projection capabilities. They therefore attempt to establish and develop a loosely-organized multilateral forum at this stage to gradually enhance China's influence in the continent, as they believe that time is on China's side. It is expected that economic ties will strengthen, accompanied by increase in foreign aid from China, which will be designed to achieve maximum publicity and soft power impact in the long term with limited resources. Beijing is obviously interested in establishing a good image, and it will continue to articulate a pro-developing world position on African affairs. The Darfur crisis in Sudan is a typical example. The Chinese government insisted on reaching a solution through political and diplomatic means, discouraging major power intervention and respecting local/regional interests as far as possible. It is now more inclined to take part in UN peacekeeping operations and offer financial and other types of assistance for them. As China becomes more active in international organizations, it will see African countries as natural allies. Upon re-establishment of diplomatic relations with Chad in early August 2006, the establishment of diplomatic relations with Malawi in December 2007, and that with South Sudan in July 2011, China has been enjoying formal ties with 50 of the 54 African countries.

Many African governments respond positively to Beijing's appeal to unite together to withstand the pressures from imperialism and neo-colonialism. They resent Western countries' criticisms of their lack of democracy and human rights violations. They perceive such criticisms as the latter's attempt to interfere in their domestic affairs; and would support Beijing's position that "the right of survival" and "the right of development" should take precedence over human rights on an individual basis. The Chinese leadership probably considers that African support for China against the Western world's condemnation of China's human rights record and for its position to deny Taiwan representation in international organizations are important diplomatic achievements in its African policy.

The issue of human rights has been an area of contention in Sino-American relations, especially after the Tiananmen Incident. American presidents have been under substantial domestic pressure to condemn China's human rights violations in multilateral forums. On the part of the Chinese leadership, it perceives this as a matter of "face" or prestige, and treats the voting processes as competitions for support in the international community. The UN Commission on Human Rights (UNCHR) was a major battlefield, as reflected by the following comment of the former United States Assistant Secretary of State for Democracy, Human Rights and Labour, John Shattuck: "the UNCHR is probably the most important tool to condemn China's human rights violations."[8]

From 1990 to 2006, the United States and its allies initiated motions to condemn China's human rights violations relating to the Tiananmen Incident, the Tibet issue, the suppression of Falun Gong, etc. eleven times at the UNCHR annual conferences, and China typically countered with "no action" motions. China was able to avoid condemnation by the UNCHR every time through securing a majority support for its "no action" motions (the 1995 vote was a tie); and China owed its success much to the support of the African countries. The African Group delivered 120 supporting votes throughout these years, compared with 135 votes from the rest of the world. The annual ratio of African supporting votes to total supporting votes averaged 46.6 per cent, ranging from a low of 35.3 per cent to a high of 51.9 per cent. There were only 8 votes opposing the eleven "no action" motions from African countries, compared with 180 from the rest of the world. There were no opposing votes from Africa in the respective votes in 1992, 1993 and 2004.

Africa also figures prominently in the competition between Beijing and Taipei for diplomatic recognition. Since the PRC's entry into the UN in 1971, the number of countries recognizing the Republic of China (ROC) dropped from approximately 70 to about 22 in the early 1980s. Under such circumstances, Taiwan pursues its "pragmatic diplomacy" consisting of *de jure* recognition by a small number of countries and *de facto* economic and informal linkages with most countries of the world. Taiwan values its "international space" and its "pragmatic diplomacy" was said to be "like the sun, the air and the water for a person."[9] Taiwan was therefore ready to engage in "dollar diplomacy" to raise its international profile before the Ma Ying-jeou administration which began in 2008; and given its substantial foreign exchange reserves, it was able to induce a few small and poor African, Central American and South Pacific countries to establish formal diplomatic relations with it (Taylor, 1998; Anon., 1997).

The Chinese leadership treats the prevention of Taiwan's independence as a national goal of top priority, partly because it has been exploiting nationalism domestically to fill the ideological vacuum (Christensen, 1996). Isolating Taiwan internationally and defeating it in the diplomatic competition before the Ma Ying-jeou administration were therefore strongly linked to the Chinese leadership's exploitation of nationalism and its attempt to preserve/strengthen its legitimacy, hence the considerable resources spent in winning the diplomatic recognition of one or two small states in Africa, Central America and the South

Pacific. This competition has often been criticized by the overseas Chinese communities as meaningless and wasteful. When the Democratic Progressive Party was in opposition in Taiwan, it also criticized the Kuomintang regime for its "dollar diplomacy". But when it was in power from 2000 to 2008, it had not deviated from its predecessor's diplomatic practice (Payne and Veney, 2001).

The re-establishment of diplomatic relations between Chad and the PRC is a typical example. In 1972, Chad abandoned Taiwan to establish diplomatic relations with the PRC, following the wave of recognizing Beijing after the PRC's securing the UN membership in 1971. In August 1997, Taiwan was able to persuade the Chad government to change its mind and switch recognition back to the ROC. At that time, Chad needed investment to develop its oil resources and foreign aid to relieve it of its economic difficulties, and the government badly needed money to fight the rebel forces. Since 1997, the Chad government, which had seized power in an earlier military coup, had been squeezing money from Taipei which obviously felt the financial burden. Finally, the prospects of improving trade with and attracting investment from the PRC induced the Chad government to change its mind again in August 2006. Economic assistance from Beijing apparently was an important consideration too.[10]

Beijing's diplomatic victory was interpreted as a deliberate attempt to add insult to the Taiwanese government as the news was released on the eve of Premier Su Tseng-chang's formal visit to Chad. The head of Taipei's Mainland Affairs Council, Joseph Wu Jau-shieh, indicated that the plan for Chen Yunlin, director of the Taiwan Affairs Office of Beijing's State Council, to visit Taiwan would almost certainly be denied (*South China Morning Post*, 7 August 2006). This insult was also perceived to be not an isolated incident. Earlier in May 2006, Premier Su had to abandon a scheduled visit to Haiti as the president's special envoy to take part in the inauguration ceremony of the Haitian president because of pressure from Beijing. Observers noted that Su was considered a moderate within the Democratic Progressive Party, and his position on relations across the Taiwan Straits was said to be pragmatic. In 2002, when President Chen Shui-bian took up the position as chairman of the Democratic Progressive Party, the occasion was compromised by the news of Nauru establishing diplomatic relations with the PRC on the same day (*Ming Pao*, 7 August 2006).

Reflecting Beijing's increasing diplomatic clout based on China's impressive economic performance and the Chinese leadership's stepped-up efforts to further isolate Taiwan diplomatically, it was alarming to Taipei that Chad was the seventh country to switch diplomatic recognition to Beijing since Chen Shui-bian had become president in 2000, following Senegal, Liberia, Macedonia, Dominica, Vanuatu and Grenada. Earlier in the 1990s, Lesotho in 1994, Niger in 1996, Central African Republic and Guinea-Bissau in 1998 had switched their diplomatic recognition from Taipei to Beijing. There are now only four African countries maintaining formal diplomatic ties with the ROC, namely, Burkina Faso, Gambia, São Tomé and Príncipe, and Swaziland.

This diplomatic competition between Beijing and Taipei has been stopped in view of the considerable improvement in relations across the Taiwan Straits during the Ma Ying-jeou administration. Before this compromise, since 1993, Taipei had been actively promoting its re-entry into the UN; and beginning from 1997, it had been working hard to secure at least observer status at the World Health Organization (WHO). The African states maintaining diplomatic relations with Taiwan were key supporters in such diplomatic offensives; and Gambia often served as the lead sponsor of Taipei's application to re-join the UN under its official title ROC or its variants such as ROC on Taiwan and ROC (Taiwan).

After fourteen years of consecutive failures, the Chen Shui-bian administration announced in September 2006 that it would consider applying again the following year under the name of Taiwan. President Chen also revealed that, according to a recent public opinion survey, 79 per cent of the respondents supported the idea (*BBC Monitoring Asia Pacific – Political*, 13 September 2006). In view of the desperate situation of the Chen Shui-bian administration in its final years, it was considered possible that he might resort to radical acts such as a referendum on re-joining the UN in the name of Taiwan to divert attention. This provocative act, as seen by Beijing, would certainly have attracted retaliatory measures.[11]

Again, using the example of Chad, it might not be too difficult for Taiwan's "dollar diplomacy" to score. In 1995, total foreign aid commitments to Chad amounted to US$238.3 million, and Taipei won its diplomatic recognition by an offer of US$125 million in August 1997, over half of the total foreign aid commitments pledged to the country. In the same year, Taipei offered an aid package of US$30 million to win over São Tomé and Príncipe, exceeding 50 per cent of its total annual foreign aid commitments of US$57.3 million. Earlier in 1992, Taipei also succeeded in winning over Niger with a loan package of US$50 million. Since 1988, when Taipei much stepped up its "dollar diplomacy" and quietly accepted dual recognition of Beijing and Taipei, it managed to win diplomatic recognition from three states in the Caribbean, one in Central America, and eight in Africa before the end of 1996. But between 1994 and the end of 1998, four of these African states re-established diplomatic relations with Beijing, reflecting the severity of the diplomatic competition in Africa (Liu, 2001; Cheng, 1992; Taylor, 2002).[12]

When the provisional government of Liberia resumed diplomatic relations with the PRC in 1993, the Taiwan authorities refused to retreat.

Both Beijing and Taipei maintained embassies in Monrovia, capital of Liberia, from 1993 to 1997, creating the first "two Chinas" precedent. The dual recognition principle could not work because Beijing refused to accept it. Although Chinese leaders routinely denounced Taipei's "dollar diplomacy" as "bribery", they also offered financial rewards to consolidate Beijing's diplomatic ties with the African countries. For example, when Li Peng, the then chairman of the Standing Committee of the National People's Congress (NPC), visited Africa in 2001, the Chinese government offered US$24 million worth of grants and interest-free loans to Tanzania and a US$3.6 million grant to Zambia (Taylor, 2002). Beijing, according to Philip Snow, "routinely use[s] aid as an inducement to African governments which have established ties with Taiwan to switch their diplomatic allegiance, undertaking for good measure to finish off any project which Taiwanese technicians might have begun in the countries involved." (Snow, 1994: 297)

As mentioned above, when Chinese President Hu Jintao announced a package of aid measures in support of developing countries in a fund-raising conference of the UN in September 2005, he specifically excluded countries without formal diplomatic ties with the PRC. Hu was in fact following the precedent set by Jiang Zemin. In the first ministerial meeting of FOCAC hosted by Jiang in Beijing in 2000, he offered debt-waivers to the poor indebted African countries in the following two years amounting to US$1.2 billion. At that time, the then Chinese foreign minister Tang Jiaxuan made it clear that those countries maintaining official ties with Taiwan would be excluded. Nonetheless, Taipei's African friends were strongly encouraged by Beijing to join the forum. Two of them, Liberia and Malawi, did; and Liberia subsequently resumed diplomatic relations with the PRC in October 2003 (Liu, 2001).

The following event probably highlights a new aspect of Africa's significance in China's efforts to enhance its international status. The election of Margaret Chan Fung Fu-chun, a former Hong Kong health official, as the new director-general of WHO in November 2006 demonstrated the critical weight of the votes from African countries.[13] China in the recent decade is similar to Japan in the 1980s, and it would like to secure a fair share of the important positions of international organizations, partly as compensation for its contributions to the specific organizations and to the international community, and partly as a symbol of its rising international status and influence. African countries' support will be keenly sought in subsequent competitions for leading positions in the international civil service.

In the eyes of China's experts on Africa, the latter's strategic significance has been on the rise because of the issues of oil supply, anti-terrorism, poverty alleviation, United Nations reform, etc. Hence Western countries have demonstrated an increasing interest in the continent and a willingness to expand their inputs, at least when their resources allow. The British initiative of the "African Marshall Plan" launched during its hosting of the G-8 summit in July 2005 was a good example. The plan asked developed countries to double their aid to Africa, to set a timetable to realize their pledge of delivering 0.7 per cent of their respective gross domestic product for official development assistance, and to waive all debts of African countries heavily in debt (Anon., 2005). The United States, Japan, and many European countries all presented their respective new programmes of aid for Africa before the global financial crisis in 2008-2009. China's generous aid packages for the continent imply that it is ready to take part in the competition as a major power.

China's approach to Africa has been followed by some Asian countries, as Africa has been encouraged to "look East" to learn from the impressive East Asian economic development experiences. Since 2005, some African sub-regional organizations have established multilateral cooperation mechanisms with Malaysia, Japan, India, Vietnam, etc. In April 2005, South Africa and Indonesia co-hosted the Second Asian-African Summit in Jakarta, participated by over one hundred government leaders. The summit meeting also released a Declaration on the New Asian-African Strategic Partnership (China Institutes of Contemporary International Relations, 2006: 204). The initiatives of Japan and India have been reinforcing the Chinese efforts to cultivate Africa.

4. China's Economic Interests in Africa

As China embraces economic globalization and expands the reach of its trade and investment activities, Africa has emerged as its increasingly important economic partner. As indicated above, Sino-African trade exceeded US$200 billion in 2014; and China's accumulated investment in the continent amounted to close to US$30 billion in the same year. Since 1995, China has been establishing Investment, Development and Trade Promotion Centres in Africa.

China's economic interests in Africa have been based on these assumptions of the Chinese authorities. In the first place, Beijing believed that the macroeconomic situation in Africa began to turn around in the beginning of this century. The PRC embassy in Zimbabwe, for example, made the following observation in 2000: African countries had "adopted a set of active measures to push forward the pace of privatization, open up international trade and reform based on bilateral and multilateral trade agreements"; as a result, many African countries had improved their macroeconomic situation (Embassy of the People's Republic of China in Zimbabwe, 2000). Today, Africa has a gross GDP exceeding US$2 trillion and a population of 1 billion, with average annual economic growth rates of over 5 per cent in recent years.[14]

In contrast to the Maoist era's emphasis on Third World solidarity, China's economic ties with most African countries are based on objective evaluation of the perceived economic benefits. Li Peng's statement in Ghana in September 1997 that Africa was a "continent with great development potential and hope" genuinely reflected the Chinese authorities' confidence in its future economic progress (Agence France-Presse, 14 September 1997). A *China Daily* (9 January 1998) commentary asserted that "as more African countries improve political stability and make headway in economic growth, the continent will have more say in international affairs". China supports this development as it believes that it shares with Africa "identical and similar options on many major international affairs as well as common interests".[15] According to the International Monetary Fund, Africa achieved an economic turnaround in the middle of the last decade with an economic growth rate of 5.3 per cent in 2004 and 4.5 per cent in 2005. Its fiscal deficit of 0.2 per cent of GDP in 2004 transformed into a surplus of 0.6 per cent in the following year; and its current account surplus improved from 0.1 per cent of its GDP to 1.6 per cent in the same period. In 2005, Africa's exports rose 26.5 per cent, and imports, 19.5 per cent; while its total foreign debt declined from US$293.2 billion in 2004 to US$285.8 billion in 2005 (International Monetary Fund, 2005: 193-281).

Further, Chinese enterprises believe that China's export structure, with its strength in household electrical appliances, garments, and other household goods, meets Africans' demand as they are more concerned with prices and less with quality. Chinese enterprises have had much success in the Commonwealth of Independent States, Latin America and the Middle East already. Zhongxing Telecom Company (a leading Chinese telecom service provider), for example, has been spreading its outlets in Africa including being responsible for renovating the telephone network in Djibouti (Larfague, 2005). There is a view that the cheap Chinese mobile telephones may corner a substantial segment of the one billion-people African market. As in Europe and North America, enterprises from China make good use of the local Chinese communities in the French-speaking West African countries and in East Africa. Chinese populations are extremely small in the Maghreb countries,[16] but they are of a respectable size in Senegal, Kenya, Tanzania and later in Nigeria.

Finally, Africa is perceived by China as rich in natural resources, especially in oil, non-ferrous metals and fisheries. China's increasing demand for oil and raw materials has been the most important factor supporting the impressive expansion of Sino-African trade and the flow of investment funds from China to Africa since the beginning of this century. The oil trade especially has attracted much attention. In 1993, China became a net oil importer; and today it has to depend on imports to meet more than half of its oil consumption by 2010 (Troush, 1999: 2-4). According to the Energy Information Administration of the U.S. Department of Energy, China accounted for 40 per cent of the growth in global demand for oil from 2002 to 2004. In 2003, China surpassed Japan as the second largest oil importer, after the United States.

This demand explains the close ties between China and the oil-rich African countries such as Angola, Nigeria and Sudan in recent years. China's "resource diplomacy" means that it "has been able to adapt its foreign policy to its domestic development strategy" to an unprecedented level by encouraging state-controlled companies to conclude exploration and supply contracts with countries that produce oil, gas and other resources (Zweig and Bi, 2005).

In its initial years as an oil importer, China mainly depended on Asia and the Middle East. Since 1995, the Chinese authorities have been trying to reduce its dependence on the latter because of its potential political instability and China has limited influence in the region. This trend has been accelerating after the September 11 Incident (Pan, 2006); but the basic strategy has been diversification to reduce risks. Crude oil from the Middle East accounted for 53 per cent of China's imports in 1996; it dropped to 46.2 per cent in 1999 (Anon., 2000: 17). The high sulphur content of some Middle Eastern oil was a consideration too. At the end of the last century, China's short-term maximum daily refining capacity was estimated to be 4.35 million barrels of low-sulphur crude, 0.16 million barrels of medium-sulphur crude and 0.24 million barrels of high-sulphur crude (Anon., 1999: 25).

Russia, Central Asia and Africa are natural sources in China's diversification attempts. Africa's oil reserves represent 8.9 per cent of the world total, and it accounts for 11 per cent of the world production.[17] Algeria, Libya and Nigeria are among the eleven members of the Organization of Petroleum Exporting Countries (OPEC). In the eyes of the Chinese leadership, the six major oil companies in the Western countries[18] already control over 80 per cent of the world's quality oil and gas reserves. Africa remains an important source where China, as a latecomer, still has a chance to make some breakthroughs (Zhang *et al.*, 2006: 169). Moreover, the average production cost of African oil was about US$3.73 per barrel, roughly equivalent to that in the Middle East, in comparison with US$4.6 in Latin America, US$7.17 in Canada, US$8.29 in Europe, US$9 in China, and US$13.3 in the United States (Taylor, 2004: 93; Shu and Chen, 2004).

In 2004, Africa supplied 28.7 per cent of China's crude oil imports. This share was a result of many years of Beijing's diplomatic efforts. In his visit to Nigeria in 1997, then Chinese Premier Li Peng signed two oil exploration agreements for plots at the Chad River Basin and the delta of the Niger River. Then Chinese Foreign Minister Tang Jiaxuan went to Abuja in January 2000 to negotiate the purchase of Nigerian oil. China became involved in many projects in the country, including the restoration of the Nigerian railway network. In January 2004, then President Hu Jintao toured Egypt, Gabon and Algeria to increase China's oil suppliers. In Libreville, capital of Gabon, Hu concluded an agreement with then President Omar Bongo on the exploration and production of oil. The Total-Gabon Co. and the China Petroleum and Chemical Corporation (Sinopec) also signed a contract to export to China one million tons of crude oil in 2004 (Larfague, 2005).

The state-owned enterprises (SOEs) from China have been firmly supported by the Chinese authorities' offer of aid and various forms of development assistance in their search for resources. In the first ten months of 2005, these SOEs invested US$175 million in African countries, mainly in oil exploration and infrastructural projects. In January 2006, China National Offshore Oil Corporation (CNOOC) announced that it would acquire a 45 per cent stake in an offshore oilfield in Nigeria for US$2.27 billion. By then, China already had a significant economic presence in many African countries, especially Sudan. In 2005, 50 per cent of Sudan's oil exports went to China, which satisfied 5 per cent of China's oil needs (Pan, 2006).

Before 1992, Angola was the only energy supplier to China in Africa, and the volume of exports was not significant. From 1993 onwards, China increased its oil imports from Angola substantially; and it became the fourth oil supplier for China in that year.[19] In 1997, China National Petroleum Corporation (CNPC) entered into partnership with the Malaysian company Petronas and the Canadian firm Talisman to conclude an agreement with Sudapet, the state oil company of Sudan, to engage in oil exploration and production as well as the construction of pipelines from the Muglad basin in southern Sudan. This project, amounting to US$1 billion, was the first major investment of this type by a Chinese SOE in Africa (*Renmin Ribao*, 4 March 1997; Jiang, 2004).[20] In 2000, the Muglad field produced 2.4 million tons of crude oil, or 144,000 barrels a day. China received its share of 60,000 barrels a day, which amounted to 5 per cent of its oil imports and 50 per cent of its foreign production in that year (Downs, 2000: 53; Ruan, 2000; *Renmin Ribao*, 21 December 2000).

China's economic interests in Africa are not only limited to oil. Since the 1990s, there have been an increasing number of joint ventures and investment projects, as well as rapid trade expansion. From 1990 to 2005, Sino-African trade increased from US$665 million to US$39,740 million. Traditionally, China enjoyed a substantial surplus in the bilateral trade. However, because of Africa's rising oil exports, China experienced its first trade deficit in 2000; and in 2004 and 2005 as well. In 2006-2010, China enjoyed annual trade surpluses which amounted to US$1.55 billion in 2010, 8.3 per cent of the annual total trade. (Shinn and Eisenmen, 2012: 381)

China's increasing trade surpluses and foreign exchange reserves support China's investment overseas, which has been encouraged by the Chinese authorities' "going out" strategy. Such investment aims to ensure China's supply of energy and raw materials, and to expand China's market shares for its products and services. China's investment in Africa rose sharply from 2000 onwards which amounted to only US$ 500 million on a cumulative basis. At the end of 2005, there were 750 enterprises from China operating in 49 African countries. They were concentrated in the mining, telecom, fishing and timber sectors, but they had also been moving into sectors perceived to be less profitable and abandoned by the Western companies such as retail trade.

In July 2004, Jinchuan Group, China's largest nickel producer, indicated that it had established an office in Johannesburg in South Africa to acquire cobalt, copper, nickel and platinum from countries in southern Africa (Reuters, 14 December 2005). China National Machinery and Equipment Import and Export Corporation soon afterwards concluded an agreement with Gabon to exploit untapped iron ore at Belinga. According to the Gabon Minister of Mines, Energy, Oil and Hydraulic Resources, Richard Onouviet, the reserves in Belinga were at least one billion tons, 60 per cent of which was rich iron ore. Chinese companies had investment in Zambia where they were involved in a copper project. In South Africa, the China Iron and Steel Industry and Trade Group Company invested US$70 million in chromite mining and processing (*NewsAfrica*, n.d.). Other Chinese enterprises, like Shanghai Industrial, Hisense, Huawei and ZTE Corporation, have set up manufacturing facilities in Africa to produce electrical household appliances including refrigerators, washing machines and television sets.

Though China has been widely recognized as the second largest recipient of foreign direct investment (FDI) in the world, it has also been an increasingly important source of FDI too in view of its over US$3 trillion of foreign exchange reserves. In 2003, China was the fifth country of origin of FDI worldwide, after the United States, Germany, the United Kingdom and France. In 2005, China's total overseas investment amounted to US$12.26 billion, of which 52.6 per cent was in Latin America, 35.6 per cent in Asia, 4.2 per cent in Europe, 3.3 per cent in Africa, 2.6 per cent in North America and 1.7 per cent in Australia (Department of Foreign Economic Cooperation, Ministry of Commerce, PRC, 2006). The main recipients of Chinese investment in Africa at that time were Sudan, Algeria, Zambia, South Africa, Nigeria, Tanzania and Kenya.

To some extent, Africa has been investing in China too. SAB Miller, the world's second largest brewer, has acquired more than 30 breweries in China, and is competing vigorously with popular local brands like Tsingtao and Yanjing. South Africa invested US$72 million in establishing the Hongye Aluminum Plant in Inner Mongolia. Moreover, South African technologies are used in the Chinese government campaign to connect all villages to a radio and television transmission network.

Chinese investment in Africa, however, had generated resentment too. Chinese investors are often accused of discriminatory employment practices. Some of the more common complaints against Chinese firms in Africa include poor pay, lack of safety protection for workers in the textiles, copper and coal mining industries, and the use of short-term contracts. In 2004, the Zambian government asked the Chinese managers at Zambia-China Mulungushi Textiles in northern Kabwe to stop locking workers in the factories at night. In June 2006, the Zambian authorities shut down Collum Coal Mining Industries in southern Zambia, indicating that miners had been forced to work underground without safety clothing and boots. Union officials in Chambishi Mining, a copper producer in Zambia, complained that miners there were the lowest paid in the country's entire mining sector with the least paid earning US$100 a month, compared with US$424 in Konkola Copper Mines, the largest copper producer in Zambia. Chambishi Mining was sold to Chinese investors in 2003, and was the scene of violent workers' protests in July 2006.

Apart from mining joint ventures, Chinese enterprises have been active in infrastructural projects in Africa like the construction of roads and railways, and housing. The major difference in operating styles between the Chinese companies and their Western counterparts is that the former often bring their own labourers. The arrival of tens of thousands of Chinese workers naturally creates ill feelings in African countries with very high unemployment rates. There are complaints against the contracts concerned which normally require the successful bidders to contract only 30 per cent of their work to local companies. Typical examples are the road and railway rehabilitation projects in Angola funded by Chinese credit backed by oil exports to China.

There are many complaints regarding cheap Chinese products flooding the African continent, as they sometimes force local industries to close with severe job losses. In Lesotho, Chinese operators are licensed to operate only big retail shops or supermarkets, but locally owned grocery stores have largely disappeared. It was said that the local people had rented their shops to the Chinese because "they get a better profit from rent than from running the shops themselves".[21] Another report in 2008 along the same line indicated that over 170 textile enterprises in Nigeria had disappeared, and the industry was operating at about one fifth of its capacity with ten remaining enterprises employing about 18,000 workers. Textile and apparel products from China secured 80 per cent of the Nigerian market in 2010. (Akinrinade and Ogen, 2008:164-168; Shinn and Eisenman, 2012:305)

5. Opportunities and Challenges in Sino-African Relations

Africa's strategic value in China's national interests and global strategy has been re-assessed and fully appreciated by the Chinese leadership. The traditional solidarity as fellow Third World countries, China's rising international status and influence, the attraction of China's development experience, and the complementary economic and trade structures will likely contribute to closer Sino-African cooperation. But the Chinese leadership has to face serious challenges from changes within Africa and Western competition.

In the 1960s and 1970s, China's first-generation revolutionary leaders established highly symbolic friendship with their counterparts in Africa. Their similar historical experiences of struggles against imperialism and colonialism, as well as the common challenges of upholding state sovereignty against foreign intervention and economic development have contributed to a sense of solidarity among the Chinese and Africans. Some Chinese scholars observe that China and Africa have no historical disputes and only common interests (Kong, 2003). In the post-Cold war era, both China and Africa share the objective of establishing a more egalitarian and equitable international political and economic order. China is eager to enlist Africa's support for pushing for multipolarity in international relations; though there is not much enthusiasm among most African countries, they normally have no difficulty in sharing the Chinese position.

In more concrete terms, China's veto at the United Nations Security Council is a valuable asset often sought by African countries to counter sanctions from Western countries. China as a trade partner and source of investment have been enhancing African countries' bargaining power vis-á-vis the developed countries. China's demand for energy and raw materials has been a significant factor in driving up their prices in international markets which has been benefiting many African countries since the turn of the century. Some Chinese experts consider that China can be an important source of intermediate technology which is cost-effective and appropriate for the present stage of development of many African countries. China has yet to demonstrate that it can serve as a generous and effective source of technology transfer for Africa in household electrical appliance industries, textiles and apparel industries, infrastructure construction, and so on.

Official statements by Chinese leaders in recent years have demonstrated their awareness of the impact of Sino-African economic ties on employment in the continent. Chinese diplomats often emphasize that China's investment in Africa in the energy and raw materials sectors has been in decline in terms of relative importance; instead investment in the manufacturing sector has been on the increase. China's economic structure will eventually become more knowledge-intensive and less dependent on infrastructural development and heavy industries, following Japan's development path. At the same time, China's labour supply will become more limited because of the aging population and falling birth rates. These trends will push China to move its labour-intensive industries abroad. Africa is a natural destination not only because of its abundant labour supply, moving China's labour-intensive industries there will also be politically correct and help to remove a serious source of friction in their bilateral economic relationship. Moreover, China may be able to exploit the preferential market access offered to Africa by the European Union and the United States. In recent years, China has been developing special trade and economic cooperation zones in several African countries, including Nigeria, Ethiopia, and Zambia; as observed by Deborah Bräutigam, they allow African countries to "improve poor infrastructure … and weak institutions by focusing efforts on a limited geographical area". (Alessi and Xu, 2015:2)

In the 1970s when China established diplomatic relations with many African countries immediately after its entry into the United Nations, Beijing typically offered assistance in their agricultural sectors including the setting up of agricultural tool plants, sugar refineries, rice planting demonstration projects, and the sending of agricultural expert teams. Today establishing agricultural technological demonstration centres remains a common feature in China's aid programmes in African countries. The fist author of this article visited many fishing ports in Senegal in May 2015, and found that large portions of the fishes caught were wasted simply because of the inadequacy of refrigeration facilities. Hence financial resources and technological assistance from China can bring a win-win situation to many African countries in the agricultural and fishery sectors, provided respect is given to environmental protection to ensure sustainable development. Enterprises from China grow cassava, maize and sorghum in Zimbabwe, Madagascar and other

African countries as animal feed in China. Chinese technical assistance has facilitated the cultivation of cotton in Mozambique for exports to China. (Rotberg, 2014) Such investment and trade should contribute to sustainable economic development and raise incomes in the rural sector in Africa.

In a way, China has been learning from old colonial powers such as the United Kingdom and France in establishing networks through education, both by sending teachers to Africa and providing scholarships to African students to study in Chinese universities. From the mid-1950s to 2000, 5,582 African students had enrolled in tertiary institutions in China. These students typically spent two years learning the Chinese language, then pursued technical subjects, especially the engineering disciplines. At present, about half of the African students in China are studying for postgraduate degrees. It is hoped that these education exchanges will improve China's image in Africa, establish grassroots support in local communities, and cultivate networks and goodwill among the future elites. In the foreseeable future, these African talents are expected to contribute to the expansion of Sino-African economic ties in the high-tech fields. One example is China's space programme. As it develops, China needs to improve its space-tracking capability in the southern hemisphere. China now operates a space tracking station in Namibia, and South African ports of call provide support for China's space-tracking ships (Thompson, 2004).

To succeed in the cultivation of goodwill, the Chinese authorities have to work hard to ensure that African students in university campuses in China do not suffer from discrimination and racist attitudes from Chinese students and the local communities. Chinese university students often value the friendship of their counterparts from the developed countries more than that of classmates from Africa. Discipline of African students is occasionally a problem. In the past, there were protests against discrimination among the African students in China which were an embarrassment to the Chinese authorities.

While China's venture into Africa has attracted considerable attention in the Western media, the Chinese authorities anticipate keen competition from the leading Western countries and Asian countries like Japan, South Korea and India. The oil situation is a good illustration. In the recent decade, there are many reports on China trying hard to acquire oil in Africa. The experts in China, however, estimated in the middle of the previous decade that the six leading oil companies in the world (British Petroleum, Exxon-Mobil, Royal Dutch Shell, Total, Chevron and ConocoPhillips) controlled more than 80 per cent of the world's high-quality oil reserves, over 30 per cent of the world's industrial output value of petroleum products, more than a 50 per cent share of the oil technical services market, over 65 per cent of the international oil trade and direct investment in oil projects, as well as more than 80 per cent of the advanced technology in the oil and petrochemical sectors. In comparison, China controlled less than 4 per cent of the world's oil resources, and had been attempting to achieve breakthroughs from the margin (Cui, 2005).

To put this into better perspective, according to the International Energy Agency's *World Energy Outlook 2014*, China would become the world's largest consumer of oil by the early 2030s. According to the U.S. Energy Information Administration, the country will import over 66 per cent of its total oil consumption by 2020 and 72 per cent by 2040. In 2013, China imported just over half of its crude oil from the Middle East, which holds almost 62 per cent of the world's reserves. China imported 2.9 million barrels per day, or 52 per cent of its total imports from the Middle East, compared with 1.3 million barrels per day, or 23 per cent of its imports from Africa, the second largest source of China's oil imports then. (Alessi and Xu, 2015: 1) A similar picture probably also applies to China's imports of many kinds of raw materials.

In April 2006, the Bush administration initiated a plan to promote "African economic growth and opportunity partnership" to encourage United States companies to develop the African market. Many European countries like France have always regarded Africa as their traditional market. By the turn of the century, France remained the largest aid donor to Africa, as over half of its foreign aid went to the continent (Zhong, 2002). French investment also accounted for 20 per cent of total foreign investment in Africa (Marchal, 1998). At the end of 1995, the European Union enjoyed a 40 per cent share of the African market south of the Sahara, and its investment amounted to 32 per cent of the total foreign investment in the region. The United States' respective shares of the market and foreign investment were 7.7 per cent and 8 per cent. Given their traditional market ties, advanced technology and substantial aid programmes, the United States and the European Union still enjoy an edge over China in Africa. Africa experts in China estimated that 70 per cent of the African market was still in the hands of Western countries; and that China had to overcome its disadvantages in language and culture as well as those of a late-comer (Jiang, 1997).

Keen competition also comes from the emerging economies. African trade with India was projected to reach US$200 billion in 2015; it has been growing at a faster rate than African trade with China, and may even exceed trade with the United States. Brazil and Turkey have become more important trade partners for Africa relative to many European countries too. (*The Economist*, 2015: 1)

Nonetheless, China's aggressive oil diplomacy has generated Sino-American competition in Africa.[22] Angola is perhaps a good example. American oil companies have been active in the country for more than two decades; and half of its oil goes to the United States, making it the United States' ninth oil supplier. China has emerged as a major player in recent years, buying a third of the total production. In October 2004, probably in return for financial aid, China secured a 50 per cent share of the Block 18 oilfield, previously held by Royal Dutch/Shell. In the following February, Chinese Vice-Premier Zeng Peiyan visited Angola and finalized several contracts with Senegal.[23] Soon afterwards, Sinopec was given the extraction right of the Block 3/80 oilfield at Total's expense, which lost its operation licence.[24] The United States' responses included a recent report by the Council on Foreign Relations drawing attention to China's oil diplomacy in Africa and urging a robust response from the Bush administration (Pan, n.d.), Congressional hearings on China's influence in Africa, and strong criticisms from the Congress effectively blocking CNOOC's bid to acquire Unocal (Wilson, 2006).

After the terrorist attacks on 11 September 2001, the United States had also been making efforts to diverse its sources of oil imports, reducing its high dependence on the Middle East and turning its attention to Africa. In June 2002, President George W. Bush visited Africa, as the third United States President to have done so. During his visit, Bush attended the U.S.-African Energy Ministerial Conference in Morocco, and he met leaders of oil-exporting African countries including Angola, Cameroon, Equatorial Guinea and Chad. In the following United Nations General Assembly session, he had another round of meetings with such African leaders. One result was that daily oil imports from Nigeria would increase from 0.9 million barrels to 1.8 million barrels (*Africa Research Bulletin*, 2002).

The then World Bank president, Paul Wolfowitz, criticized China's investment and foreign aid as a threat to undermine the World Bank's efforts to use aid as a means to clean up corruption in Africa. Beijing typically refuses to impose conditions for financing infrastructural projects. This allows African governments to borrow overseas while avoiding restrictions imposed by the World Bank, such as accounting safeguards and measures to protect workers and the environment (*South China Morning Post*, 4 November 2004). China has a more commercial agenda than the World Bank, and the terms of some of its loans are less favourable, a situation opposite to that in the 1960s and 1970s.

In his confirmation hearings in January 2013, U.S. Secretary of State John Kerry indicated that the United States was "not even in the game" regarding China's impressive commercial presence in Africa. In May 2012, U.S. Senator Dick Durbin and Congressman Chris Smith introduced the "Increasing American Jobs through Greater Exports to Africa Act"; and in the legislation, it was stated: "When countries such as China assist with large-scale government projects, they also gain an upper hand in relations with African leaders and access to valuable commodities such as oil and copper, typically without regard to environmental, human rights, labour, or governance standards." (Schneidman, 2013: 2) Despite competition, China's approach to Africa has been seen to be most strategic, patient and long-term.

The United States' trade with Africa has certainly been hit by the decline in U.S. oil consumption since 2008 (a drop of 9 per cent from 2008 to 2013) and the decline of oil prices up to 70 per cent in the same period. The increased production of shale oil and gas in recent years in the United States will probably much reduce the United States' dependence on oil imports from Africa. The country's spare export capacity of liquefied natural gas (LNG) is expected to increase, and there has been considerable speculation on the government using LNG exports as an instrument in its foreign policy. (The National Institute for Defense Studies, Japan, 2014: 317)

China's economic activities in Africa today remind us of those of Japan in Southeast Asia in the 1960s and early 1970s. Premier Tanaka Kakuei's visit to Southeast Asia in 1974 encountered massive protests; this taught the Japanese leadership a lesson and Premier Fukuda Takeo returned in 1977 with the proposal of a "heart to heart diplomacy". But China differs from Japan in two important aspects. The People's Republic of China throughout its history strongly identifies itself with the Third World; and this remains an important theme of Chinese foreign policy at this stage. A bad image of Chinese economic activities abroad goes against the Chinese leadership's efforts to enhance China's soft power, especially that in the Third World. China differs from Japan too in that it does not trust the international market dominated by multinational corporations based in Western countries. The pursuit of economic security and the potential competition with the United States mean that Chinese leaders are willing to pay the price to secure autonomous supplies of energy and other natural resources.

Arguably this dilemma exists in the domestic scene too. In attracting foreign direct investment, in particular that from Hong Kong, Taiwan and South Korea, local governments in the coastal area often turn a blind eye to the exploitation of domestic workers and unsatisfactory working conditions. This tolerance goes against the objective of demonstrating the superiority of socialism with Chinese characteristics, and adversely affects the image of China enjoying impressive economic growth. The development policy and foreign policy dilemmas come down to the same fundamental question: what price economic growth?

In terms of domestic economic development, the leadership in the past decade or so has realized that economic growth and general improvement of people's living standards are no longer adequate as bases of legitimacy for the Chinese Communist regime. It now works hard to help the under-privileged groups like peasants and to establish a social security net for all. It demonstrates that China's development has entered a new stage. But in China's recent approach to Africa, the "ugly Chinese" syndrome begins to emerge by the turn of the century while Beijing offers generous aid packages to the continent. Theoretically the

Chinese authorities, which have been directing the SOEs to expand the market and invest in Africa, can also instruct these SOEs to establish a "model business partner" image in the continent. Some of China's aid money can go to the SOEs so that they will be able to behave as "model employers" and contribute to community projects. It requires effective coordination at the central government level and new mechanisms have to be built to achieve the desirable outcomes. The Chinese leadership is obviously aware of the adverse publicity, and is concerned enough to try to reverse the trend. This is one of the major challenges to the Chinese leadership's attempt to enhance China's soft power.

In the past two decades, Chinese communities have been expanding throughout Africa. In 2007, New China News Agency estimated that there were at least 750,000 Chinese working or living on the continent (French and Polgreen, 2007). The activities of diplomats, SOE executives, and aid programme personnel like members of medical teams and agricultural expert teams, etc. largely follow the Chinese foreign policy framework, and the infrastructural and mining projects. These Chinese have limited contacts with the local communities. The Chinese people who tend to have most contacts with local Africans are the small traders.

The first author of this article interviewed dozens of these small traders in his field work trip in Nigeria and Senegal in May 2015. They often make a living by importing directly from producers in China and have been able to keep prices low to attract customers. To some extent they are responsible for the complaints against the poor quality of Chinese consumer goods. In turn they suffer from the unsatisfactory law and order conditions and the rampant corruption, and often do not have a good impression of Africans as reflected by their comments on the Internet which provide interesting data on interactions at the grassroots level. At this level, Africans usually compare their experiences with

Chinese traders and employers with the Indians and the Lebanese operating in similar modes on the continent. This is an area where almost no research has yet been done.

6. Conclusion

Pushing for multipolarity has become a significant goal of China's foreign policy in the post-Cold War era. Chinese leaders accept that this is a long-term objective; and given the predominant position of the United States, China will strive to maintain good relations with it and avoid any sharp deterioration in the bilateral relationship. It has established various strategic partnerships with other major powers emphasizing the promotion of common interests (Cheng and Zhang, 2002), while abandoning the Maoist united front strategy against the principal enemy. Meanwhile, China chooses to work to maintain a peaceful international environment and concentrate on its modernization programme in building its comprehensive national power. In many ways, China has been pursuing a modernization diplomacy in the era of economic reforms and opening to the outside world since the end of 1978 (Cheng, 1989); and developed countries play a more important role than developing countries in terms of markets as well as sources of investment, advanced management and technology, etc. Ideology and revolution have a limited role in this modernization diplomacy.

Sanctions from Western countries in the aftermath of the Tiananmen Incident reminded Chinese leaders of the significance of the Third World, especially the African countries. This was reinforced by the depreciation of China's strategic weight in the eyes of the Western world in view of the disappearance of the "strategic triangle" in the context of the breakup of the Soviet Union and the dramatic changes in Eastern Europe. Diplomatic support from African countries has become indispensable when China comes under criticisms of its human rights record in international organizations, and when it chooses to exert pressure on Taiwan to deter its efforts to expand its “international space”. The cultivation of a network of friendly supporters in the African continent hence has been a significant task in China’s diplomacy, and this network has become increasingly important as China seeks to improve its status and influence in international organizations. The strategic partnerships with Egypt, South Africa and Nigeria, as well as the FOCAC are landmarks in the building of this network. The effectiveness of FOCAC has been reflected by the repetition of the model by China in Latin America in 2014.

As China’s economy continues to grow in an impressive way, it wants to expand its markets and secure reliable supplies of resources in support of its economic development. Resource diplomacy therefore becomes a prominent feature of its modernization diplomacy. China’s rising economic status also means that it has more financial resources at its disposal to ensure success in its African policy. In turn, many African countries perceive political and economic ties with China an important asset which strengthens their international bargaining power, especially vis-á-vis the Western countries. These new features of Sino-African ties attracted the attention of the Bush administration and the international media by the turn of the century. Their criticisms were against the Chinese authorities’ intention to present China as a responsible major power in the international community and to enhance its soft power in the Third World; hence important adjustments have been made in China’s approach to Africa in recent years, and some of these adjustments like the transfer of labour-intensive manufacturing industries to Africa are in line with China’s development strategy at this stage.

In view of the substantial resources spent in support of Beijing's African policy, the Chinese leadership, the foreign policy think-tanks and the official media tend to present Africa as a potentially lucrative market and an important source of China's badly needed raw materials. African countries are also depicted as China's reliable political and economic partners. But in fact a large part of the continent still suffers from domestic instability, poverty, AIDS, rampant corruption, etc. One cannot be overly optimistic regarding Africa's peace and development in the near future. Many African leaders have no hesitation in criticizing China's policies, and they are obviously not reliable political partners as they have to consider their national interests and personal political needs. Regime changes take place often in some African countries too. Hence, minor setbacks in China's African policy will not be surprising.

Chinese leaders have no intention of engaging in diplomatic and strategic competition with the United States and the European Union in Africa, but they certainly will not cooperate with Western governments in helping Africa because they want to push for multipolarity and ensure a reliable supply of resources from Africa in support of China's economic development. They intend to pursue an independent policy in the continent reflecting their definition of China's distinct strategic and economic interests. This is a fundamental dilemma of China's African policy which exacerbates its risks.

Notes

+ This is a much revised and updated version of an earlier article by the same authors, "China's African policy in the post-Cold War era", *Journal of Contemporary Asia*, Vol. 39, No. 1, February, 2009, pp. 87-115.

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1. A "yuan" of China's currency *reminbi* ("people's currency") is equivalent to about US$0.157.

2. The authors' translation.
3. See "A record of an interview of Foreign Minister Wang Yi by the African branch of China Central Television" (in Chinese), 12 January 2015 <*http://www.focac.org/chn/zt/1_1_2_1/t1227277.htm*>.
4. For the text of Vice-President Xi Jinping's speech at the opening ceremony of the seminar celebrating the tenth anniversary of the establishment of FOCAC (in Chinese), 18 November 2010 in Pretoria, see <*http://www.fmprc.gov.cn/mfa_chn/ziliao_611306/zyjh_611308/t770438.shtml*>.
5. See "Forum on China-Africa Co-operation – FOCAC", March 2015. <*http://www.fmprc.gov.cn/mfa_chn/gjhdq_603914/gjhdqzz_609676/zfhzlt_610542/*>
6. See the "Joint Declaration on the Comprehensive Deepening of Friendship and Co-operation between China and the Africa Union" (in Chinese), 6 May 2014, Addi Ababa, Ethiopia <*http://www.focac.org/chn/zt/1_1/t1152989.htm*>; and "A record of an interview of Foreign Minister Wang Yi by the African branch of China Central Television" (in Chinese), 12 January 2015 <*http://www.focac.org/chn/zt/1_1_2_1/t1227277.htm*>.
7. See "Convergence in development strategies, realization of co-operation and win-win", 19 January 2015 <*http://www.focac.org/chn/zt/1_1_2_1/t1229377.htm*>; and "A record of an interview of Foreign Minister Wang Yi by the African branch of China Central Television" (in Chinese), 12 January 2015 <*http://www.focac.org/chn/zt/1_1_2_1/t1227277.htm*>.
8. Secretary of State Madeleine K. Albright, Under Secretary for Global Affairs Timothy Wirth, and Assistant Secretary for Democracy, Human Rights, and Labor John Shattuck, "Press briefing: 1996 Country reports on human rights practices", as released by the Office of the Spokesman, U.S. Department of State, Washington, D.C., on 30 January 1997. <*http://secretary.state.gov/www/statements/970130.html*>
9. "Pragmatic diplomacy for Taiwan is like the sun, the air, and the water for a person," said Jason Hu, Taiwan's foreign minister, release by the Taipei

Liaison Office in South Africa, Pretoria, on 8 November 1997.

10. See all the major newspapers in Hong Kong on 7 August 2006.
11. See *Ta Kung Pao*, *Hong Kong Economic Journal* and *Hong Kong Economic Times* (all three are Chinese newspapers in Hong Kong) on 18 September 2006.
12. See also the web site of the Ministry of Foreign Affairs, Taiwan (ROC), at <*http://www.mofa.gov.tw*>; and the web site of the Ministry of Foreign Affairs of the PRC at <*http://www.fmprc.gov.cn*>.
13. See all the leading newspapers in Hong Kong on 10 November 2006.
14. See Premier Li Keqiang's speech entitled "Creating a better future for China-Africa cooperation" (in Chinese) at the African Union Convention Centre in Addis Ababa on 5 May 2014 <*http://focac.org/chn/zt/1_1/t1152997.htm*>.
15. Speech of Shi Guangsheng, the Chinese minister of foreign trade and economic cooperation, at the first FOCAC, quoted by *Renmin Ribao* (*People's Daily*, a Chinese newspaper in Beijing) on 11 October 2000.
16. Maghreb means "western" in Arabic; and geographically it is the region north of the Sahara Desert and west of the Nile.
17. See International Energy Agency's oil distribution statistics at <*http://www.iea.org/textbase/stats/oildata.asp?COUNTRY_CODE=11&Submit=Submit*>.
18. The six are ExxonMobil, British Petroleum, Shell, Total, Chevron and ConocoPhillips.
19. In 1993, the top five oil suppliers to China were: Oman (26%), Indonesia (25%), Yemen (10.6%), Angola (7.8%), and Papua-New Guinea (5%).
20. CNPC invested US$700 million and secured a 40 per cent share of the project; the shares of Petronas, Talisman and Sudapet were 30 per cent, 25 per cent and 5 per cent respectively.
21. A Reuters report published in *South China Morning Post* on 14 August 2006.

22. See statement of Carolyn Bartholomew, Commissioner, U.S.-China Economic Security Review Commission, in "China's influence in Africa", hearing before the Subcommittee on Africa, Global Human Rights and International Operations of the Committee on International Relations, House of Representative, First Session of the 109th Congress, Washington, D.C.: U.S. Government Printing Office, 28 July 2005, Serial No. 109-74, p. 48 <*http://www.house.gov/international_relations*>. Carolyn Bartholomew argues that China's direct investment into energy production would not contribute to the overall energy security of energy-importing countries.
23. Angola's national oil company, Sonagol, is the sole concessionaire for oil exploration and production, and the only way a foreign company can enter the market is via joint ventures and production sharing agreements with Sonagol.
24. Total is France's largest corporation and the world's fourth largest oil and gas company.

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On the Social and Political Effects of Opening in Rural China[+]

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Abstract

What are the economic, social and political effects when previously isolated villages are opened to the outside world? Scholars from different traditions expect different sorts of positive or negative affects to occur. Rural China presents an ideal environment to study this question empirically. Villages within rural China are in the process of being opened to the outside world in different forms, such as through being connected by road, the investment of agribusiness, or urbanization. Moreover this opening is being driven and shaped by different actors, including local residents, government and businesses. The different ways and actors that this opening occurs affect the nature of the opening, as well as its impact on the economic, social and political characteristics of the village.

Keywords: *China, rural development, marketization*

JEL classification: *O13, Q12, Q15, R58*

1. Introduction

Almost unconsciously, policymakers and even many scholars assume that when isolated villages are connected to the outside world, the lives and livelihoods of the locals improve substantially. Much of this is based on economics – the new trade linkages, previously unimagined employment opportunities, the ability to meet "needs" both real and ascribed, the chance for electrification and media connections. But the changes are far from merely material, and also include social and political alterations. As they encounter "modern" cultures, aspirations and even identities of individuals shift, groups morph, collectivities change. Historically, theories emphasizing the dichotomy between modern and traditional have represented a crude form of justifying imperialism, colonialism and racist political systems – manifest destiny, the White Man's burden, apartheid just begin this kind of list. With the advent of the Cold War, the approaches changed, though not the basic functions. Former US President Harry S. Truman, cognizant of the need to capture the hearts and minds of recently decolonized peoples before the Soviets did, deepened the project of development. Western aid in the opening and modernization of society was a part of this project. Even as critics reacted to these attempts at "Western imperialism", the project remained the same. According to such ideas, the modernization and industrialization of the economy must be sourced indigenously through each country and from each national movement – but occur it must.

Neither was this inherently a Western project. For centuries, China's emperors battled to bring the peoples at the periphery into the well-institutionalized bureaucratic, Confucian state, with signification of barbarians as a central goal. This project continued, though in different forms, during the nationalist phase, as Republican leaders sought to unify China's various regions, including remote and often restive regions. Mao Zedong, too, shared in this project. In his attempts to bring revolution to China's far-flung frontiers, Mao and the millions who followed him focused on emancipating the minds of the backward "poor and blank" both among the rural Han and to the official recognized minority groups. While today's leaders have rejected Mao's orthodoxy, they embraced and deepened his projects of modernizing China. This agenda included connecting isolated areas, opening them to more advanced areas.

2. The Impacts of Opening in Theory and Practice

What are the political and social changes that occur when an isolated village is connected for the first time to the outside world? This project pursues this puzzle by studying a series of villages in relatively remote areas of China's southwest. We selected for study villages that had recently been opened to the outside through a variety of forms and mechanisms. While each village is unique, we attempted to choose villages that represented a different form of opening. To be sure, there are many other forms of opening, as rural-based factories – both large- and small-scale – are founded, as mines and oil wells are opened, as dams and military bases are constructed, as migrants move to the cities and return home to the village. However, this limited paper – part of a larger research project – focuses primarily on these three forms.

First, many villages in China have been recently connected to the rest of China via roadway. While for millennia, even the most isolated village was connected to the nearest marketing town by at least a footpath. From its newly constructed highway trunk system reminiscent of Eisenhower's expansion of the US highway system, to improvements of simple paths to humble dirt roads navigable by motorized vehicles, Chinese governments at all levels from the mid-1980s have been increasing, improving and enlarging roadway of all kinds. These have brought millions of Chinese out of their traditional forms of "marketing structures" (Skinner, 1964) to face China's greater market economy. In many cases, newly constructed roads exposed villagers to government programs designed to develop these areas. Second, many villages that had long been proximate and integrated with China's provincial or prefectural cities find themselves being ingested by swelling cities. As China urbanizes – an explicit goal of China's policymakers – city boundaries expand. Rural becomes urban, peasant becomes urbanite. The expansion of cities of all sizes fundamentally alters economies, as farmland is lost (often with compensation, sometimes with too little or none at all) and often replaced with new, often unfamiliar economic opportunities. Equally, urbanization involves political and social changes, as social relations are newly formed or altered. Even simple daily activities, from acquiring food to living in unfamiliar physical spaces, to relations with neighbors, to work schedules with attendant social adjustments, require adjustments. Third, the push by China's central and provincial government to promote the scaling-up and modernization of agriculture opens villages and alters relations. Traditionally, most farmers – especially from far-flung isolated areas – have toiled for their own subsistence, selling any surplus at nearby market towns. While China's radical collectivization policies of the late

1950s to the late 1970s altered family farms, subsistence farming resumed – and was even codified as farmers gained usage rights over tiny plots of land – in many areas. Today, with China's policies of agricultural modernization, Chinese farmers are entering into new relationships with each other, with local, national and global agribusiness, with retailers, with officials and policymakers, even with government regulators. These relationships appear in different forms and varieties, each of which shifts social and political relations. Thus, this type of opening can benefit or harm farmers, depending on their nature and form.

What can we expect from such opening? Social scientists have, particularly beginning in the 1950s, debated this question, both in general and in the context of China. Modernization theorists have, as a group, generally argued that opening, while often a traumatic process, brings changes that are on the whole positive. Socially, modernization theorists focused on the fundamental changes people experience as they shift from being "traditional" to modern. Talcott Parsons (1951) argued that modernizing individuals and societies went through specific changes in values, shifting from being affective, particularistic, collective-oriented and functionally diffused to being more rational, universalistic, self-oriented, achievement-based and functionally specific. Other theorists focused on the secularization of the political culture and the increasing complexity of social structures (Smelser, 1964, Coleman, 1965). Economically, modernization theorists expect to see societies that open themselves to the outside to experience a shift from basic, traditional agrarian economy to a more complex, industrialized, high mass-consuming one (Rostow, 1960). Politically, modernization theorists have focused on the differing structures of government found in traditional and modern societies. Many of these expectations are less relevant to the Chinese case, which has in many periods had a relatively well-structured and institutionalized bureaucracy.[1] Lipset's (1959) argument that modernization leads to changes in attitudes and ideas that facilitate democratization is more potentially relevant and testable. The combination of urbanization, literacy, increased media consumption, additional education and a rising middle class increases the number of new opinions, enhances interest in politics and serves as a source that inhibits state power. Combined with the fact that rural Chinese have for years been participating in village elections that, though flawed, are the most substantial and meaningful in Chinese history, the potential for democracy-supporting attitudes remains at least plausible.

Many Chinese scholars have fit neatly into the modernization paradigm. For instance, G. William Skinner's (1964) classic work on the marketing structure of traditional rural life is motivated by an interest in "change which constitutes departure from the traditional system". Lucien Pye (1991) looked to traditional Chinese attitudes and social structures that, among other things, made democracy unlikely. The reform period, which brought opening nearly unprecedented in Chinese history however has strengthened and encouraged the individual, altering and modernizing social and political institutions. A. Doak Barnett and Ralph N. Clough's (1986) research on the formers of modernization carried within the post-Mao reforms are part and parcel of this effort. Individual attitudes (Inkeles, Broaded and Cao, 1997), technology (Bauer, 1986), coastal cities (Yeung and Hu, 1992), central-local relations (Hao and Lin, 1994) and institutional change (Wang, 1998) are among the mechanisms posited for pushing China along the path toward modernization.

Other social scientists have been more skeptical, arguing that modernization sparked by opening has in fact been a largely negative experience, harmful for the recipient. Dependency theorists have long argued that opening of economies in general harm domestic economies, making them dependent on more developed and powerful ones (Dos Santos, 1970, Frank, 1969). Others, led by anthropologist Arturo Escobar (1995), attack the very idea of development, arguing that the concept is an ideology that justifies foreign interference, disempowers local populations, and causes more harm than good. Instead, necessary changes must emerge from the expectations of the people themselves, as well as their own descriptions of their situation – this is the point at which theorizing should start.

In China's case, critics, particularly from the left, criticized Deng Xiaoping's reforms as having reversed the gains in building a socialist countryside. To scholars like James Hinton (1991) and others, the reforms including opening China to the outside could only be to the detriment of China. In a different vein, other China scholars saw efforts to open isolated provinces as primarily aiming to benefit China proper. Political scientist David S.G. Goodman (1983), for instance, saw China's efforts in the southwest province of Guizhou as representing "internal colonialism". Yang Dali (1997) and C. Cindy Fan (1995) both argue that as the center taps the natural resources in inland and western provinces, sending finished goods in return, the poorer more isolated parts of China suffer. According to these scholars, the opening of these provinces permits an exploitation that creates a permanent inequality, an argument reminiscent of that of early dependency theorists, particularly Dos Santos. Other scholars argue the opening of isolated parts of China, through the building of roads opens local markets to outside competition. Local farmers could not compete with lower priced goods entering from neighboring counties as a result (Herrold-Menzies, 2005). Various attempts to open parts of China to development has had a negative impact on the vulnerable ecologies in some regions, due either to development (Economy, 2004), construction of dams (Hayes, 2007), agriculture (Muldavin, 2006), deforestation (Xu and Ribot, 2004) or the exploitation of natural resources (Taylor, 2005). Local cultures have also been altered by some of China's attempts to open isolated minority communities to tourism (e.g., Oakes, 1998). Indeed, a portion of the increasing number of rural protests echoes such concerns (O'Brien and Li, 2006; Mertha, 2005).

The validity of these positions has been subject to intense debate. Modernization theory in particular is accused of Western-bias, and being too evolutionary (Kohli, 1986) and not based on history (Tilly, 1975). Critics also charge modernization theorists with ignoring the possibility of decay (Huntington, 1968) and being a disguised form of Cold War ideology (Kesselman, 1973). These criticisms call into question the validity of "modernity" and "modernization" as concepts useful for social science research. Similarly, dependency theorists are also criticized for their ahistoricism, their over-emphasis on structure, their apparent excusing of responsibility of domestic and often rapacious political leaders, its unworkable or often Pollyannaish policy prescriptions, and its inability to explain the development that has occurred in many developing countries (Smith, 1979; Kohli, 1986).

These dissenting contending views, and the criticism of them, should be taken seriously. Nevertheless, in spite of the direct attacks on their validity, it may be better to avoid making assumptions about the validity of theories. Far better it would be to test these arguments empirically. Many social scientists have studied these issues, often in the abstract and in aggregate, looking at how larger societies have changed in response to Western culture and systems. However, rarely have they carefully examined changes on the village level in response to exposure to the outside world.

Classic research on China has focused on this process through intensive research in rural areas. As early as the 1930s, the celebrated Chinese anthropologist Fei Xiaotong (1939) undertook an intensive study of peasant life and culture during a tumultuous time in China's history, in the wake of the collapse of the imperial period and continuing exposure to Western powers. Fei's contemporary, economic historian R.H. Tawney (1932), examined how the rapidly changing social forces brought an opportunity to peasant revolutionaries, allowing him to predict the upcoming Communist victory twenty years in advance. The intensive study by Edward Friedman, Paul Pickowicz and their co-authors (1991), meanwhile, involving 18 visits over a decade to a "model" rural village in China, brought insights into the disillusionment of rural peasants in the revolution that was to bring them liberation and development. Since 1978, as China opened and reformed, it became clear that many or most of the benefits were obtained by local officials, while life in rural villages remained a struggle. Similarly, Anita Chan, Richard Madsen and Jonathan Unger's (1984) classic study of Chen Village mapped the nuanced changes sparked by China's revolution and reform.

China is currently an ideal place to study the effects of opening. Today in western China, large swaths of the countryside remain isolated, unconnected to local towns except by narrow roads, not traversable by automobile. The economies of these areas remain on the traditional, subsistence level. While these villages are not completely cut off from the outside world (they are connected, though tenuously, to China's political and social systems), outside forces have muted effects. The opportunity to study these villages and the opening process is gradually diminishing as these villages are being linked to the outside world. The effects of this are poorly understood, and data vital to understanding the tumultuous changes inherent to this process is being lost. What is needed is a study of villages that are in the process of being opened, with comparisons made before and after the village has been linked more firmly with the outside economy, political system and society. While the available data does not as yet allow the adjudication of the debates between modernization theorists and their critics, the study does provide some insights.

3. Examining the Effects of Opening in Southwestern China

The present study thus focuses on three Chinese villages that are experiencing openings of various sorts and through various impetuses. All three are located in Honghe Prefecture, a complex and paradoxical area located in the southeastern part of the southwestern province of Yunnan. Honghe, like much of the rest of Yunnan, contains large numbers of minority ethnic groups of various types, with about half of the population being classified as non-Han. China's State Council designated seven of Honghe's 13 counties as poor either in 1986 or 1994 (one was subsequently dropped from this list). These counties are largely located in the southern part of the prefecture, a mountainous area featuring difficult farming conditions. The wealthier counties in the northern part, however, are located in the prefecture's tobacco-growing belt. Indeed, Honghe is one of China's main tobacco growing areas, and has lent its name to one of China's most famous brands of cigarettes. Despite the government-mandated cuts in tobacco production, the prefecture government is quite wealthy. Indeed, even as peasants a few counties over living in grass huts eked out their subsistence on tiny plots of land, the prefecture in the middle-00's invested not less than RMB 800 million (approximately US$100 million)[2] on a set of impressive prefecture government buildings according to official statistics. Even as the prefecture as a whole enjoys an average net rural income of RMB 2510 per capita, the disparity across the prefecture is alarmingly high. Two counties are nearly 50 per cent higher than that average and four are right around it. At the same time, the per capita net rural incomes of no less than five counties are 70 per cent of that average or below, with the most modest at RMB 1205 per capita (*Yunnan Statistical Yearbook 2008*).

The three villages examined in this study are similarly diverse. One was a relatively wealthy village located adjacent to the prefecture capital of Mengzi. Mengzi, a county-level city, expanded greatly in the wake of the decision to move the prefecture government there from the county of Gejiu. As the prefecture government settled in, Mengzi shifted from a medium-sized county town to an expansive prefecture capital. The capital has expanded so rapidly that now the village under examination is about to be overtaken by it. These external changes have been channeled by a unique institution invented by the creative leaders of the village. By contrast, the changes that are occurring in the second village have come from a different source – a commercial one. An agribusiness has invested heavily in that village, shifting it from its reliance on more traditional subsistent family farming to a modern form of corporate agriculture. The third village is a poor mountainous village that had been recently opened up by concrete road. The road has also facilitated the implementation of a set of government-led anti-poverty projects. Each of these forms of openings has affected these villages in different ways. It is to analysing these forms that we now turn.

The first village, within Weilan Town under Mengzi, is located next to a major thoroughfare running out of Mengzi. As mentioned previously, Mengzi is expanding. The entire administration region has over 300,000 *mu* of land[3], of which the city area now holds between 130-140,000 *mu*. Indeed, the county hoped to be upgraded to be a municipality, but due to new central regulations largely freezing such changes, it remains a county.[4] The village itself contains 223 households of 850 residents, over 90 per cent of whom are of the Yi minority ethnic group. Most of the village's younger members have already migrated out of the villages for positions outside. Some 300 such young residents now work, mostly elsewhere in Honghe Prefecture, in service industry jobs, such as security guards, salespersons in small shops, custodial services, and so forth. Village leaders estimate such jobs net a modest average income of RMB 400 per month. Due in large part to the expansion of the municipality, most of the village's arable land has been appropriated for urban development. Originally, the village had about 1936 *mu* of arable land contracted to villagers (out of 2,430 *mu* total). The village has but 900 *mu* of land left, of which 730 *mu* has been rented to others.

The primary crops still under cultivation include corn (used for animal feed), peanuts, fruit and a small amount of rice. Most residents buy additional food from local markets. Despite this tiny plot size, this village is considered to be comparatively wealthy: the annual per capita income of RMB 10,000 is much higher than most of the rest of the prefecture. By policy, for every 100 *mu* of land that it appropriates, the state returns 10 *mu* to the village as "reserve land" (遺留地), which can be used for non-agricultural purposes.[5] According to local officials, this policy is unique to Mengzi. The company currently has 115 *mu* of reserve land. Of these, 50 *mu* of land will be allocated to villagers on a 20 square meter per capita basis. The remaining 65 *mu* will be used for development.

Among the 1000 *mu* appropriated, some went to the building of the No. 1 Middle School of the county, some to an industrial park, some used for road construction, and the remainder taken by the Jingxin Beer Company, which rented approximately 100 *mu* from the village to build a factory. The villagers considered the factory's compensation of RMB 37,960 per *mu* to be inadequate, and a conflict between the villagers and the company ensued. The middle school compensated even less, paying only RMB 15,000 per *mu* for the land it acquired. These sums are inadequate given that land is one major source of livelihood for these farmers. They not only rely on the farm for crops, but most farmers are able to raise at least modest numbers of farms animals that they can eat or sell. After their land is acquired, many farmers struggle to make ends meet. The urbanization that is occurring around the village represents an outside force about which the villagers can do little. Although the village's proximity to the expanding county has brought it some additional wealth and outside work opportunities for its younger laborers, the village residents there were uncomfortable about a number of aspects of these changes. The conflicts with land compensation and usage were especially a concern.

As a result, the village leaders established a unique institution to channel these external forces. The village residents decided to establish a shareholding company that controls the collective assets of the village and manages the commercial developments of these assets. This idea came up from a series of discussions among the village residents. Currently, the company has 200 directors and 830 shareholders (nearly the entire village population). The current Chairman of the Board (Mr Wang, who attended this meeting) was the former vice-director of Wenlan Town. The company's board of directors is the same as the village committee. All members are elected by villagers as per the election law. The professional managerial staff members, however, were hired from outside the village. Currently, the company had a registered capital of RMB 5.57 million. Each share is worth of RMB 6,666. The registered capital is all collective assets. Each resident of the village has one share.

The company is the first of its kind in the prefecture. The majority of its starting capital comes from compensation for land appropriation. The establishment of the company allows the village's remaining land be managed more strategically with a longer-term vision to the benefit of the shareholders. The company has big plans. For one, it plans to rent

400 *mu* of land from villagers to establish a tourist site – a recreational farm that has vegetable greenhouses. For this project, the villagers will receive a land rental fee of RMB 1,500 each year, in addition to the dividends from their shares. The tourist site, it is hoped, will generate local employment opportunities. Thus, if villagers are employed by the farm, they will also receive wages. The company also hopes to construct a "World Family New Village" (世家新村) on the village's reserve land, as well as a new residential area modeled after the "new countryside" (新農村) concept. This area will feature new modern houses for villagers, as well as facilities for tourism and recreation. In addition, the company hopes to start a real estate development by using the reserve land returned during state land appropriation to construct houses for commercial sale. The company projects revenues in excess of RMB 7 million. Finally, the company plans to build a factory for the processing, packaging and storing of vegetables in Gejiu City.

While urbanization started, this village was similar to neighboring villages in terms of level of development and income, but after the establishment of the company, the gap is increasing. Other villages are also emulating its model. In the past, this was a poor village because of water scarcity. Women from outside were not willing to marry into this village. But this trend has now reversed. Thus, the village has not only become wealthier through this idea, but its social status has also increased.

The second village studied, Yihao Village (translated as #1 Village, "Number one village") within Caoba Town under Mengzi, is a relatively recent settlement. According to local authorities, the town was created in 1936 by an official in the Nationalist provincial government who headed a reclamation project that drained the wetland here and opened up new arable land. Caoba Town as a whole has a total area of 136.9 square kilometers, with 210,000 *mu* of arable land, more than three quarters of which is flat (much of the prefecture's land is marred by hills and mountains) and fertile. The population includes various minority ethnic groups, including Yi, Zhuang, Han and Hui. The town has the highest income in the county, with per capita income in 2008 reaching RMB 3,710. Some villages have per capita income exceeding RMB 5,000. The original residents of the #1 Village migrated from the tin mines in Gejiu. The fact that these were the first wave of migrants to settle here gave the village its moniker of "#1 Village". Nearly all (98 per cent) of the village's population is Han. The village has 1800 *mu* of arable land: 1,000 *mu* of fruit trees and 500 *mu* of greenhouse vegetables.

Agriculture is the strength of the town as a whole. In addition to its flat, fertile land, the town has a good infrastructural base, especially regarding irrigation. The water reserves of the town are especially abundant, with sufficient ground water and two reservoirs. Prior to 1996, the crop for the summer rotation had been rice. Local residents in 1996 began diversifying into corn as well as vegetable production, mainly hot peppers, in greenhouses. Now, the main commercial crops are fruits (loquat and pomegranate) and vegetables (in greenhouses, mainly cucumbers and tomatoes). Thus the natural conditions of the town make agriculture a strong sector for the town. This is also the perfect environment to attract agribusiness. The Lutong Company established a production base in Caoba. Like many agribusiness firms operating in rural China, Lutong has encouraged contract farming (Zhang and Donaldson, 2008). Accordingly, it provides technical services and training to farmers, and purchases their harvest when done at a contract price. In 2006, in cooperation with the Lutong Company, 600 steel-cement greenhouses were built in the area. The #1 Village was a pioneer in Caoba Town in this regard. The first 329 greenhouses built by Lutong Company were in this village. It has also been officially designated as a "model village" by the town.

Lutong also introduced a variety of vegetable known as "stone tomato" from Israel, which can endure long period of transportation and storage and can stay fresh for over a month. The company sells its tomatoes to Vietnam. This new variety of tomato pushed out the local variety in the market with its low price. Lutong has 2000 *mu* of land under production by faming households. The company itself has an additional 150 *mu* of land, which is used as its base. Fruits produced here are sold all over the country and to parts of Southeast Asia through wholesale centers. The local pomegranate is a specialty. The CITIC group is now investing hundreds of millions of yuan[6] to build a pomegranate processing factory in Xin'ansuo town to produce pomegranate juice. The county also has the plan to build a "million-*mu* pomegranate production base", which will be the largest in the country. The local weather provides the perfect conditions for growing pomegranate: the annual average temperature is 18 degrees centigrade, with long exposure of sunlight and a short frost period, according to local government and company officials.

These private initiatives have also sparked additional government investment. The prefectural government has the plan to build 10,000 *mu* of steel and cement greenhouses in Caoba town over the next five years. Each greenhouse (one *mu* in area) requires a total of RMB 11,000-14,000 in investment. For each greenhouse, the prefectural and county governments together will subsidize RMB 4,000, while the farmers are responsible for the rest. Prefectural and county governments will also invest in the upgrading of roads and irrigation facilities in Caoba. Investment on these items will be between RMB 150 and 160 million. Thus, the total investment in Caoba will exceed RMB 200 million.

According to local officials, the investment by Lutong began the area's transition from traditional to modern and capital-intensive agriculture, as villagers interact with company officials, and begin the transition from subsistence to more scaled-up production. Thus while the first village's transition was sparked by an attempt to channel the forces of urbanization, the transition in this case was mainly initiated by private industry.

Government initiatives are the main spark behind the opening up of the third village, a relatively poor village in a mountainous area of Xibeile Township within Mengzi. The township is 200 square kilometers in area. It is bordered to the south by Wenlan Town, on the west by Caoba Town, and on the north by Kaiyuan Municipality. The average altitude in this mountainous region is 2015 meters. Land in the township is poor, with a thin layer of topsoil, lacking in trees and natural sources of water. The entire township has a population of 8,890 residents within 1,996 households. Most (95 per cent) are members of ethnic minorities, primarily Yi (72 per cent) and Miao (15 per cent). The per capita income in the township is a modest RMB 1,030. For 2008, the annual revenue for the entire town was RMB 2.26 million. The township only has a roster of 32 cadres.

Although the natural conditions of the township make agriculture difficult, the underdeveloped township nevertheless relies on this sector. The pillar for the local revenue is tobacco. Tobacco production started in 2004, when there was only 86 *mu*. Now the township has 7000 *mu* of tobacco. However, the development of tobacco is limited by the central quota from the government. The township also has 17,000 *mu* of walnuts and 4,000-5,000 hogs, and 5000 *mu* of plums, 3000 *mu* of apple. Their current plan for development includes opening up land for: 20,000 *mu* of walnuts, 10,000 *mu* of tobacco, 10,000 *mu* each of plum and apple trees, and 10,000 hogs.

Within this town, Dougu Village had been connected with the rest of the area by a recently completed concrete road, which has facilitated the anti-poverty efforts of the government. The small village has 370 residents within 80 households. According to the village party secretary, only 12 residents went outside the village to work, four migrating to Kunming (the provincial capital) and eight to Mengzi. The village houses a small primary school with three grades, holding teachers and 20 students. The village is not far from larger urban areas, being 10 kilometers from both the township and the county seat, but the mountains made this journey long and difficult. The village only has 677 *mu* of arable land. Most is used to grow corn. The harvested corn is then used to barter for rice (one kilogram of corn for one-half kilogram of rice). The average subsistence grain is 470 kilograms (above the poverty line of 350 kg). The rest of the village's land is on mountain slope and can only be used to grow fruit trees, primarily plums and peaches.

Over the years, higher levels of government have invested RMB 145,000 to upgrade the facilities in this village. The funds were used to construct water tanks for villagers. Currently, all households have at least a tank of eight cubic meters; 35 households have 24-cubic-meter tanks. Each water tank costs RMB 3,500 to build. Government organs at various levels subsidize RMB 1,500 each, with the residents responsible for the remainder. Some 77 households in the village also have biogas tanks, which cost RMB 1,500 to build one. The government provides material free of charge, with residents providing the labor. These biogas tanks convert human and animal waste into gas used for electricity and cooking, which has helped to power the village's electricity needs in an environmentally friendly manner.

4. Analysis and Conclusions

Each of the three villages represents a different example of rural adjustment in response to the opening to the outside world. In the case of Weilan Village, their access to the outside world was caused by rapid urbanization that threatened their livelihood. In response, the villagers formed a shareholding company designed to safeguard their rights and ensure the maximization of compensation from when the inevitable occurs and their land is confiscated for urbanization. In the second, villagers were brought closer to more densely settled communities when they were moved to Yihao Village from more remote locations. In that case, an outside company provided an impetus for them to become contract farmers. In the third case, the construction of a concrete road linked villagers of Dougu Village to more distant markets. Tobacco was a mixed blessing for these villagers, but government investment brought additional benefits to the villagers.

From these cases, a number of conclusions can be drawn. First, while economists often refer to the benefits of opening in general, the variety of forms in which this takes leaves open the possibility of the variety of effects – positive and negative – from different forms of opening. For decades, China has been focusing on linking rural villages by roads to their nearest marketing towns and townships. While Mao's administration between 1949 and 1976 focused on this effort, the subsequent reform period was especially successful at this effort. Part of this effort has brought electrification to villages, and with it access to media such as radio and television. More recently, even the most remote rural town or township seems to be connected to the Internet, with at least one Internet café, usually populated by a handful of young people playing video games with others connected via the Internet. The reformist government sought to temper the tide of migration in part by urbanizing sections of the countryside, as well as by expanding urban areas. With this urbanization, entire villages have been swallowed up, not only shifting the land from agricultural to industrial or residential use, but also transferring millions of residence permits from rural to urban. Throughout the countryside, dams have been constructed, tourist villages have opened, and factories have been established. Agribusiness companies have become increasingly active in the production, distribution and marketing of agricultural products of all kinds. The return of migrants who came back from the cities to work have also brought with them capital, experience and know-how. Many encourage others to migrate. Others stay to set up factories or shops. The forms of opening are legion.

Moreover, each of these forms has also been facilitated by different actors. The reform and opening period has created a misperception on the part of some overseas-based China watchers that the role of the state in China has shrunk (Nee, 1996; Perkins, 1991; Zhou, 1996). While the role of the state has indeed shifted, the Chinese government remains extraordinarily active in the Chinese economy. Thus it is not surprising that government initiative remains a force for opening, such as in the case of the third village. In addition, market actors, be they local, national or global, have also been important for this opening. These include those who have set up smaller-scale town and village enterprises (TVEs) within the Chinese countryside in the early days of the reform and opening period, agribusinesses who are entering into a number of relationships with direct producers, as well as larger-scale factories. Sometimes these entrepreneurs are locals – often government officials-turned-entrepreneurs, or regional actors; others have come from wealthier parts of China, been part of the Chinese Diaspora, or are outside actors such as multinational corporations. Thus it is no surprise that firms that rely on agricultural production like Jingxin Beer (for the first village) or agribusinesses involved in production, such as Lutong (for the second) have played important roles. For good or ill, these businesses have been crucial in the opening of the countryside. International organizations and non-governmental organizations, both local and international, can also help to open up areas of the countryside by building schools, roads, or assisting in agricultural productivity.

Individuals, such as the residents of the first village who have established their own shareholding company, are also important and often overlooked. This indicates that it is erroneous, as much of modernization theory implies, to dismiss locals as mere recipients; they should be considered as actors in their own right. Despite the fact that many of the instances are openings involve forces that are out of the control of many local actors, innovative residents can create institutions that shape these forces. This case also underscores the importance of land usage rights, for without this institution, the residents would have little or no basis on which to establish this vital shareholding organization, which has served as the backbone of their bargaining power in negotiating with government and businesses. Despite the myriad reports of land grabs, this shareholding organization serves as evidence that the norm of the land usage rights remains relatively strong, and respect for it, even among powerful actors, remains the rule, rather than the exception (Zhang and Donaldson, 2013).

In sum, the evidence from these three cases underscores the importance of institutions in smoothing the potential trauma that comes with opening, and allowing residents facing a novel situation to take advantage of new opportunities while reducing the costs and risks that come with the new environment. These institutions include these land use rights that allowed farmers in one case to establish a shareholding company and compelled agribusinesses to sign contracts with farmers in another. Government programs created the opportunity for farmers to move from remote areas, and helped to support other farmers with improved roads and upgrading other key facilitates. The push to encourage the participation of agribusiness has created more opportunities for many farmers to move away from subsistence production to more lucrative forms of farming. On the other hand, other institutions – such as the restrictions placed on tobacco farmers – retard farmers' ability to benefit from this otherwise lucrative cash crop. More broadly, the institutions that created the "urban fever" stimulated the urbanization that threatened to swallow Weilan village. These incentives for urbanization can be both personal financial benefits – asset investment can provide opportunities for corruption – as well as increased possibility of promotion based on generating the kind of GDP growth that only cities seem to provide. What does this mean for the advocates and critics of opening? The evidence provided here is consistent with the idea that if opening is conducted carelessly – in ways that undermine farmers' previous survival strategies and without establishing institutions that facilitate their transition to new strategies – the critics of opening are often correct, as opening creates more harm than good. On the other hand, with institutions that protect against such harms, opening facilitates the farmers' ability to participate in opportunities thus generated. Hence, adjudicating between the theories on the different effects of opening is contingent upon how the opening occurs and what institutions surround that opening.

Notes

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1. In spite of this, China has long struggled with balancing the desire to decentralize control in order to increase the efficiency and effectiveness of decision-making with the centralizing instincts of a government determined to keep the empire unified against the often restive regions and ambitious local officials (Fitzgerald, 2002; Chung and Lam, 2009).
2. A "yuan" of China's currency *reminbi* ("people's currency") is equivalent to about US$0.157.
3. 1 *mu* (畝) = 0.0667 hectares.
4. For more details, background and the significance of this, see Chung and Lam (2004).
5. Otherwise, the use of rural land is normally strictly controlled and limited to agriculture.
6. See note 2 above.

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Recent Trends in Graduate Unemployment and Higher Education in China

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Abstract

This paper reviews the policy debate over urban graduate unemployment in China, and how it is related to the expansion of the higher education sector. Several possible explanations for this phenomenon are discussed. Policy implications are drawn especially the possible strategies for improving the quality of education provided by universities.

Keywords: *graduate unemployment, urban unemployment, university reform*

JEL classification: *J60, I21*

1. Introduction

The objective of this paper is to discuss the recent trends in Chinese higher education. The present paper builds on a previous paper (Soo, 2008), updating that paper's data to reflect more recent trends. The main focus of the paper remains the relationship between the expansion of the university sector and the rise in graduate unemployment.

The accumulation of human capital is widely perceived to be a key ingredient for increasing per capita income. As workers become more educated and more skilled, their productivity improves, hence raising income levels. It is this line of thought that has led to the rapid expansion of higher education across the developing world. Since most developing countries are relatively scarce in skilled labour, their marginal product should be high, given diminishing returns to factors of production. It would therefore be very costly to a developing country if many of its educated workers (who are educated at considerable expense) are unemployed. However, this is exactly what we see in many developing countries today, including China and India.[1]

The Chinese university sector has been expanding rapidly since the late 1990s. This rapid expansion was due to government policy implemented in 1999 to accelerate the expansion of the sector. This policy was introduced primarily as a result of the Asian financial crisis of the late 1990s, which had depressed domestic consumption and increased urban unemployment. It was hoped that expanding the university sector would increase domestic demand and absorb some of the unemployed workers. Expansion of the sector would also create a larger pool of highly skilled workers who would be able to compete in the increasingly knowledge-based economy.

The results of the policy were quite spectacular. Figures 1 and 2 graph the basic statistics of the university sector in China from the 1980s to the present.[2] The 1990s generally saw a slow growth in student numbers with approximately the same number of universities. Starting in 1999, new student enrolment increased by almost 50 per cent from the 1998 new student enrolment, with a further 45 per cent increase in 2000 (and more increases subsequently). There has also been a (much slower)

Figure 1 China: Student Numbers in Regular Institutions of Higher Education, 1985-2013

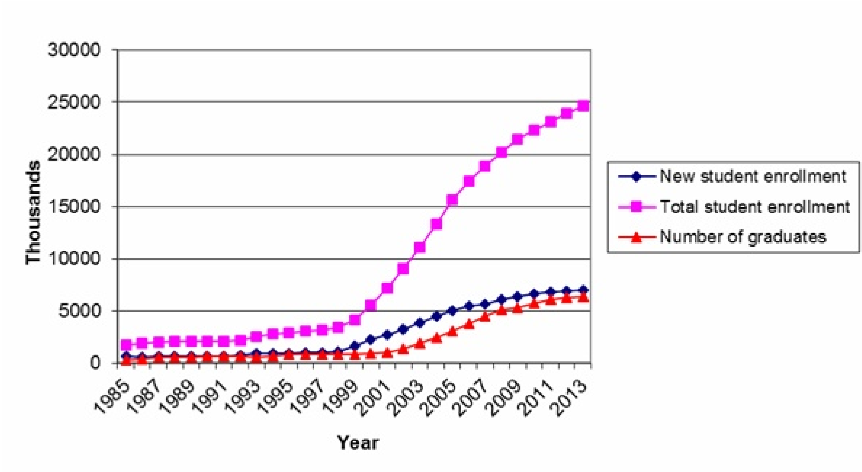


Figure 2 China: Number of Institutions and Teachers in Regular Institutions of Higher Education, 1985-2013

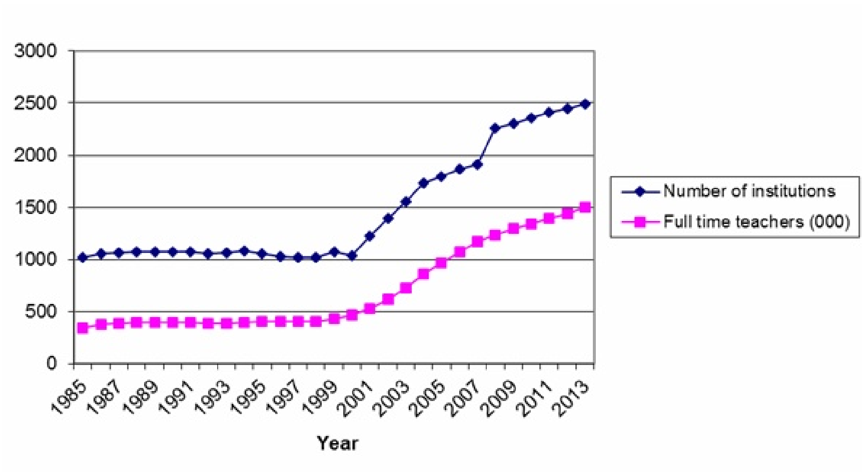
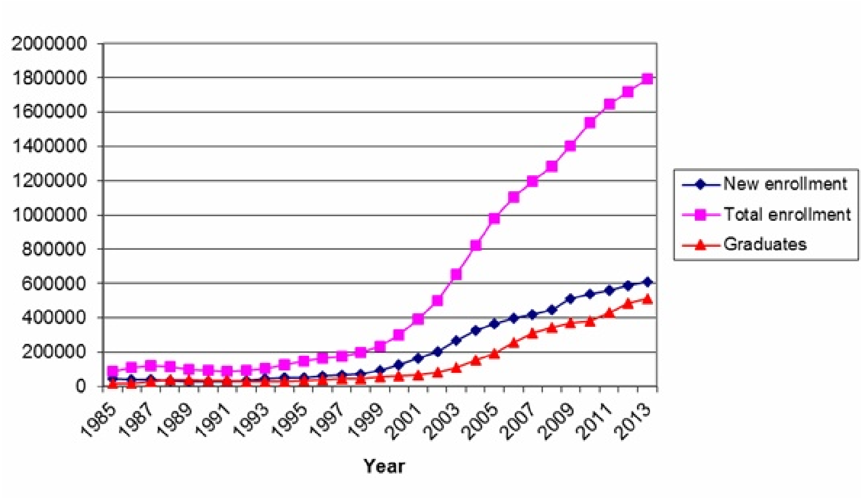


Figure 3 China: Number of Postgraduates, 1985-2013

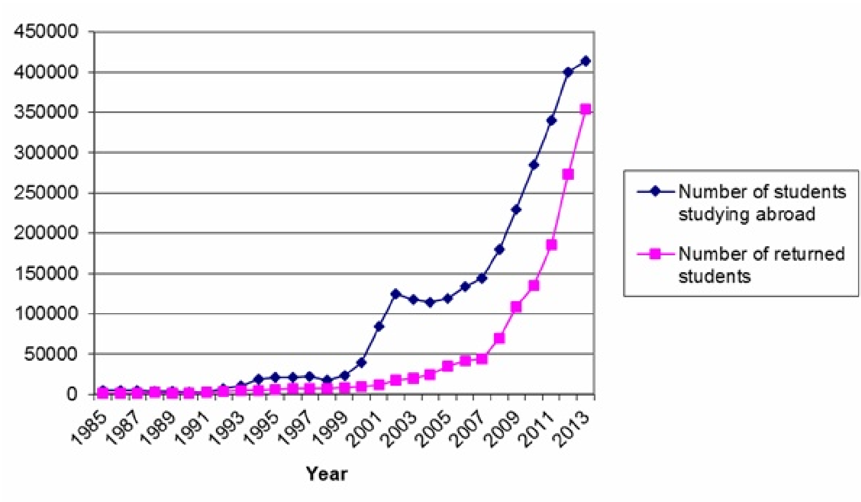


increase in the number of universities, and what appears to be a lagged increase in the number of university teachers, after a slow initial increase in 1999. As a result of this expansion, by 2013 the number of universities had more than doubled from 1998, to over 2,400 institutions, the number of university teachers had increased by over 3.5 times, to almost 1.5 million, and student numbers and the number of graduates by over seven times, to almost 7 million new students, 25 million students in total, and 6.4 million graduates.

Figure 3 shows that the number of postgraduate students in universities has expanded in tandem with overall student numbers. New enrolment and total enrolment have increased by six times since the start of the reform in 1999, to over 600,000 and 1.8 million respectively, while the number of graduates from postgraduate programmes has increased by nine times, to over 500,000. Figures 1 to 3 also suggest that the growth rates are decreasing, which in turn suggests that the market for higher education in China is approaching maturity.

One area which does not appear to have reached maturity is the number of students studying abroad, as shown in Figure 4. Whereas the beginning of the 21st century saw a stagnation of the number of students studying abroad, the upward trend has subsequently returned, so that, by 2013, there were over 400,000 Chinese students studying abroad, representing a 250 per cent increase over the number in 2005. Even more dramatically, the number of students returning from abroad, which had been less than one third of the number of students studying abroad in 2005, is now over 80 per cent. This may have been partly due to the Great Recession of 2008, which (along with increasingly restrictive student visas issued by host nations) substantially reduced the job market prospects of Chinese students abroad, as well as rising wages and better job opportunities becoming available in China.

Figure 4 China: Number of Students Studying Abroad, 1985-2013



We have thus far described the rapid expansion of the university sector in China. What then of the evidence regarding graduate unemployment? Unfortunately, unemployment data are less easily available. Figures from the China Statistical Yearbook suggest that urban unemployment rates are in the region of 4 to 5 per cent, and that these figures have been fairly constant over time. However, Knight and Xue (2006) have argued that the official definition of unemployment is too restrictive, and using ILO (International Labour Organisation) definitions results in an estimated urban unemployment rate of 11.5 per cent in 2000, a figure which has been rising since the early 1990s. Bai (2006) reports that graduate unemployment has reached 690,000 in 2004, and was projected to increase to 790,000 in 2005. This represents a high percentage of university graduates (see Figure 1). The issue of the definition of unemployment has returned in the more recent literature on urban graduate unemployment in China. The claim (Lee, 2014; *China Labour Bulletin*, 2013) is that the definition of unemployment is too narrow, and as a result, the actual unemployment rate is much higher than the official statistics.

The remainder of this paper is set out as follows. In the next section, we discuss possible explanations for the increase in urban graduate unemployment in China and its relationship with the expansion of the university sector. Then in Section 3 we discuss the possibility of reform in the higher education system in order to overcome this rising graduate unemployment. Section 4 concludes.

2. Possible Explanations for Urban Graduate Unemployment

Bai (2006) considers several arguments why university graduates might be blamed for graduate unemployment. First, in a country where traditionally university education was only for the elite, there are high expectations of good employment prospects for university graduates. Yet with university enrolment quadrupling in less than a decade, the increased supply of university graduates means that a university degree no longer guarantees a good job. Education is also viewed as an investment by the Chinese, and so graduates from rural areas have tended to migrate to the urban areas – especially large cities like Shanghai and Beijing – where wages are higher, to maximise the return on their investment. Such migration is facilitated by the strong extended family network in China, whereby having relatives in urban areas reduces the cost of rural-urban migration, as these relatives may provide information, temporary housing or even employment for the new migrants.

Knight and Xue (2006) propose two explanations for the increasing urban unemployment, both of which require that the urban wage is not competitively determined and so fails to clear the labour market. Their first explanation is the state sector redundancy programme starting in the early 1990s which led to the retrenchment of 11 per cent of the urban labour force. Some 53 per cent of those who had been retrenched since 1992 were still unemployed in 2000, and a worker who has been made redundant can expect to remain unemployed for almost four years (see also Appleton *et al.*, 2002). This big increase in unemployment may be one explanation for the increase in graduate unemployment. Their second explanation concerns the rate of rural-urban migration, which may exceed the rate of new job creation in the urban areas.

There has also been a steady stream of academic articles on urban graduate unemployment in China. Liu (2013) develops a model of labour market search and matching to explain the simultaneous development of unemployment and worker shortages in firms. She finds that the efficiency of matching decreased in the late 1990s and early 2000s, and attributes this decline to the rapid growth and structural change in the Chinese economy. Li *et al.* (2014) find that the expansion of higher education in China has led to an increase in unemployment among university graduates. They find evidence of a locational mismatch: graduate unemployment is higher in the central and western regions, and lower in the coastal regions. This suggests that relaxing the restrictions on regional migration may reduce the overall graduate unemployment rate. Liu (2012) documents decreasing labour force participation for both men and women in the 1990s, with the gap in participation rates widening over time. She attributes the major part of the participation gap to differences in coefficients between men and women, suggesting possible labour market discrimination.

Consider what role rural-urban migration can play in increasing urban unemployment. The Harris-Todaro (1970) model[3] shows that, in the presence of an urban wage that is fixed above the market-clearing rate, workers from rural areas have an incentive to migrate to the urban areas in search of these higher-paying urban jobs. Since it is not guaranteed that a migrant will be able to secure an urban job, risk-neutral migrants from rural areas will set their expected urban wage equal to the rural wage (which they can get with certainty), thus creating a pool of unemployed workers in the urban sector. If university graduates are paid much more in urban areas than they are in rural areas, then this model provides an explanation not only for why university graduates have a tendency to migrate from rural to urban areas, but also for why there are large numbers of unemployed graduates in urban areas. If this is compounded by rapid expansion of the university sector, the increased supply of graduates would further exacerbate the problem as the urban sector cannot expand sufficiently rapidly to employ them.

There has been significant evidence that urban-rural wage gaps have been an important reason for the massive migration that has occurred in China. Zhao (1999) documents that urban income exceeded rural income by about three-fold in 1993, that rural-to-urban migrants were typically young, single males with higher education than non-migrants, and that migrant workers typically earn more than non-migrants. Zhao (1997) also finds that education allows migrants to overcome barriers to migration as they seek higher-paying urban jobs. That the urban-rural wage gap is a major consideration in the migration decision has also been found by Zhu (2002) and Wu and Yao (2003). Park *et al.* (2003) present evidence that the skill premium has been increasing in urban labour markets, which suggests an explanation for the increasing demand for university education.

An alternative explanation for increasing graduate unemployment relates to the implications of the expansion of higher education on the labour market. If students have differing levels of ability, then expansion of higher education means that students of lower ability are now entering higher education. As a result, the average university graduate is of lower ability, and therefore employers need to implement screening mechanisms to separate the more-able from the less-able workers.[4] This may take the form of special requirements (good honours as opposed to just a pass degree, communications and computing skills, etc.). As a result, students who exhibit these skills are employed, while those who do not, are not. Note that graduate unemployment primarily refers to graduates of local universities. Graduates of foreign universities are generally perceived to have better communication and computing skills, which they have developed whilst abroad. Employers are also increasingly seeking university graduates to fill vacancies where they previously did not.[5] This may be attributable to the larger pool of university graduates from which to hire. On the supply side, with the increasing number of university graduates as a result of the expansion of universities, it becomes individually rational for economic agents to obtain a university degree, since otherwise they will be pushed out of the job market by those who have a university degree.

Another popular explanation of the high levels of graduate unemployment is that there is a mismatch between the skills that graduates have, and the skills demanded by employers. The blame is often placed on universities for this mismatch; universities are accused of offering degrees that are too theoretical and not sufficiently tailored to the needs of the labour market. This is in large part due to the rapid growth and structural change of the Chinese economy, and the university system has been unable to keep up with this change. We will explore possible ways of overcoming this perceived problem in the next section.

3. Reform of the University System

The rapid expansion of the Chinese university system since the late 1990s has been very expensive both financially and because of the large numbers of unemployed graduates that has been created. In this section we document ongoing policy changes in the university sector and offer some suggestions as to other policy changes that might be implemented to improve the performance of the system.

Commentators on urban unemployment in China have offered their views on what policy reforms might be required to overcome the problem. Bai (2006) argues that China's university system was insufficiently flexible to accommodate the rapid expansion of the early 21st century, and that as a result, graduates were trained only to pass examinations and are unprepared for the labour market. She recommends that the government changes its focus from expanding higher education to improving the quality of education provided. This would include changing the curriculum, providing broader education, and emphasising relevant research.

The Chinese government appears to be aware of the difficulties facing its university sector, and recent public documents have provided suggestions as to the direction of future reforms (Ministry of Education, undated). The previous centrally planned university system had resulted in little flexibility and autonomy being given to universities to provide education according to the needs of society. There were too many single-discipline and professional universities, which resulted in very low efficiency. The main objective of the ongoing reform of the university sector is to smooth the relationship among government, society, and universities. Under the reformed system, the government will be responsible for overall planning and macro management while the universities follow the laws and enjoy the autonomy to provide education according to the needs of society.

The funding of the university system has also been changed from a system almost entirely dependent on government funding, to one in which finance is obtained from diverse sources. Students are expected to pay a proportion of the cost of higher education, and a loan and scholarship system put in place to ensure that fewer students drop out for economic reasons. University employees are also given incentives for personal achievements to help encourage better performance in both teaching and research.

Table 1 shows how the sources of university funding in China have changed in the past two decades. In 1996, out of total university funding of about 37 billion yuan[6], about 80 per cent was from government allocations, with tuition and research fees making up another 15 per cent, and other sources contributing much smaller percentages. By 2011, total university funding had reached 702 billion yuan, of which only about 58 per cent was from government funding, while the contribution of tuition and research fees had reached 35 per cent. This in fact hides the policy shift that occurred around 2007 (see Figure 5) which has to

Table 1 China: Basic Statistics on Educational Funds, 1996-2011 (million yuan)

Year	Institution	Total	Government appropriation	Social organisations and citizens
1996	IHE	36790	28904	145
	RIHE	32679	26255	57
	IHEA	4111	2648	88
1999	IHE	76465	47283	391
	RIHE	70873	44316	326
	IHEA	5592	2967	65
2001	IHE	124755	66599	2538
	RIHE	116658	63280	1819
	IHEA	8097	3320	718
2003	IHE	187368	87687	7763
	RIHE	175435	84058	6030
	IHEA	11933	3630	1733
2005	IHE	265786	112853	18149
	RIHE	255024	109084	18013
	IHEA	10762	3770	136
2007	IHE	376230	164812	3192
	RIHE	363419	159832	3188
	IHEA	12811	4980	4
2009	IHE	478277	232738	3309
	RIHE	464501	226451	3309
	IHEA	13777	6288	0
2011	IHE	702087	409633	3329
	RIHE	688023	402350	3329
	IHEA	14064	7283	0

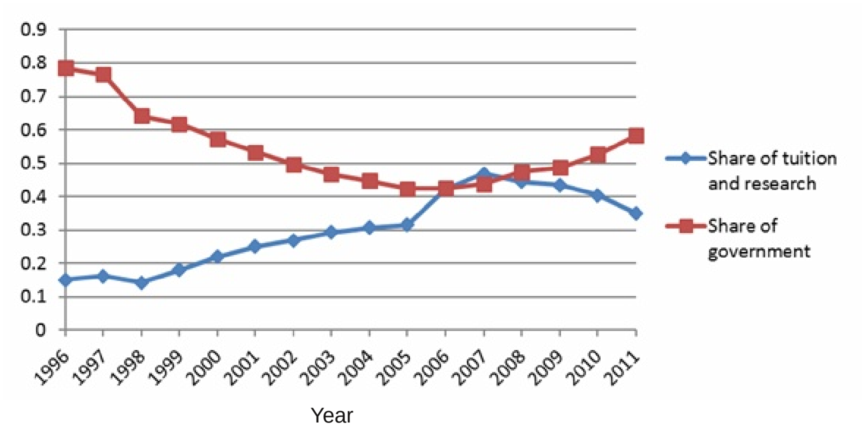
Notes: IHE – Institutions of higher education *(Continued on next page)*
RIHE – Regular institutions of higher education
IHEA – Institutions of higher education for adults

Table 1 (Continued)

Year	Institution	Donations and fund-raising	Teaching, research and other activities	Other funds
1996	IHE	392	5540	1809
	RIHE	370	4462	1535
	IHEA	23	1077	274
1999	IHE	1639	13788	13363
	RIHE	1617	12078	12536
	IHEA	22	1710	827
2001	IHE	1743	31243	22631
	RIHE	1727	28244	21586
	IHEA	15	2999	1045
2003	IHE	2574	54875	34469
	RIHE	2564	50573	32210
	IHEA	10	4302	2259
2005	IHE	2119	83791	48873
	RIHE	2108	79192	46626
	IHEA	12	4599	2246
2007	IHE	2747	176616	28864
	RIHE	2718	169870	27810
	IHEA	3	6745	1053
2009	IHE	2639	208366	31225
	RIHE	2618	201889	30234
	IHEA	21	6476	991
2011	IHE	4345	246200	38580
	RIHE	4319	240072	37954
	IHEA	27	6128	626

Notes: IHE – Institutions of higher education
RIHE – Regular institutions of higher education
IHEA – Institutions of higher education for adults

Figure 5 China: Share of Government, Tuition and Research Fees in University Funding, 1996-2011



some extent reversed the trend towards universities obtaining income from sources other than the government. Despite this apparent U-turn, it is clear that the government policy of encouraging the use of other sources of funding has proved to be successful in reducing the dependence of the university sector on government funding. One additional benefit of this may be that the universities are now more accountable to these other sources of funding and may therefore have more incentive to perform well.

Also evident from Table 1 has been the relative decline in the share of university funding going to institutions of higher education for adults. Adult education is especially important in China since its rapidly growing economy is undergoing massive structural change, so that existing skills need to be upgraded and new skills learned as new sectors emerge and old sectors close down. However, the total funding for adult education has fallen from about 11 per cent of total funding for higher education in 1996, down to about 2 per cent in 2011. The World Bank (Dahlman, Zeng and Wang, 2007) report *Enhancing China's competitiveness through lifelong learning* argues for the need for China to expand the entire spectrum of education provision, from preschool education through to higher education and adult education. The rapid growth and structural change of the Chinese economy, together with the reform of the state-owned enterprises, means that structural unemployment will increase as workers' existing skills are not required in the new economy. Therefore adult re-training is needed for the unemployed to get new jobs. The current de-emphasis of adult re-training needs to be reversed.

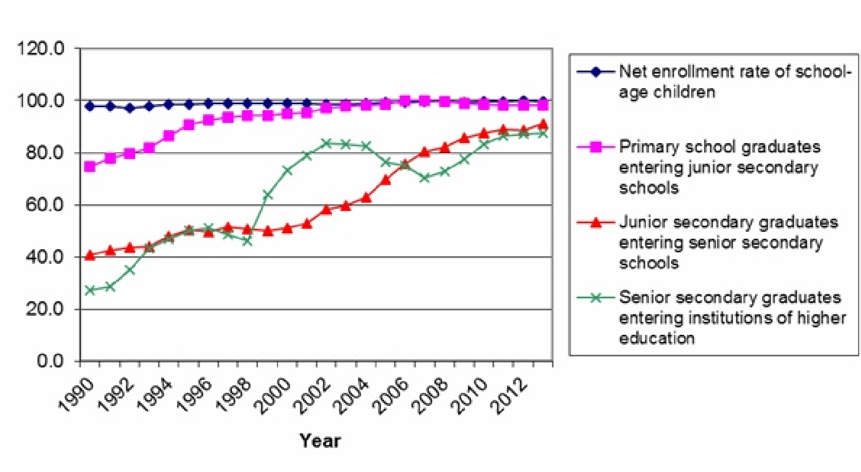
The World Bank report also suggests that many university graduates cannot find jobs because of a mismatch between university education and the demands of the labour market; university education needs to be adjusted in terms of teaching methods, curriculum, and pedagogy to respond to the new demands of the knowledge economy. The report suggests that the main problem is the shortage of investment in adult education and training, which concurs with the evidence presented in Table 1. The report's recommendation is that the role of the government needs to shift from that of key decision-maker and sole provider of education and training to that of system architect, rule-maker, and promoter – which is exactly what the Ministry of Education is seeking to do. Planning, coordination and management that are integrated across sectors are required to build a lifelong learning system, which has as its own pre-requisite a national consensus on the importance and urgency of establishing such a system.

Another World Bank report, *China and the knowledge economy* (Dahlman and Aubert, 2001), argues that China needs to respond to the knowledge economy by, among other things, upgrading its education system. Their recommendations on education include adapting students' learning to the requirements of the knowledge economy, establishing regulations to facilitate the integration of the private education sector with the formal education system, and exploiting the opportunities for learning based on information and communication technologies. Such reforms will enable the university sector to remain relevant to the needs of the labour market and to continue to produce the highly skilled labour force that is required in the knowledge economy.

In considering the expansion of the education sector in order to raise the skill level of the workforce, a key practical question is: at which level of education should the expansion focus on? The answer to this question depends on the existing structure of the education system. Figure 6 shows the proportion of students entering schools of higher grade. From this figure it is clear that China has achieved virtually universal primary school enrolment since the early 1990s, and by the mid-2000s had achieved almost 100 per cent primary school graduates continuing their education in junior secondary schools. Education to the level of junior secondary schools (9 years of schooling) has been compulsory since a law was passed in 1986, but it was only in the past decade that this objective had been achieved.

Beyond junior secondary education, the percentage of junior secondary graduates entering (non-compulsory) senior secondary education has increased over time, as has the percentage of senior secondary graduates entering higher education. At the beginning of the 21st century, the increase in the latter was much more rapid than in the former, suggesting that the higher education sector has expanded more rapidly than the senior secondary education sector. More recently this trend has been reversed, with a higher percentage of junior secondary graduates entering senior secondary, than senior secondary graduates entering higher education. In both cases the percentage is over 80 per cent, which is over twice that in 1990.

Figure 6 China: Enrolment Rate of School-age Children and Proportion of Students Entering Schools of Higher Grade, 1990-2012



Another important practical question in the expansion of the education sector is what form this expansion should take: expansion of existing institutions, or the establishment of new institutions? The answer to this question depends on the presence of scale and scope economies; if there are unexhausted economies of scale, then expanding existing institutions would lead to lower average costs. Similarly, if scope economies are present, then there are benefits to having multi-disciplinary institutions as opposed to specialised ones. A detailed exploration of these issues is beyond the scope of the present paper, but some comparisons can be made relative to the comparatively more mature higher education sector in the United Kingdom (UK).

To guide our discussion, consider Figures 7 and 8, which are calculated from Figures 1 and 2. While Figures 1 and 2 show that the number of institutions has increased by about 2.5 times since 1985, the

Figure 7 China: Students per Regular Institutions of Higher Education, 1985-2011

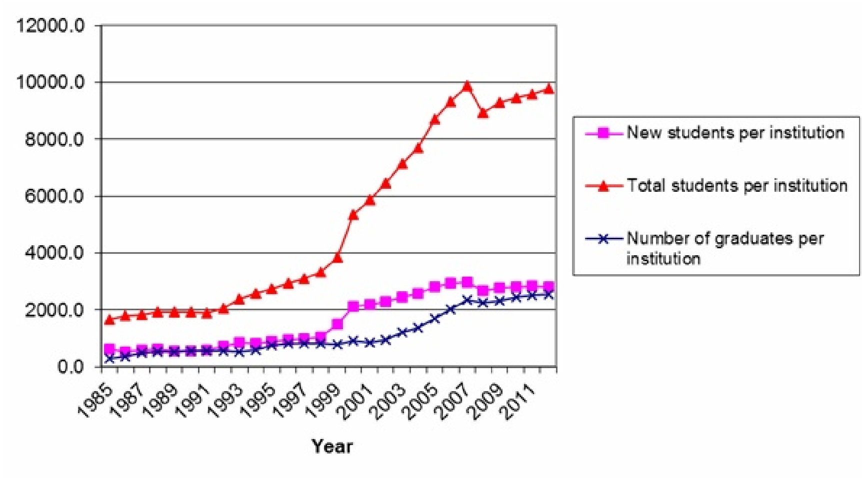
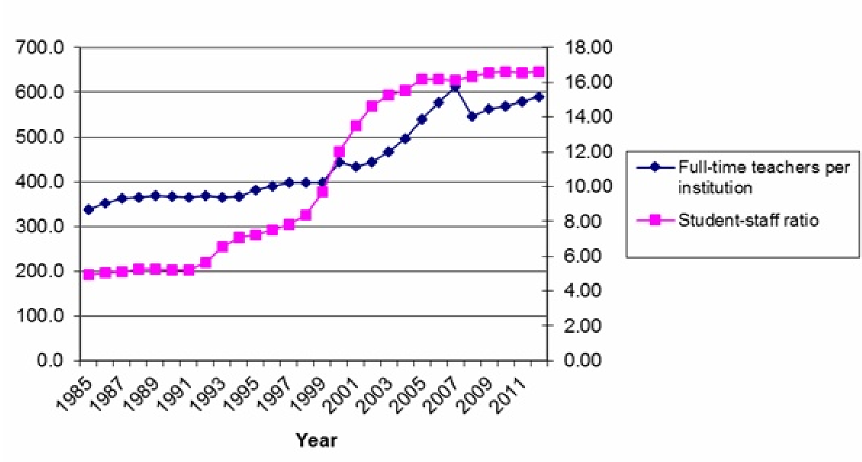


Figure 8 China: Teachers and Staff-Student Ratio in Regular Institutions of Higher Education, 1985-2011



institutions themselves have expanded more rapidly than that. Average new student enrolment has increased about five-fold since the mid-1980s, as has the total number of students per institution. As might be expected, the number of graduates per institution lags new student enrolment by several years. However, the number of teachers per institution has not increased as rapidly as student numbers have. The average number of teachers remained fairly constant throughout the 1980s and 1990s, and it has only been in the past few years that the average number of teachers has increased significantly. As a result, the student-staff ratio has more than trebled, from about 5 students per teacher in the mid-1980s to about 16 students per teacher in 2011. However, what is also clear from Figures 7 and 8 is that the trends are changing once again. It is evident that in the past five years the growth rate of universities has decreased dramatically.

How do these values compare with those of the UK higher education system? Johnes *et al.* (2005) have performed an analysis of the cost structure of higher education in England, for the time period 2000/01 to 2002/03. They report that the average number of students across all higher education institutions is about 8000, including undergraduates and postgraduates. They find the existence of scale and scope economies at the average institution size, and also for hypothetical institutions which are half and twice the size of the average institution. Their conclusion is that, given the presence of scale and scope economies, expansion of the university sector through expansion of existing universities is more cost-effective than the alternative of expanding the number of institutions.

Elsewhere, Johnes (2008) presents descriptive statistics of English universities where the average number of (undergraduate and postgraduate) students was about 9600 in 1996/97 and 11400 in 2004/05, while the average number of full-time equivalent academic staff was about 850 in 1996/97 and 1330 in 2004/05. This suggests a student-staff ratio of about 11.3 in 1996/97 and 8.6 in 2004/05. In this paper Johnes (2008) finds that whilst English universities have experienced overall productivity increases from 1996/97 to 2004/05, there was also evidence that technical efficiency was falling. She suggests that this may be caused by adjustment costs faced by universities in adapting to the rapid changes in the sector, both in terms of student numbers and in terms of technological change.

Comparing the results from studies on UK universities with the data we have on Chinese universities, we can make the following policy recommendations (with the caveat that the results from UK universities may not apply perfectly to Chinese universities). First, continued expansion of the Chinese university sector should include both the expansion of existing universities and the establishment of new universities; at the average size of Chinese universities, evidence from the UK suggests the existence of both scale and scope economies. Second, the existing government policy of de-emphasising single-discipline universities should continue, in view of the existence of scope economies in this sector. Third, the rapid expansion of the sector has resulted in a rapid increase in the student-staff ratio, which should be carefully monitored as this may result in deterioration in the quality of education provided.[7]

4. Conclusions

Urban graduate unemployment has recently received much coverage in the media. This has been especially true in developing countries, but more recently in developed countries as well, as the Great Recession has led to widespread youth unemployment in many European countries.

This paper discusses this phenomenon as it pertains to China. We propose several possible explanations for graduate unemployment, and present data on the rapid expansion of the Chinese university system especially since the reform of 1999. This expansion may be an important cause of the rise in graduate unemployment. Government policies are already in place to address this problem, and we discuss some additional proposals for future reform of the system.

There are many other aspects of the higher education system in China which we have not touched on. One of the key findings in the research literature discussed above is that there is decreasing labour force participation over time in China, especially for women, which may be attributable to labour market discrimination. This may be of some concern to policymakers. In 1999, women represented 38 per cent of university graduates in China. By 2011 they represented 46 per cent of university graduates. That discrimination against women continues to persist in modern-day China represents a source of inefficiency in the economy. China's economic growth since the start of the reform in 1978 has been amazing, transforming China from one of the poorest countries in the world to a middle-income country in just over a generation. But whilst income may grow rapidly, it appears that social attitudes and cultural norms may take longer to catch up.

Notes

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1. For China, see Bai (2006). For India, see Ray and Chand (undated).
2. Unless otherwise stated, all data used in this paper are from the *China Statistical Yearbook* (various editions).
3. See also Todaro (1969) and the survey by Lall *et al.* (2006).
4. This mechanism was first described in Spence (1973) in his famous "job market signalling" paper.
5. This phenomenon, known as "filtering down", was discussed in Knight (1979).
6. A "yuan" of China's currency *reminbi* ("people's currency") is equivalent to about US$0.157.
7. Not included in the discussion is the impact of university expansion on research performance. Johnes and Yu (2008) find evidence that Chinese universities exhibit significant heterogeneity in terms of their research efficiency.

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Managing across Public-Private Partnerships: A Review of Implementation in China and Australia

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Abstract

Public-private partnership is about governance in the contemporary public service and public interest in public administration with the participation of private sector in the market economy in establishing strategic partnerships in responsible economic management of public services. This article provides an overview of the implementation of public-private partnerships and how these evidences have been managed across China (including Hong Kong SAR) and Australia. It also depicts the key challenges of managing them in both countries given their different stages of maturity in implementation framework of regulation and evaluation.

Keywords: *public-private partnerships, public administration, China, Australia*

JEL classification: *H41, H44, L32, L33*

1. Introduction

Although much research has been devoted to understanding public-private partnerships (PPPs) as an alternative means of providing public infrastructure with a focus on services and/or outputs, the contextual nature of management approaches is important for understanding administrative centrality in this policy tool. The PPP understanding we have in mind is where a private entity is contracted to deliver public infrastructure-based services, a switch from traditional public procurement methods to provision of infrastructure. Partnership has been the fashionable trend since the Thatcher government of the United Kingdom embarked on a large-scale privatisation program beginning with the sale of British Telecom in 1984 followed by many other experiences in Europe. Following these developments, the evolution of PPP models also covered a large spectrum of projects across Australia since the 1980s. In China, the position was also similarly experienced in 1980s but only much later was a series of policies, guidance materials and rules relating to the provision of public facilities and services drafted. For example, the Ministry of Construction issued the "Opinions on Acceleration of Privatization Process of Public Facilities" in December 2002 and the "Rules on Management of Franchised Operation of Public Facilities" in May 2003. Among others, the Shenzhen Government also advocated the "Rules for the Franchised Operation of Public Facilities" in May 2003 and the Beijing Government the "Rules for the Franchised Operation of Basic Urban Facilities" in October 2003. Eventually the PPP law in China was only set up officially in 2014.

The term partnership is a dominant slogan in the rhetoric of public sector reform, capturing from privatization to PPP and now private finance initiative (PFI) though PFI is not used in China. The broader framework of PPP in China today includes both policy-level partnerships and project-level partnerships. Policy-level partnerships coordinate both public and private sector inputs on design and formulation of policy initiatives whilst project-level partnerships focus on specific situations or development of a particular project with inputs of private capital finance and management.

PPPs in Australia as in other countries have been subject to increasing criticisms (Wettenhall, 2003). In retrospect, many projects have been shown to have reduced the net worth of the public sector and misallocated risk (Quiggin, 1996, 2004; Spackman, 2002). Particularly the partnership is about governance in the contemporary public service and public interest in the market economy. Leaving the noted criticisms, this article provides a modest overview of the implementation and managing across PPPs in Australia and China which both countries commonly initiated in early 1980s but are of different legislation establishments. Evidences of several implementations of PPPs in China are reviewed followed by the Australian experience across different sectors in both countries since the 1980s.

2. Development of PPPs in China

China has a provincial and city-driven PPP program operating under national regulation. The central government is responsible for the regulatory framework and approval of all major infrastructure projects. The detailed administrative measures are provided by subnational governments who lead in the implementation of PPP.

In recent years the terms public-private partnerships (PPPs) and later private-finance initiatives (PFIs, though not much yet in China) have been used throughout the world to describe joint approaches to infrastructure and service delivery between the public and private sectors. In many countries, this engagement has occurred in the presence or the absence of a formal policy to protect the public interest and to guide the private sector. In some countries like Australia, United Kingdom and Canada, such formal policy and related documents are evident for commitments to the highest standards possible for strategic partnerships in order to establish a strong record of responsible economic management.

From the mid-1980s to the 1990s, the first stage of PPP in China was initiated in the power and water sectors namely Shenzhen Shajiao B power project, Laibin B power project in Guangxi, Chengdu water project and the Changsha power project. Though there exist policy frameworks such as "Opinions on Acceleration of Privatization Process of Public Facilities" in December 2002; "Rules on Management of Franchised Operation of Public Facilities" and "Rules for the Franchised Operation of Public Facilities" both in May 2003 and the "Rules for the Franchised Operation of Basic Urban Facilities" in October 2003, they are relatively minimal as compared to other developed countries who have been practicing PPPs. Though at a minimum, it serves as a start towards the circumstances of supporting PPPs.

The setup of PPP law is led by the Department of Laws and Regulations of the National Development and Reform Commission commenced only in early 2014 who evaluate and approve project application reports of PPP projects despite the early-on implementation. As such, a PPP working group was only established under the Ministry of Finance in May 2014. A total of 30 projects were announced in which 8 are new and 22 transferred from local financing platforms covering transport, wastewater treatment, water and heat supply, environmental restoration, pipe networks, medical treatment and sport facilities and new energy vehicles. Nevertheless, since the 1980s more than 1000 PPP projects have been mobilised (Asian Development Bank, 2014).

It is understandable that the main drivers for PPP adoption are very much economy-related. Favourable policies and reasons for advocating PPPs in China are mainly:

- Inadequate investment in public facilities and services given the high rate of urbanization, relatively low standard of public facilities and services;
- Limited funding sources and inadequate private investment in public facilities and services given that the main source is government funding;
- Slow rate of reform of state-owned enterprises and poor provision of public facilities and services.

On the last point above, perhaps many have viewed the state-owned enterprises (SOEs) as relics of a failed economic experiment as had been in the pursuance of privatization policy by the Conservative Administration of Thatcher and Major from 1979 to 1997 on the majority of state-owned enterprises. In the case of China, an out-of-date impression of SOEs distorts the picture of China's competitive landscape as the line between the SOEs and private-sector companies has blurred considerably (Woetzel, 2008). Many observers define a Chinese SOE as one of the 150 or so corporations that report directly to the central government. Thousands more fall into a grey area, including subsidiaries of these 150 corporations, companies owned by provincial and municipal governments, and companies that have been partially privatized yet retain the state as a majority or influential shareholder. The oil company China National Offshore Oil Corporation (CNOOC) and the Chinese utility State Grid Corporation of China (SGCC), for instance, are clearly SOEs under the first classification, while the computer maker Lenovo and the appliance giant Haier are less clear-cut cases, in which the state is the significant shareholder. A majority of the equity in the automaker Chery Automobile belongs to the municipal government of Wuhu. Further, market forces unleashed by government reforms are pushing SOEs to become more open (Woetzel, 2008).

The Chinese government has been promoting PPPs in the provision of public services to meet the needs of public facilities and improve quality, service delivery, and efficiency. In early October 2004, 54 infrastructure projects involving RMB 70 billion[1] were bid for by private companies through the Ministry of Finance. There are 14 different modes of PPP existing within three generic types – outsourcing, concession, and divestiture (Beh, 2007). For instance in recent developments, almost half of the Olympic sports areas in Beijing were constructed using the PPP model in addition to the Yizhuang natural gas project, the No. 5 underground project and the Beiyuan waste water project in Beijing.

3. Selected Cases of PPPs in China

The government remained much in control of public sectors such as water services, energy, waste management and public transport. In the mid-1990s, the China government promulgated the *Circular on Attracting Foreign Investment through BOT Approach* (No. 89 Policy Paper of 1994, the former Ministry of Foreign Trade and Economic Cooperation, 16 January 1995) and the *Circular on Major Issues of Approval Administration of the Franchise Pilot Projects with Foreign Investment* (No. 208 Policy Paper of Foreign Investment, the former National Development and Planning Commission, the Ministry of Electric Power Industry, and the Ministry of Communications, 1995). These legislative circulars formed the basis for public-private partnerships and foreign capital investments. Following that, the National Development and Reform Commission firstly approved three BOT infrastructure projects in 1996 include Chengdu No.6 Water Supply BOT Plant, Guangxi Laibin Power BOT Plant, and Changsha Wangcheng Power BOT Plant (failed) (Zhong, Mol, and Fu, 2008).

3.1. Water and Waste Management

In China, BOT/BTO contracts, transferring risk and payment to the public sector (i.e. with payments by a public authority rather than end-users), have been used for the development of new water-services projects. This is a positive phenomenon, but how real is any risk transfer? It might be argued that if the PPP fails it is quite likely that the public authority will incur extra costs to maintain the public service, so risk transfer will fail anyway to this extent. However, it would not be correct to suggest that this is what always happens if PPP projects get into trouble.

One of China's first wastewater treatment plants to be delivered using a PPP, the Guangzhou Xi Lang Wastewater Treatment Plant, was completed by the Guangzhou Sewage Treatment Co. (GSTC) and Earth Tech. (Anonymous, 2008). The consulting firm, which also helped arrange part of the project's financing, served as the plant's designer, construction manager and operator. As part of Guangzhou's commitment to promote sustainable development and improve water quality in the Pearl River, the city decided to pursue an innovative approach to constructing new wastewater treatment facilities. The build-operate-transfer project was completed six months ahead of schedule and came in under a budget cost of approximately USD 130 million. It has a maximum capacity to treat 260,000 m3/d and features a biological nutrient removal process and an ultraviolet disinfection system that are both state of the art. Earth Tech will operate and maintain the plant's treatment systems for 17 years, after which operation of the plant will be returned to GSTC. The plant's design includes a possible second phase that would double its capacity. The plant was financed in part by Tyco International, Earth Tech's parent company, and a major Chinese bank.

Direct investment demand for urban wastewater infrastructure (including wastewater treatment, sewers, and sludge treatment) in China was over USD 30 billion between 2006 and 2010, to meet the objective of 60% municipal wastewater treatment. Accordingly, local governments prefer direct private sector investment in new wastewater management resulting in high levels of Greenfield modes where financing is based on negotiated prices between the government and the private sector and is less dependent on the user fee/charge (Zhong, Mol and Fu, 2008).

In rural water management, a 4-year USD 6.792 million joint project by United Nations Development Program (UNDP), Ministry of Water Resources, China International Center for Economic and Technical Exchange under the Ministry of Commerce, and The Coca-Cola Company in the provinces of Sichuan, Heilongjiang, Xinjiang, and Liaoning provides basic sanitation, water safety technologies, rebuilding of drainage pipelines and ecologically sustainable agricultural technologies for water conservation.

3.2. Health

The China Health Alliance (CHA) is a new PPP catalysed by the World Economic Forum's Global Health Initiative. Founding members and partners of the China Health Alliance to date include Accenture, China National Textile and Apparel Council (CNTAC), Constella Futures, Esquel, Institute of Contemporary Observation, iKang, Karstadt Quelle, Marie Stopes International China, Pfizer, Social Accountability

International, Standard Chartered Bank, Swire Beverages, UNAIDS, UNDP, World Health Organisation (WHO) and World Vision International. Each member is actively supporting the set-up and implementation of the Alliance's programs. The partnership is designed to educate, test, treat, and support Chinese company employees at risks of TB and AIDS besides raising public awareness of growing public health threats in China, witnessing the pilot project in Guangdong (*China Daily*, 14 September 2007).

Further, Merck Sharp & Dohme and DaimlerChrysler also formed partnership with China's non-governmental organizations and government agencies, for example Ministry of Health, on a USD 30 million project on HIV/AIDS prevention and treatment. Other partnerships include Quality Brands Protection Committee, International Council of Toy Industries, the China Business Council on Sustainable Development and Global Business Coalition on HIV/AIDS.

3.3. Infrastructure

Infrastructure development in China increased tremendously especially over the past 20 years. There are numerous projects to be elaborated upon within the complex interdependencies and networks. One such project is the Citong project where there were many challenges faced. Among those challenges were that with the ownership of local transportation facilities localized from provincial government to the municipal government, revenue of Quanzhou Bridge is channelled fully into the city public accounts instead of partially as agreed upon earlier and the design of the connectivity of the highway to the city. Others include absence of operation right assurance, finance, standardized operation procedures, complex procedures of obtaining approval, and lack of regulation. Hence, the situation in which difficulties arise due to changes of agreements from time to time, deficiencies and unnecessary secrecy surrounding the contracts and public interests and allocation of risks accurately defined in the policy seems vital.

China's rapidly growing aviation industry has challenged on-going efforts to maintain effective safety and security operations. The US Training Development Aviation helped to structure the China Aviation Cooperation Program with the goal of facilitating U.S. government and U.S. aviation industry training and technical cooperation with China identified by the General Administration of Civil Aviation of China (CAAC). This program is supported by twenty-one U.S. private sector member companies and public sector contributions from the Federal Aviation Administration and the CAAC.

The Beijing Metro Line 4 was developed by the Beijing Municipal Government as a PPP with China MTR Corporation Ltd as the main private sector partner (49%), the Beijing Capital Group Co. (49%) which is an SOE of the Beijing Municipal Government and Beijing Infrastructure Investment Co. Ltd (2%), another SOE. China MTR's operations cover international markets such as Australia and Europe in addition to Hong Kong and China. Another project, Beijing Line 14 is also being developed as a PPP. Both projects are for a concessionaire of 30 years.

3.4. Gas

China Gas Holdings (CGH) has entered into PPPs with municipal governments to distribute natural gas and liquefied petroleum gas supply since 2004 serving 196 cities in 21 provinces of 27 million people with projects worth USD 200 million. Prior to that coal gas was used which accounts for 68% of the energy usage. With the expanding potential of abundant natural gas reserves, capital expansion and expertise available, there is large potential for demand in power generation and residential use and opening downstream activities to private sector, thus introducing competition as compared to distribution traditionally controlled by municipal governments.

4. Key Challenges Facing PPPs in China

Since relatively PPP is a new initiative in China, there exist commonly the key challenges namely:

- Limited capacity of civil society/NGOs to manage partnership;
- Lack of experience on commercial, technical, legal, and political aspects of PPPs;
- Too much emphasis on attracting investment from private sector and too little attention given to market competition;
- PPPs have been treated as privatization of public facilities/services focusing on short-term return without a spirit of long-term partnership.
- The financial risk and burden shifted to public without the corresponding increase in service quality;
- Inadequate knowledge on PPPs, lack of proper risk assessment;
- Lack of administrative framework for PPP projects.

A key aspect of PPPs, as the name suggests, is the central involvement of a private-sector entity with a public-sector entity. The objective of the partnership is to import private sector to the delivery of a service which has previously been accepted as the responsibility of government and it is the introduction of a private-sector entity which creates an accountability dilemma. After all, the choice of using a PPP as a medium to deliver services is a policy decision of the government. Rosenau (1999) argued that the success of a partnership arrangement was dependent on setting out clear goals and clear lines of responsibility. This can only be accomplished if the problem is well understood and the government service required is clearly specified.

PPPs are generally entered into for a lengthy period of time, and are developed in an environment of uncertainty. Hence it is important to develop a governance framework that would involve performance aspects, tools of analysis, and key issues. There are many suggestions as to how PPPs can be better managed. One of these is pointed out here. According to Grimsey and Lewis (2004), among the key ingredients in developing a typical PPP project together with the roles of the government at each stage are:

- A focus on defining services, with the emphasis on the delivery of infrastructure services using new or refurbished public infrastructure assets;
- Planning and specification, so that government's desired outcomes and output specifications are clear to the market;
- Creating a viable business case for the private party;
- Certainty of process, ensuring that any conditions to be fulfilled are clearly understood before the project proceeds;
- Project resourcing to enable government to advance the project and address issues in line with published time-frames;
- Clear contractual requirements, centred on key performance specifications, to promote performance and minimise disputes;
- Formation of a partnership to encourage good faith and goodwill between government and the private party in all project dealings;
- Contract management to monitor and implement the contract.

The key question that needs to be addressed is: do PPP projects deliver better results in terms of time and cost outcomes in comparison with traditional projects? While competitive tendering is the default, direct negotiation is widely used which may result in higher-cost PPPs. Regardless of any viable complex risks allocation framework and service delivery performance in place, it should be mindful that the ultimate responsibility for service delivery and performance of essential public services rests with the government, and the author believes that China is mindful of this responsibility and as in any governance, more efforts in policy and regulation must be enhanced in multiple financing channels and operations management as well as establishing a comprehensive evaluation system. In this regard, the Hong Kong SAR contributes significantly to achieving the government's policy of PPPs.

5. Development of PPPs in Hong Kong SAR

In contrast, the Hong Kong Special Administrative Region (SAR) has established its PPP policy documents well emulating the UK and Australian model through optimal risk allocation and other efficiency measures. Hong Kong has a long history of attracting private sector investment and operating skills to deliver public services, most notably major infrastructure facilities such as the cross-harbour and other tunnels developed using the Build-Operate-Transfer (BOT) approach. A number of projects are at different stages of development, or have, for example, had feasibility studies conducted on them. PPPs in Hong Kong are most likely to adopt the Design-Build-Finance-Operate (DBFO) model or the DBO (Design-Build-Operate) model. The major difference between a DBFO and a DBO, in the Hong Kong context, is the timing and nature of the payments for the facilities associated with the project. Examples of PPP projects in Hong Kong include Hong Kong Disneyland, Asia

World-Expo, Ngong Ping Skyrail, Marine Police Headquarters and many other potential projects such as North Lantau Hospital, Cruise Terminal, West Kowloon Cultural District, Sports Stadium, etc.

In Hong Kong, the definition of PPP has been termed differently from privatization just as in the context of Australia. With a PPP, government retains ultimate responsibility for the delivery of services throughout the contract. Although some PPPs may involve existing government assets being transferred to the private partner, in Hong Kong this will normally only be for the duration of the contract, not in perpetuity. After the expiry of the contract term the service obligation will revert to government. On occasion, as with a privatization, a PPP may also involve the opportunity for civil servants to be transferred permanently or temporarily.

Subject to the proper construction and interpretation of any relevant legislation in any particular situation, the Hong Kong government has extensive constitutional and common law powers to make commercial contracts including PPP contracts. There are lists of documents pertaining to PPPs such as *A General Guide to Outsourcing*, *A User Guide to Contract Management*, and *An Introductory Guide to Public Private Partnerships (PPPs)*. Outsourcing is one of the key forms of private sector involvement in Hong Kong. It supports the government's policy of minimum intervention and maximum support. Over the past, Hong Kong government departments have contracted out many activities including capital development (infrastructure and building) and administrative and maintenance functions (building and property management, cleaning, security, plant and equipment maintenance), environment, hygiene, training and development and welfare services. The Independent Commission against Corruption (ICAC) has published a best practice guide on government outsourcing.

In Hong Kong, a PPP is considered in circumstances where:

- There is a major investment programme, requiring effective management of risks associated with construction and delivery; this may be a single major project or a series of replicable smaller projects;
- The private sector has the expertise to deliver and there is good reason to think that it will offer value for money;
- The structure of the service is appropriate, allowing the public sector to define its service needs as outputs/outcomes that can be adequately contracted for in a way that ensures effective, equitable and accountable delivery of public services in the long term;
- Where risk allocation between the public and private sectors can be clearly made and enforced;
- The nature of the assets and services involved are capable of being costed on a long-term, whole-of-life basis;
- The value of the project is sufficiently large to ensure that procurement costs are not disproportionate;
- The technology and other aspects are reasonably stable and not susceptible to short term-paced changes. Where a project involves a facility (e.g. a hospital) where the equipment inside is subject to rapid technological development, arrangements separate from the PPP contract can be made;
- Planning horizons are long-term, with assets intended to be used over long periods.

Circumstances in which PPPs are not favourable are also mentioned. PPP proposals also take into account public interest criteria covering accountability, transparency, equity, public access, consumer rights, security, privacy, and the rights of affected individuals and communities. The principles of transparency and accountability are crucial to the affected and interested parties, further minimizing the likelihood of any misunderstandings or misperceptions.

Hence we see the extensive policy-making of PPP-structured framework and governance of PPP in Hong Kong as compared to mainland China. The roles played by the public and private sectors are distinctively established and those within the various departments in the public sector are defined. The utilization of a public sector comparator as exampled in Australia is another element besides value for money which enables comparison with bids and allowances for imputed cost of government borrowing and appropriate level of investment. All these are made public knowledge where possible. With clear statements of information and output performance specifications, then the desire for well-established PPP process and projects are committed into managing risks and re-assessment of risks throughout the PPP approach. Areas of funding and payment and managing performance can then be dealt with effectively taking into account changes in circumstances and issues that may arise later. Thus the governance of PPP and its intended output is effectively enforced in Hong Kong as also emulated upon in Australia.

6. Development of PPPs in Australia

Relatively, PPPs in Australia have developed well into the final maturity curve of privatization. Policy and guidance materials have been developed at the federal and state levels each with its own retrospect compared to China. However, despite its maturity, notwithstanding, PPPs in Australia have experienced much success on many occasions but also effectively failed on numerous occasions and particularly infrastructure.

At the Australian government level, the term PPP refers to a form of government procurement involving the use of private-sector capital to wholly or partly fund an asset that would have otherwise been purchased directly by the government. A PPP arrangement is generally an option to be considered for major asset and infrastructure procurements. PPPs are often used to support, or in conjunction with, the delivery of related services. The procurement arrangements are managed through long-term relationship contracts with private sector financiers and service providers.

It was not necessarily a fear of failure that ended the extensive privatization policy but, rather, the fact that there was little left to sell or politically possible to do so without alienating public opinion. It was at this point that PPPs started to emerge. For example, with PPPs, overall control of health and education could remain with the public sector but the private sector could be involved in some aspects of the supply of such services (Broadbent and Laughlin, 2004).

7. PPP Framework in Australia

The National PPP Working Group was established in 2004 to lead the development of policy, guidelines and practices of PPP, increase consistency and cooperation across jurisdictions, increase competition in the PPP market as well as ensure value for money in the delivery of PPPs. This Working Group reports annually to the Heads of Treasuries and the Ministerial Council of Treasurers and on a need-basis to the Council of Australia Governments and its Infrastructure Working Group. The National Public Private Partnership Guidelines (2008) have been prepared and endorsed by Infrastructure Australia and the State, Territory and Commonwealth Governments as an agreed framework for the delivery of PPP projects (*National Public Private Partnership Guidelines – Overview*, 2008).

The government has established a specialist PPP Unit within the Department of Finance and Administration (Finance). The Unit will work collaboratively with agencies and their advisers to assist with assessing the relative merits and viability of PPP proposals. According to the document *Australian Government Policy Principles for the Use of Public Private Partnerships, Financial Management Guidance No. 21*, the PPP principles set out the:

a) types of arrangements to which the PPP principles will apply;
b) relationship between the PPP principles and existing policy and processes;
c) policy principles that must be considered when developing procurement proposals which scope the use of PPPs; and
d) assessment and approval processes for PPP proposals.

The Australian government's objectives in establishing the PPP principles are to:

a) provide agencies with guidance, through a policy and process framework, when developing PPP proposals and assessing the relative merits of PPP arrangements in comparison with other procurement methods; and
b) help ensure the effective and responsible allocation of Australian government resources and fiscal management.

According to this document, the PPP principles will apply to a relationship or proposed relationship between the Australian government and the private sector where private-sector finance is used to fund an asset or infrastructure (whether or not ultimately owned) that is used to deliver goods, services or other outputs for or on behalf of an agency. The assets or infrastructure may be used in conjunction with associated services, which may also be delivered by the private sector, to produce an output which contributes to the achievement of government-defined outcomes. The key feature distinguishing PPPs from traditional procurement is that the private sector acquires the underlying asset or infrastructure, at least initially. In return, the Australian government makes long-term commitments to pay for the resulting outputs.

The potential for a PPP procurement approach exists where there is opportunity for:

a) long-term contracts (e.g. 15 to 30 years) involving asset-based procurement, with a whole-of-life cost in excess of AUD 100 million[2], while projects in the range of AUD 20 million to AUD 100 million can also be considered as PPPs;
b) risk transfer, including an optimal level of ownership and operational risk, including residual value risk between the parties;
c) grouping of a range of individual service and asset provision contracts into a single long-term contractual agreement; and
d) implementing a performance-based contract.

The ability for the private sector project to earn additional revenue, by selling excess capacity associated with the underlying infrastructure to third parties may also be an indicator of a PPP representing value for money. The three core principles for assessing whether a PPP arrangement should be the preferred procurement method used are: *value for money*, *transparency*, and *accountability*.

A core principle that underpins procurement activity, including PPPs, is *value for money*. It is to be tested by comparing the outputs and costs of PPP proposal against a neutral benchmark, called the "public sector comparator" (PSC), developed by the agency (and its advisers) in consultation with the PPP unit. This encompasses the factors of innovation, risks transfer, cost and risk issues, improved asset utilisation, ownership and management synergies, and improved project management.[3]

The second principle, *transparency*, is related to the disclosure of information to the Joint Standing Committee on Public Works, which considers and reports on Commonwealth public works projects. The use of PPPs should not diminish the availability of information to parliament, taxpayers, and other stakeholders on the use of government resources. Completed PPP contracts should be disclosed in an agency's annual report in accordance with the Finance Minister's Orders. Financial statements included in an agency's budget documentation should be prepared on a basis consistent with the annual report to which provisions of the Charter of Budget Honesty Act 1998 apply.

The third principle, *accountability*, pay close attention to how existing accountability arrangements impact on the relationship between agencies and contractors. Standard best practices clauses on audit access, security, privacy, and parliamentary access should be included in all PPP arrangements. Further guidance has been developed and issued by Finance. These will support the development of a thorough and enduring PPP policy framework commensurate with experience gained from the application of PPPs in the Australian context.

8. Governance of PPPs in Australia

Notwithstanding, the governance of PPPs in Australia are not without problems and challenges where arrangements often involve a more complex set of operational management and financial risks than traditional approaches.

The lack of a suitable contracting and governance (direction and control) framework for PPPs is noted by Hodge (2004), who studied risks associated with PPPs by looking at formal contract conditions. In reality, not much is known about the specific factors that contribute to governance and project success or failure (Bloomfield, 2006). Johnston and Gudergan (2007) indicated three themes relating to PPP governance issues which are divided into the technical-rational, social context and risk. The evidence suggests that government systems within PPPs are usually incomplete and not up to a level of competence that allowed the contract to remain as a governance control mechanism once the implementation phase was reached. Due to unforeseen risks, this led to a breakdown in the social contract through political risk.

There is a huge literature on PPP projects in Australia that are too luminous to be detailed in this article alone, hence only some infrastructure projects are reviewed here not with the intention of leaving out any significant PPP projects,[4] but only for the purpose of demonstrating the involvement and undertaking of the respective state governments in these PPP initiatives. As at May 2015, PPP projects amongst many include ACT Supreme Court redevelopment and Capital Metro in the capital territory government, NT gas pipeline in the Northern Territory, Toowoomba Second Range Crossing in Queensland, and new schools projects in Victoria and Western Australia.

9. Infrastructure Australia

The current federal infrastructure policy is based on the Department of Transport and Regional Services' 2004 AusLink white paper. When the Rudd government took over in 2007, one of the first acts was to rename the old Department of Transport and Regional Services (DoTARS) – it is now called the Department of Infrastructure, Transport, Regional Development and Local Government. It is significant in the sense that it is a clear statement to the community and department bureaucrats that the department is under new management. This was reflected in the established Infrastructure Australia on 21 January 2008. Among other objectives, Infrastructure Australia will analyse the regulatory and financial issues, and evaluate the methods of implementation including the pros and cons of PPPs. Infrastructure Australia is a statutory authority and produce its first Infrastructure Priority List within 12 months. However, there were criticisms on the rationale why a response should take 12 months when the agenda should be established within the first 3 months (Ericson, 2008).

9.1. Examples of PPPs in Victoria

Examples of early PPPs from the late 1980s to 1992 include the Victorian Accelerated Infrastructure Program, Train/Locomotive Leases, St. Vincent’s Hospital Redevelopment and Melbourne Magistrates Court. The objective at the time was achieved but often through inefficient arrangements. In the 1993-1999 era, PPPs were governed by the Infrastructure Investment Policy for Victoria (1994). The PPPs of this era were generally characterised by high level of risk transfer, private sector being responsible for full service provision including custodial services in prisons and clinical services in public hospitals, the private-sector entity not being paid until the commencement of services, and the government not guaranteeing returns, as it did in the late 1980s and early 1990s. Examples of PPPs of that period include the Melbourne CityLink, various water and wastewater treatment plants, public transport franchises, three prisons (Women’s, Port Philip and Fulham) as well as Latrobe and Mildura Hospitals. Concerns reported by the audit review of government contracts were that: (1) social and regional impact analysis was deficient; (2) benchmarking performance levels involved only limited comparisons; (3) economic evaluation was not undertaken in some cases and was not comprehensive in some others; and (4) unnecessary secrecy surrounded some of the major contracts.

From the year 2000 to the present, there is a better clear quest to achieve value for money in the public interest outlined in the Partnerships Victoria policy released in June 2000 and other guidance materials widely regarded as some of the most comprehensive released the following year: *The Overview*, *The Practitioners' Guide*, *The Risk Allocation and Contractual Issues Guide*, and *The Public Sector Comparator*. Other guidance materials released later include *Contract Management Policy and Guidelines* (June 2003), *Public Sector Comparator Supplementary Technical Note* (July 2003), and *Use of Discount Rate in the Partnerships Victoria Process* (July 2003).

The Partnerships Victoria policy introduced in 2000 provides the framework for a whole-of-government approach to the provision of public infrastructure and related ancillary services through PPPs. Partnerships Victoria is part of the Commercial Division in the Department of Treasury and Finance. There were 17 Partnerships Victoria projects worth around AUD 5.5 billion in capital investment. The policy focuses on whole-of-life costing and full consideration of project risks and optimal risk allocation between the public and private sectors. There is a clear approach to value for money assessment and the public interest is protected by a formal public interest test and the retention of core public services. Since 2002-03, Partnerships Victoria projects have accounted for approximately 10 per cent of annual public asset investment commitments. It aims to use the innovative skills and abilities of the private sector in a way that is most likely to deliver value for money and improved services to the community. It is used for major and complex capital projects with opportunities for innovation and risk transfer.

If the private-sector bids are not able to demonstrate superior value for money, the project will generally proceed under the traditional procurement approach. For example, the Fibre Optic Cable project was originally intended to be delivered under the Partnerships Victoria approach but ended up being delivered under the traditional approach due to Partnerships Victoria bids not delivering value for money.

The City Link road infrastructure project in Melbourne was one of Australia's largest public infrastructure BOOT projects. Linking up three major freeways in Melbourne (the South Eastern, West Gate and Tullamarine Freeways), the City Link comprised the construction of 22 kilometres of road, tunnel and bridge works through difficult silt conditions, as well as other associated works. There was a stream of legal controversies surrounding the project in addition to political and governance risks (Hodge, 2004).

9.2. Examples of PPPs in New South Wales (NSW)

Road agencies are contracting out more design aspects and are experimenting with combined contracts for construction and maintenance. An example is the Design, Construct and Maintain (DCM) contract for the Bulahdelah-Coolongolook deviation on the Pacific Highway in New South Wales, under which the contractor maintains the road for 10 years. The uncertainty of future funding for road agencies usually discourages such long-term commitments. A shadow toll arrangement resembles a DCM contract, except that government payments to the developer increase with the volume of traffic rather than being a fixed sum. The additional payment for each vehicle is a "shadow" toll paid out of general government revenue, rather than an actual toll that is charged to the road users. The new tolling arrangement for the M4 and M5 motorways in Sydney resemble shadow tolls; the government reimburses tolls paid for non-business vehicles that are registered in-State.

In Sydney, NSW, procurement strategies labelled generically as PPPs have been a popular approach. By 2001, there was more than AUD 5.5 billion worth within 20 infrastructure development arrangements and up till late 2005, AUD 3.4 billion had been implemented into PPP private too-way arrangements. Yet, a range of important PPP governance and organizational issues continue to remain problematic (Audit Office of NSW, 2006). The Cross City Tunnel (CCT) toll-way in Sydney, which became operational in August 2005, failed in December 2006. It was in fact a privately-funded project (PFI) but seemingly used under the generic label PPP. The major problems were the cost of tolls which was above the level the public was prepared to pay, limited alternative surface routes, and accusations about traffic funnelling. Some aspects of governance and management were problematic at the beginning of the operational phase. The toll was reduced eventually and road changes were later reversed by the government against the contract terms and this action is now subject to a legal claim with the company into the hands of an administrator and CCT was sold to another private operator (Johnston and Gudergan, 2007).

It is noted that, in NSW, Treasury (2006) have revised PFP guidelines which require a project board to continue well into the implementation phase of the PPP. This did not exist at the time when the CCT project failed.

The Build, Own, Operate and Transfer (BOOT-type) arrangements for several urban motorways such as Melbourne's City Link are the farthest Australia has gone toward privatising the road network. The arrangements provide private funding for motorways for which public funds are hard to raise. Recent BOOT projects in Australia have been mostly completed ahead of schedule. The Sydney M5 Motorway took two years to build, not four years as scheduled by the Roads and Traffic Authority, (RTA) New South Wales. Correspondingly, the construction period is reduced from four to two years. The main appeal of BOOT-type projects, compared with shadow tolling arrangements, is the reduced need for public finance (BTCE Working Paper 33, 1997).

Evidence of cost savings from contracting out government services needs to be viewed cautiously. It is limited in that it relates to construction costs only. On the M4 toll way, the use of asphalt rather than concrete paving reduced the costs of construction. RTA indicated it would pursue tighter conditions of the asset on transfer. The M5 toll way provides another example of the possible pitfalls in cost comparisons. RTA designers would have opted for relatively few piers and longer spans, to increase the bridge's aesthetic appeal and to minimise the obstacles to recreational users of the river. The developer's design was less satisfactory in these respects but took much less time to build (BTCE Working Paper 33, 1997).

9.3. South Australian experience

Partnerships SA is a procurement program for the private and public sectors that seeks to promote private sector participation in the delivery of government services to the community where there are sound reasons to support this approach. Partnering arrangements are not privatisation. Under a partnering agreement, the government retains a key strategic interest in the infrastructure and strong policy control over the services delivered, and in many cases, shares the risks of the project in agreement with the private sector partner over the life of the service agreement. The private sector can contribute innovative ideas and commercial discipline to the process. Equally, the private sector has a crucial role to play in protecting the public interest and safeguarding taxpayers' funds, having responsibility for deciding the level of services required given available resources and establishing and monitoring safety, quality and performance standards.

In considering private sector participation in public services, the government will need to be satisfied that a number of key criteria are met. These criteria are as follows:

- private sector involvement must deliver a net benefit to government, having regard to the risks of the project, compared to traditional public sector delivery;
- the risks associated with the project are clearly identified and allocated to the parties best able to manage those risks;
- projects are subject to a competitive bidding process, and direct negotiations may be entered into only under a limited set of circumstances; and
- probity is maintained during all phases of the process.

The purpose of the Projects and Government Enterprises Branch (PGE) is to facilitate private sector participation in infrastructure development where appropriate. PGE is located in the Department of Treasury and Finance; the Branch reports directly to the Under Treasurer. Agencies are required to consult with PGE in regard to all PPPs in South Australia. The role of the PGE is to:

- oversee public-private partnership (PPP) projects in South Australia by aiding agencies in the PPP process from the outline business case through to financial close. The branch also has responsibility to develop policy and guidelines related to PPPs, and to participate in intergovernmental forums dealing with PPP policy.
- provide investment and financing analysis for major government projects with a particular focus on infrastructure projects. This involves investigating alternative financing options for projects that have been

identified as priorities and where the government has approved the investment (outline) business case. This ranges from investigating alternative financing/procurement options through to supporting projects through to contractual and financial close.

The Clare District Council in rural South Australia divided its road grading work between council employees and private contractors. Recently, South Australia has introduced competitive tendering for maintenance of state roads, whereby the maintenance business units of the Department of Transport bid against private contractors. South Australia's larger state-based contractors were reluctant to bid because of heavy workloads on other projects at the time. By September 1996, 13 contracts had been let, 5 to private contractors and 8 to the department's own business units (BTCE, Working Paper 33, 1997).

9.4. Examples of PPPs in Tasmania

In July 2000, the government released a policy statement, and guidelines, on private sector participation in the provision of public infrastructure. By issuing the policy statement and guidelines, the government is indicating its strong commitment to maintaining and improving Tasmanian public infrastructure. The publications provide a clear framework – and details – regarding the government's objectives in seeking private sector involvement in infrastructure development. The "Policy Statement" paper outlines the framework within which the public sector seeks and develops infrastructure opportunities with the private sector. The "Guiding Principles" paper is a detailed document aimed at managers in agencies. It provides a clear set of "ground rules" for optimising the participation of the private sector in the provision of public infrastructure. The "Guiding Principles" paper:

- makes clear the government's attitude to critical issues for private sector involvement (e.g. achieving net benefits for the community);
- provides agencies with clear guidance on how to engage the private sector;
- clarifies the public policy context of infrastructure provision;
- outlines the lodgement, assessment and approval process through which a project must pass; and
- provides agencies with practical advice covering a checklist of the process, the determination of a public sector benchmark and the development of a business case for an infrastructure proposal.

As such, the private sector is expected to increase its involvement in the provision of public infrastructure as it responds to the additional clarity in the objectives of the government provided by the release of the government policy:

- "Private sector participation in public infrastructure provision – Policy statement"
- "Guiding principles for private sector participation in public infrastructure provision"

Examples of PPP include the Glenorchy City Council which reduced its costs for road cleaning by 15 per cent by contracting to the private sector. Fuller utilisation of equipment was one of the sources of cost savings noted. The contractor employed the equipment elsewhere when it was not being used in Glenorchy. Elimination of unspecified work practices that had lowered the efficiency of the in-house operation was also mentioned (BTCE Working Paper 33, 1997).

9.5. Queensland and Northern Territory Experience

The Value for Money Framework is a key element of the guidance material which provides the basis for the implementation of Queensland's PPP policy. It sets out comprehensive procedures for evaluating project delivery options to satisfy specific needs for infrastructure. In September 2001, the Queensland government released its policy on PPP, delivering all major infrastructure projects that support the government's strategic objectives. Queensland's PPP policy encompasses the full spectrum of project delivery options involving design, build and operate; build, finance and operate; and equity-sharing arrangements. Further, there are numerous variations on these concepts including build, own, operate and build, own, operate, transfer structures.

Maintenance work on the Barkly Highway is performed by private contractors on the Northern Territory side and by a local council on the Queensland stretch to Cloncurry. In 1994-95, the Queensland government paid the local council AUD 3,356 per kilometre of road maintained, far more than the AUD 690 paid to the private contractor on the other side of the border. The local council is the sole invitee for the maintenance contract in Queensland, whereas the Northern Territory uses competitive tendering. However, other factors, such as the type and amount of maintenance work performed, were also considered.

According to the South East Queensland Infrastructure Plan and Program 2008-2026 published in June 2008, in Queensland, the government's experience in working with the private sector has been positive with the Tugun Bypass and Inner Northern Busway both completed ahead of schedule, the South East Queensland Water Grid progressing on schedule and the Southbank Institute of TAFE redevelopment ahead of schedule. Another major project, the Airport Link Tunnel, is currently one of Australia's largest road tunnel public-private partnerships. This tunnel will link the North-South Bypass Tunnel, Inner City Bypass and local road networks in the city's northeast. It includes two parallel, seven-kilometre tunnels under several inner northern suburbs, including Wooloowin and Clayfield.

The Southbank Institute of TAFE Redevelopment Project is Queensland's first public-private partnership which in 1997 was awarded Best Global Project by the International Public Private Finance Awards. The project involves the construction of 11 new buildings and renovation of another four buildings on the South Bank campus.

The South East Queensland Schools project has seven new schools in the region built and maintained through PPP. This PPP, the first of its kind in Australia to be delivered under the supported debt model, innovatively use a combination of public and private funds to improve value for money.

Another project, the Gateway Upgrade is currently the largest road and bridge infrastructure project in Queensland's history. Queensland Motorways Ltd (a government-owned company) is delivering the project through a 30-year franchise agreement and has awarded the design, construction and maintenance contract to a private-sector partner.

10. Concluding Remarks

Given the promises and perils of government contracting, a public-private partnership will be most efficient when each sector operates where it has a comparative advantage. Looking ahead, the particular areas that the Australian government sees as being important for the evolution of PPPs are: (1) improving the bidding and evaluation processes; (2) developing the national market; and (3) increasing the range of PPP models (Maguire and Malinovitch, 2004). In the case of China, the priorities include the establishment of regulatory agencies, clear legislation and better understood fair exit mechanisms (Asian Development Bank, 2014).

Perhaps it is important to ponder on comments made by Broadbent and Laughlin (1999, 2004) that revealed many unanswered research questions. Five research questions come to mind despite the progress to PFIs and still remain relevant:

i) What is the underlying nature of and rationale for deciding to pursue PPP developments in different countries?
ii) What processes and procedures guide and aid the decisions to undertake PPPs in different areas of public service provision in different countries?
iii) What procedures and processes are in place to provide a post-project (decision) evaluation in different areas and in different countries?
iv) Do PPPs have real merit and worth, generally and in specific cases, nationally and internationally?
v) What can we discover through an international comparison from national PPP regulation and guidance, pre-decision processes, post-project evaluation systems and merit-and-worth judgments?

Nonetheless, policy-makers and practitioners may need to rely on evaluation information about a partnership's performance as a governing entity and its value-added to make judgements about effectiveness (Pope and Lewis, 2008). Despite criticism of PPPs, they will remain the preferred financing method as potential solution to urbanization challenge, innovation and knowledge transfer.

In a nutshell, there remains a more general need to explore what can be learned through a global and local comparison across all PPPs and how they can genuinely contribute to the welfare of the individuals and nations. PPP policy is a continuous development of public administration and it is important that the policy practices remain under review beyond market-based rhetoric of limited substance and ensuring procedural integrity of the process is maintained. In the context of the on-going debate on PPPs, many governments of the day continue to support the PPP model with better-developed implementation frameworks.

Notes

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1. A “yuan” of China’s currency *reminbi* (“people’s currency”) is equivalent to about USD 0.157.
2. An Australian dollar is equivalent to about 0.706 US dollars.
3. There are more details involved in the PSC which will be found in my other upcoming writings.
4. If there are then it is only with the author’s error.

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Siliguri: A Geopolitical Manoeuvre Corridor in the Eastern Himalayan Region for China and India

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Abstract

Siliguri Corridor being part of Indian West Bengal is a diplomatic manoeuvre place located between Nepal, Bhutan, Bangladesh, India's Seven Sister States and Chumbi Hills in the Eastern Himalayan Region. Being located at the crossroads and centrally situated between all the neighbouring countries the landlocked Siliguri has an especially economic and political value for the regional countries. The corridor being in close proximity to China and India's Seven Sister States has added to the diplomatic mosaic of the Eastern Himalayan Region. The region consists of beautiful landscape, mountains and rivers which not only add to topographical diversity but also demographic mixture. Despite its geopolitical significance the area could not advance for not only being a northeastern border region but also for being a gateway to the Seven Sister States. Peripheral development of Siliguri Corridor is one of the reasons for illegal practices like smuggling and terrorism. In year 2002 Nepal, Bhutan and Bangladesh discussed a proposal to form a

free trade corridor to simplify the goods transportation through Siliguri Corridor but no such pact could be concluded that would have avoided the activities like smuggling and terrorism mainly through economic and diplomatic ventures.

Keywords: *India, Eastern Himalaya, China, "string of pearls", corridor, economy, diplomacy, landlocked states, cultural mosaic*

JEL classification: *F51, F52, F59, O19*

1. Introduction

Siliguri Corridor being part of Indian West Bengal is located between Nepal, Bhutan, Bangladesh, India's Seven Sister States and Chumbi Hills in the Eastern Himalayan region. It has been observed that despite being a political and diplomatic manoeuvre place Siliguri has not developed pragmatically. The corridor can be used by landlocked countries like Nepal and Bhutan to have the shortest access to the warm waters of the Arabian Sea for prudent trade opportunities through India and Bangladesh in a realistic manner. However despite an effort made in 2002 wherein India, Nepal, Bhutan and Bangladesh deliberated about a plan to establish a free trade zone this could not be done mainly because of Indian concerns about its vulnerability against the independence movements in its northeastern states (Panda, 2013). The corridor has emerged as a centre point for likely illegal passage between Bengali insurgents, Nepali Maoist insurgents and northeastern Indian rebels (Biswas, 2014). Siliguri is believed to be emerging as a safe haven for Indian rebels and other insurgents, which not only impedes the social and economic development but also diminishes the regional political stability. Partial political and economic stability in the corridor has enhanced the illegal practices like smuggling. The combination of insurgencies with poverty and unstable political situation can lead to even more dangerous scenario for the entire Eastern Himalayan Region including India. Social and economic stability in the region in general and Siliguri Corridor in particular can improve the regional diplomatic situation for the entire region with special reference to India. It is the need of the hour that Siliguri Corridor should be used as a vital developmental opportunity by all the countries for regional peace, stability and prosperity.

2. Demography

Siliguri is located in the foothills of the Himalaya Range and is one of the biggest cities in Western Bengal which connects the hill town with rest of India. River Mahanadi divides Siliguri City into two halves. The city is bounded by jungles with noticeable wild life and many other natural features like rivers and mountain. The corridor is a narrow strip of land which links mainland India with the Seven Sister States. Being unique and too narrow it is only 10 km away from Nepal and 40 km from Bhutan and Bangladesh just adjacent to it. The corridor is also close to China through Chumbi Valley. Siliguri is designated as an entrance not only for Nepal, Bhutan and Bangladesh but also for the Seven Sister States through Assam. Being centrally located Siliguri City is a logistics base for the region and thus is an attraction for all. Siliguri provides business activities for diverse stakeholders. Hong Kong Market near Khudirampally is a main hub for purchase of Chinese and other imported goods. Being part of high-altitude Himalaya Range, climate remains cold most of the year ranging from 7 to -9 degree Celsius from December to January. In the summer season from May to June temperature seldom crosses 35 degree Celsius. The climate is much suited for tea plantation and the corridor is bounded by tea gardens. The city is in vicinity of many fault lines which cause most of the earthquakes. The highest level of recorded earthquake was measured in 1988 up to 9.7 on the Richter scale. It is interesting to note that the earthquake which occurred in 2011 lasted for a noticeable period of four minutes and seventeen seconds.

Siliguri, which means a pile of pebbles, has been a transit spot between Darjeeling and Karseong since the conclusion of "Treaty of Siliguri" between British India and Nepal in 1816. South of Siliguri, Phansideoa was a port which had agreement with Maldah, thereby with other areas of Bengal and Bihar. The Sikkimese and Bhutanese have been using the Mahanadi to transport their merchandise to Phansideoa Port since the eighteenth century. Siliguri progressively established into a small town once the British occupied Darjeeling in 1835. In 1947, the partition of India and the emergence of East Pakistan flagged the pathway of Siliguri becoming a significant transit spot and strategically imperative area which led to rise of immigrant population mainly from erstwhile East Bengal, Nepal, Bhutan, Seven Sister States, Bihar and Jharkhand in search of livelihood. The significance of area was enhanced further once British East India Company established a railway line to Northeast India that continuously increased the number of immigrants from Nepal, Bhutan and the Seven Sister States while the number of the original residents of Siliguri City; the Rajbangshis, were decreasing on a daily basis.

As per the records of 2011 the population of Siliguri city comprised of 705,579 individuals with 51 per cent being male population. The majority of Siliguri's population is Bengali; other chief minorities include Gorkhas, Biharis and Mawaris speaking mainly Bengali, Hindi, English and Nepali languages. However, the locals of Siliguri speak Tibetan languages. Mosaic of religious celebrations including Durga

Puja, Chhath Puja, Laxmi Puja, Saraswati Puja and Dipwali are celebrated with religious fervor. Baishaki and Hostoshilpo Melas are the most popular ones. Siliguri provides educational facility to students from West Bengal, Sikkim, Bihar, and Assam and the bordering countries of Bangladesh, Nepal and Bhutan. The permanent presence of the Indian Army, Border Security Forces and other law enforcing agencies is keeping up the peace in the region due to which the local economy is improving. However, better political and diplomatic environment based on economy and trust can add stability to peace for the entire Eastern Himalayan Region. As a sign of regional co-operation the Siliguri road network is being used by countries including Nepal, Bangladesh and Bhutan for passage of vital commodities together with food grains. Apart from road network, Siliguri is also linked with mainland India through rail link which was initially established by British East India Company in 1880 and through Bagdogra Airport.

3. Regional Geopolitical Scenario

Being centrally located within four countries, providing a linkage between Nepal, Bhutan, India's Seven Sister States and mainland India, and being a center for Eastern Himalayan Region's economic activities, the Siliguri Corridor has a regional geo-strategic value. However, facets like political unrest in the Seven Sister States region (Bhaumik, 2007: 5) and extra regional interests of neighbouring countries like Nepal and Bhutan are hindering socioeconomic development (Jha, 2013). The diplomatic twists and turns between the countries of the Eastern Himalayan Region and the ethnic diversity including variety of religions with almost equal numbers of followers are further affecting the regional geopolitical scenario. The number of insurgencies including those involving the Nepali Maoists and rebels from the northeastern Indian states are point of concern for New Delhi which certainly justifies India's cautious approach towards sociopolitical development in the Eastern Himalayan Region. New Delhi is trying to control these insurgencies by mainly relying upon the use of force and has adopted a national security approach by maintaining a heavy force in the Siliguri Corridor. The Indian Army, Assam Rifles, Border Security Force and West Bengal Police are all guarding the entire corridor (Panda, 2013). Insurgencies are a menace for sociopolitical development and have to be fought pragmatically with a multi-dimensional tactic including the combination of economic development and friendly policy apart from the use of force for prudent efforts and results. In order to understand the geopolitical situation of the Siliguri Corridor it will be vital to discuss the dynamics of countries including Bangladesh, Bhutan, China, India and Nepal with a view to find solutions for sociopolitical stability in the Eastern Himalayan Region and extend it to the warm water of the Arabian Sea for enhancing the blue diplomacy.

3.1. Indian Dynamics and the China Factor

Axiomatically India is the main stakeholder in the Siliguri Corridor as compared to Nepal, Bhutan and Bangladesh. Although the Indian government is putting in efforts for the social and economic development of the corridor, it is doing so under a cautious approach to avoid any influence of freedom fighters from its northeastern states of Arunachal Pradesh, Assam, Meghalaya, Tripura, Nagaland, Manipur and Mizoram (Bhaumik, 2007: 18). Maoist rebellion in India since 1967 from the town of Naxalbari by those known as Naxalites have affected seven more Indian states of Chattisgarh, Jharkhand, West Bengal, Maharashtra, Orissa, Bihar and Andhra Pradesh (*ibid.*: 23). Such growing insurgencies in India's northeastern region are restricting any potent activities of social and economic development not only in the Siliguri Corridor but have already spread to over 40 per cent of India (Ismi, 2013). Like most parts of India where approximately 75 per cent the populace is living in poverty and in comparison only 5 per cent of Indians are in possession of 38 per cent of its entire assets, Siliguri Corridor is no exception where only a very few companies are accumulating wealth while the rest of the populace have to resort to illegal activities like smuggling etc. to earn their livelihood (Biswas, 2014).

The North Eastern Freedom Movement which started as early as 1927 which was based on religion and ideology is still causing ethnic and religious crisis in India. One of the incidents is where in May 2013 Maoist rebels in Chattisgarh killed nearly the complete headship of the Congress Party by massacring twenty-eight of its members during an ambush in a state which was being ruled by the main opposition Bharatiya Janata Party (Harper, 2014). Apart from peace and stability, mixed ethnicity of the corridor is yet another concern for India. Presently the Bangladeshi Muslims are the majority in the corridor. Apart from an ethnic issue, this is also presenting a political issue for India.[1] Any socioeconomic development in Bangladesh through the Siliguri Corridor will be at the Indian coast as Bangladesh being a littoral State, unlike Nepal, Bhutan and the Indian Seven Sisters States, is not dependent on India to reach out to the warm waters of the Arabian Sea. Apart from the various unsettled land border issues between India and Bangladesh, the South Tilpati Island issue in the Indian Ocean is also affecting the diplomatic relations between both of these neighbouring countries (Uddin, 2009: 28). Bangladesh's just and rightful effort to buy a submarine from China can also increase the wedge (Gupta, 2013).

Maoist and North Eastern Freedom movements mainly in India's north and northeast are emerging as snags for sociopolitical development in India. However, the Indian government is doing its best to overcome these problems but relying mainly on force has not proved as a prudent solution. Sociopolitical development through economic initiatives and confidence-building measures to include sharing of some seats in parliament will be more suitable to fight the menace of insurgencies. If not addressed pragmatically in time these freedom movements can link up with the Kashmir Freedom struggle, further augmenting the Indian politico-diplomatic complications. Pragmatic and focused socioeconomic development of the corridor can provide opportunities for the deprived people and bring them into the main national development grid which will prove to be good for India,

Bhutan is a landlocked country located on the Himalaya Ranges and is situated between China and India. Since the inception of Bhutan and India, Bhutan is economically and diplomatically dependent on India. Apart from the topographic, Bhutan and India have religious and cultural differences. However, Siliguri is one such opportunity which can improve and strengthen the friendly relations between both. Hence, India being at the giving end should allow more economic and cultural access to Bhutan. Bhutan can expand its trade in the Indian Ocean through the Siliguri Corridor. It seems that India is apprehensive due to emerging ties between Bhutan and China wherein China and Bhutan both are resolving their territorial issues mutually. The Tibetan territory called Chumbi valley is close to Siliguri, and any Chinese armed initiative of about 130 km can cut off Bhutan, portion of West Bengal and all the northeast Indian states including Arunachal Pradesh, Assam, Meghalaya, Tripura, Nagaland, Manipur and Mizoram with nearly 50 million of populace. Any land linkage between China and Myanmar can serve a prudent economic and diplomatic opportunity for Bhutan and the deprived Indian citizens of the Seven Sister States due to which Indian may lose a trusted and a dependent friend like Bhutan.

Nepal is again a landlocked country located on the Himalaya Ranges and is situated between China and India. Like Bhutan it is also dependent on India for its trade. Nepal's orientation towards China is a point of concern for India. The relationship between India and Nepal is now cautious due to the Maoist issue, wherein India highlighted that Maoists are supporting its North Eastern Freedom Movements (Bhaumik, 2007: 32). The recent road accesses provided to Nepal by China can fetch more opportunities for Nepal which is likely to reduce its dependency on India (Jha, 2013).

China is an emerging global economic power with friendly relations with most Asian nations except India mainly because of Indian aspirations to support the U.S. against China in the Indian Ocean region as most of energy supplies pass through it (Zeb, 2003-04: 48). India also feels being isolated due the Chinese manoeuvre in the form of the "string of pearls" strategy with which Beijing is securing ports in the Indian Ocean to make its sea lines of communication safe.[2] Apart from the blue diplomacy in the Indian Ocean, Beijing and New Delhi have territorial disputes in the Indian northern highland of the Himalayas. India being at the giving end should understand the limitation of Bhutan, Nepal and the Seven Sister States. It should also make use of globalization pragmatically.

3.2. Dimensions for Bangladesh amidst Increasing Chinese Influence

Bangladesh is a Muslim country with a population of about 180 million. Bengali-speakers constitute 98 per cent of the total populace, while other racial clusters consist of Khasi, Meitei, Chakma, Santhals, Garo, Oraons, Biharis, Mundas and Rohingyas. These communities are mostly residing in the hill tracts of Chittagong and nearby Rajshahi, Sylhet and Mymensingh. Hindus constitute about 10 per cent of Bangladesh's population and are residing in all parts of the country with maximum concentration in the areas of Khulna, Chittagong, Dinajpur, Jessore, Faridpur and Barisal. Ever since 1971 Bangladesh and India have been main trade partners. However, since 2002 Bangladesh's trade with China has increased manifold crossing the trade volume which Bangladesh has with India (Sahoo, 2011). The declining trade relations and the political concerns between both are points of concern for India (*ibid.*). In the year 1991 Indian exports in comparison to Chinese exports for Bangladesh were 150 per cent; nonetheless by 2010 those had reduced to 30 per cent only (*ibid.*). Beijing is seizing the Bangladeshi market due to cheaper rates and easy trade procedures as compared to India. Apart from the declining trade volume and political relations, Bangladesh being a neighbouring country of India is having a few land- and sea-based territorial disputes since the partition of India in 1947. The present Bangladeshi diplomatic balance is not only tilting towards Beijing but that tilt is also expanding. Bangladesh, being centrally located between Nepal, Bhutan and millions of deprived people from India's Seven Sister States and being a littoral state, can provide trade opportunities to these countries and states.

The sea-based territorial issues between India and Bangladesh have compelled Bangladesh to establish a potent naval force to secure its boundaries and to protect it sea lines of communication which is likely to acquire a submarine from Beijing. The Bangladeshi interests to secure its water and sea trade in the Indian Ocean region are a diplomatic concern for India as this may improve the Chinese leaning into the Indian Ocean. The increasing Chinese influence in the Indian Ocean region is also considered as an effort to isolate India through the "string of pearls" strategy with which Beijing is securing its sea line of communication through port facilities and the Pakistani Gwadar Port is the best among the pearls. India is also constructing ports in Sri Lanka and Myanmar so it will be prudent for India and all the other East Himalayan regional countries to work together for regional politico-economic development. Economic cooperation between all the countries of the Eastern Himalayan region will add to blue economy and blue diplomacy through the ports of Bangladesh as well.

3.3. Concerns of Nepal: Between China and India

In accordance with the results of the 2011 census, 82 per cent of Nepalese populace is Hindu, 10 per cent Buddhist, and 4 per cent Muslim, while the other 4 per cent are Kirant, Yumaist, Christians and others. The main castes are Chhetri with 17 per cent of the population, trailed by Brahmans (13 per cent) and Magar (7 per cent). The current rise of Maoists and Nepalese native policies in combination with the strengthening financial and political facets with Beijing are causing a gap between Indian and Nepalese governments. Nepal and India had concluded a treaty called "Treaty of Peace and Friendship" in 1950 in accordance with which border between both will remain open for the benefits of people from the two countries. The cross-border movement is free of passport and visa formalities.

However; regrettably the Nepalese border regions with India and China remain deprived of social and infrastructural development. Nepal shares 1753 km of border with India since 1814 running through even villages. On the other hand, in 1955 for the first time India and Pakistan signed an agreement as per which strict visa protocols were enforced on the cross-border movement of people between the two countries. The populace living within 30 km border on either side were permitted to continue trivial customary trade on barter origin and to meet relatives across the border and even in a few cases were allowed to reside across the border as per the weather dictates without legal travelling documents.[3] Ambassadors were appointed by both Nepal and China in 1960. In 1960 Nepal refused the Chinese claim over Mount Everest (Jha, 2013). However both resolved their territorial disputes about Sankhuwasabha, Taplejung, Rasuwa and Humlain in accordance with Nepal-China Joint Boundary Commission on 5th October 1961 (Shrestha, 2003). In 1960 China and Nepal concluded to demilitarise the 20 km zone along the border to reduce border security expenditures. The Tibet region of China became the top trade partner with Nepal in 2001. Trade between Nepal and Tibet reached the highest valuing US$945 million in 2011 in comparison to US$235 million in 2000.[4] Kathmandu and Beijing have decided to establish dry ports at Yari-Pulam, Rasuwa-Jilong and Kodari-Zangmu, Kimathanka-Dingri, Olangchungola-Riwa and Mustang-Ligzi.[5] Kathmandu and Beijing are constructing a land route called Syaphrubesi-Rasuwa Gadhi Highway. Nepal and China are improving bi-lateral relations which are a concern for India as it will lose its hold over Nepal. The enhancing diplomatic and economic relations between China and Nepal can affect the Indian regional diplomacy so it will be prudent for India to utilise the Siliguri Corridor in a pragmatic manner for better politico-economic environments in the Eastern Himalayan region.

3.4. Bhutanese Concerns: Beijing and Thimpu in Border Dispute Resolution

Bhutan has a population of about one million with various ethnic groups including Bhote (50 per cent), Nepalese (35 per cent) and migrant tribes (15 per cent). Bhutan and India enjoy friendly relations and the elementary structure of India-Bhutan bilateral relations is based on the Treaty of Friendship and Cooperation signed between the two countries in 1949 which was further reorganized in February 2007. The treaty ensures free trade between both countries. The treaty also signifies the peace, equality and friendship for the citizens of both countries. With 75 per cent of its population being Buddhist, Bhutan has an increasing affinity with its Chinese neighbour. Beijing and Thimpu are enhancing their sociopolitical milieu based on border dispute resolution and economic ties. Indian media has lately reported that Beijing is constructing a huge infrastructure in Bhutan. It has also been reported that the Chinese army has constructed a new road from Gotsa to Lepola via Pamlung (Arpi, 2013).

On diplomatic front there have been 21 rounds of talks to resolve the border disputes between Beijing and Thimpu. China and Bhutan have agreed to carry out combined survey of Jakarlung and Pasamlung areas measuring 495 sq km to swap over with 269 sq km area of Doklam Plateau which is linked to strategic Chumbi Valley and this is a real military and diplomatic nightmare for India (Wangchuk, 2013). Doklam Plateau is very close to the Indian Siliguri Corridor which connects the Northeast to the rest of the country (Dhakal, 2003). Due to the strategic prominence of Chumbi Valley, India is dubious about approving any concessions by Bhutan to exchange land in such area to allow more room to Beijing (Bhonsle, 2013). Beijing has never liked Indian domination over Bhutanese foreign affairs. "New Delhi sees Bhutan as little more than potential protectorate," said Chinese scholar Liu Zengyi. About Chinese efforts to found diplomatic relations with the Bhutanese, the Chinese scholar has admitted: "India won't allow Bhutan to freely engage in diplomacy with China and solve the border issue."

3.5. Chinese Dimensions

China being one of the largest countries in Asia and the world most populous country with 1.5 billion citizens is situated in the eastern part of Asia. Its land borders measuring over 28,073 km are shared many nations including Mongolia, Russia, Democratic Republic of Korea, Vietnam, Laos, Myanmar, India, Bhutan, Nepal, Pakistan and Afghanistan. Beijing also owns a coast line measuring 14,500 km. China is one of the four oldest civilisations dating back to the Shang Dynasty (1525 BC), maintaining a written history of 4,000 years enhancing its rich educational and antique sites (Vermillion and Sagardoy, 2001: 42). In 1919 socialist scholarly groups were shaped in the Peking University where Mao Zedong co-founded the Chinese Communist Party in July 1921 (Mozingo, 2007: 304). In the 21st century like other advanced countries, China has also dovetailed its military tool of strategy in national policy. With its defence budget enhanced to US$148 billion by 2014, the novel Chinese military strategic can be abridged as follows:

• China shall try not to engage in war.
• In case of war, it will be contained to limited conflict.
• China can no longer rely on the "People's War" strategy.
• Chinese should have force projection skills.
• China must maintain a limited nuclear deterrent (Harding, 1995).

China's official stance is the belief in peace and prosperity and the adoption of a strategy known as "Five Principles of Peaceful Coexistence" which are appended below[6]:

• Mutual respect for sovereignty and territorial integrity.
• Mutual non-aggression.
• Non-interference in each other's internal affairs.
• Equality and mutual benefit.
• Peaceful coexistence.

China's official stance posits that all nations should resolve their disputes and conflicts peaceably through discussions (Zhao (ed.), 2004: 3) which facilitate the formation of a new global political and economic order that is just and balanced. According to this stance, China is prepared to establish and develop friendly relations for cooperation with all the nations especially the neighbouring states on the basis of mutual respect and sovereignty, and it remains prepared to enhance international cooperation so as to address worldwide difficulties faced by mankind including worsening environment, resource shortage, AIDS and rampant transitional crimes (Munro, 2002: 108). Following this line, China has also augmented its contribution in peacekeeping maneuvers, supporting contingents in East Timor, Congo, Liberia and elsewhere (Johnson, 1997: 2).

Indeed, Beijing is involved in various social development projects in Asia and other parts of the world. China is at the verge of finalising a fuel transporting contract with Myanmar including numerous schemes of harbour construction, establishment of docks, development of oil plus gas terminals, construction of roads and other relevant structures. China has lately proclaimed plans to build a 810 km-long rail linkage between Ruili (China) and Kyaukphyu (Myanmar) via Muse, whereas in Thailand it is involved in building the Dawei Port.[7] Besides, China is also constructing the Hambantota port west of Colombo to make its sea line of communication secure (Davidson, 2010: 92). It also includes the protection of the Chinese sea lines of communication encompassing an expanse of the Indian Ocean from China to Sudan (Goldstein, 2005: 17). In order to pursue its economic and diplomatic policies China is improving its foreign relations with most nations especially with its Asian and South Asian neighbours like Nepal, Bhutan, Bangladesh and India. As discussed above, China is resolving its territorial disputes with Bhutan to enhance the environment of peace and stability in the Eastern

Himalayan region. The resolution of Doklam Plateau dispute with Bhutan will ease out the Chinese access to Siliguri Corridor in India. China is improving its economic and diplomatic relations with Nepal not only by opening and constructing roads leading to Nepal but also by demilitarising the 20 km zone along the border to reduce border security expenditures. This will allow both China and Nepal to concentrate on working towards peace and prosperity in the Eastern Himalayan region. Peace and stability existing between China and Nepal will surely have positive effects on the entire Siliguri Corridor as well. The Chinese are improving their relations with Bangladesh, including enhancing trade relations. The most important aspect is that with the desired naval assistance from China, Bangladesh wants to make the Bay of Bengal more secure so that it can also provide secure warm waters to the East Himalayan countries like Nepal, Bhutan, China and the Seven Sister States of India. As the strategically significant Siliguri Corridor lies in India, so it will be prudent for India not only to understand its regional value but to also make use of it more pragmatically by making it an open economic corridor which will not only add to its economic securities but will also diminish the insurgencies through socioeconomic development in the deprived areas of the Indian northeast. Apart from being an opportunity for peace and stability, the Siliguri Corridor should also be considered and utilised as a diplomatic tool as well.

The Siliguri Corridor in combination with the China-Pakistan Economic Corridor that was finalised to link western China with north Arabian Sea through Pakistan specifically through Gwadar Port will provide more geopolitical, economic, diplomatic and strategic opportunities for China and other regional countries. The Siliguri Corridor will also ease out the Chinese anxieties in the Tibet region, Aksai Chin and Kashmir. This corridor will also secure the Chinese trade links through the Karakorum Highway and Wakhan Corridor and will also ease out the border dispute between China and its southern neighbour, India.

4. Further Analysis and Conclusion

The Siliguri Corridor is a strategically significant place which is vital for the entire Eastern Himalayan region, but due to the political interests of regional countries especially India the corridor is not being utilised pragmatically. India being at the giving end should understand that even the progress of Nepal, Bhutan and Bangladesh will not only have prudent effects on the Indian Seven Sister States but for the Siliguri Corridor as well. Recently Beijing and New Delhi are scrapping over Nepal in socioeconomic and diplomatic affairs. Beijing has increased its visible influence over the Maoists and India is reluctant to lose its leverage in Nepal. In the wake of the evolving globalisation and geopolitical situation of the region, India should analyse its policy of “Akhand Baharat” (Greater India) and should attempt to live in peace with regional countries. In the region the Chinese are building a signal intelligence structure on Coco Islands just 240 km from Andaman Islands which will help China to improve its friendly relations with Bangladesh in the Bay of Bengal. Sittwe Port of Myanmar and Coco Islands are the main areas linking China with Myanmar which shares about 1600 km of boundary with India. Being located on the eastern edge of Bay of Bengal, Myanmar also acts as a gateway to Southeast Asia. India seems to understand the sociopolitical value of the Siliguri Corridor but is not allowing other countries to access the corridor due to diplomatic concerns. India is even not allowing its own northeastern states to make maximum use of the corridor because of the insurgents’ threat.

On border issues, India appears to be worried and feels endangered of being outflanked due to Chinese activities in the Wakhan Corridor. New Delhi is of the view that the Chinese "string of pearls" strategy – China's involvement in Gwadar Port in Pakistan, Hambantota Port in Sri Lanka, Hagyyi Port in Myanmar, Chinese infrastructural linkage with Nepal and its likely preparations to open the Wakhan Corridor – has compelled India to contemplate about its perceived isolation. India must realise that by tilting only towards extra-regional player the peace and harmony in the region will not be possible and without that it will not be possible for India to prosper.

Notes

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Book Review

Yanqing Jiang (ed.), *China: Trade, Foreign Direct Investment, and Development Strategies*, London: Chandos Publishing, 2014, 232 pp. + xiii.

Studies on the development of China's economy tend to be interesting and controversial. Economists want to find out the true story of China's marvellous economic development, either from institution or policy perspective. Under the guideline of Deng Xiaoping's "theory of the primary stage of socialism", China has tried to utilize the development experience of Western countries in its process of reform and modernization. Trade, foreign direct investment, and effective government policies constitute the initial power of development for China. The rapid economic growth of cities in eastern China such as Guangzhou, Xiamen, Shanghai and Tianjin is the result of first two factors driven by the central government's development policies.

This book edited by Yanqing Jiang, an associate professor at Shanghai International Studies University, includes 13 chapters which explain the effect of trade and foreign direct investment on development strategies, and both theoretical and empirical methods are used to explore this topic. The main theme of this book is introduced in Chapter 1 which also gives a short description of subsequent chapters. Although China experiences rapid development during the last few decades, regional disparities have become a crucial problem as it results in much social malaise. In Chapter 2, a theoretical framework which is based on the Solow growth model is constructed as the foundation for the discussion in this book. Regional growth can be seen as a result of various factors such as human capital, physical capital, and the level of productivity.

Accompanying the economic development of China, regional inequality became prominent during the transition from a central-command economy to a free market. In Chapter 3 of this book, interventionist and liberal approaches are brought forward as two different ways in dealing with this problem. The interventionist approach means that the government needs to equalise the distribution of the outcome of economic growth by using government authority, while the liberal approach attempts to achieve this aim by offering level playing fields with equal opportunities. By using panel data of 28 provinces from 1996 to 2011, the empirical results show that the main reason of regional inequality is the unbalanced distribution of physical capital.

The effects of trade and foreign direct investment (FDI) on economic development are discussed in Chapters 4 and 5 respectively. Empirical results show that both factors have positive relationship with economic growth, as trade and FDI bring about technology diffusion and capital accumulation. In Chapter 6, international openness, coastal-inland market integration, and human capital are used to test the effects on inland economic growth. As hypothesised, all those three factors play an important role for inland economic growth. Chapter 7 mainly tests the effect of foreign trade and FDI on China's structural transformation which has changed significantly in the poorer areas. The regional openness for trade and FDI promotes the labour share shifting from the agricultural sector to the manufacturing sector.

Inadequate research has been done on China's economic transformation by analysing economic factors. The relationship between the pattern of comparative advantage and the economic structure is discussed in Chapter 8 to bridge this gap. Based on the previous chapter's conclusion, the specialisation index for a certain industry which is defined as a country's trade balance divided by total trade is used to explain the intensity of comparative advantage. From the 1990s, the specialization index of primary goods has a declining trend, while the specialization index of manufacturing goods has been increasing steadily. This means that comparative advantage has changed according to the change in economic structure.

As transaction efficiency has great effect on infrastructure and institution, it can be used to explain trade pattern, economic growth, and economic development. From the theoretical perspective, Chapter 9 looks at transaction efficiency and patterns of specialization. Based on the old Ricardian model, the inframarginal method is used to explain development and inequality problems. In developing economies, the domestic transaction efficiency has a negative relationship with inequality, which means that an increase in domestic transaction efficiency will reduce inequality. Meanwhile, the international transaction efficiency has a positive relationship with the whole welfare of a nation. Policy-makers would have to rethink the future path of economic development according to above conclusions. Foreign direct investment and trade not only affect economic growth but also have an effect on interregional disparity through the distribution of manufacturing activity in China. Chapter 10 mainly explores the relationship between foreign direct investment and trade, regional development, and interregional disparity in China. The results are significant as the testing of the regression model suggests positive relationship between these variables.

Chapter 11 focuses on the role of knowledge on the economy. Knowledge as an input in production promotes economic growth. Knowledge accumulation is mainly from education, especially higher education. Empirical analysis shows that college admissions in China affect the human capital movement from the western region of the country to the eastern region.

Chapter 12 examines the relationship between FDI and trade, pollution emission, and economic growth. The outcome suggests that China should be more open for trade and FDI while cleaner technologies and goods can be more be more widely used in production.

Finally, in Chapter 13, knowledge is discussed from a tentative perspective. It is hoped that China could accumulate knowledge from high-tech investment, trade, and outward capital flows.

This book uses mostly quantitative methods to look for resolution of the problems, and each chapter can be seen as being independent to others. The relationships between foreign direct investment, trade, economic growth, and interregional disparity are systematically examined. It gives the readers a clear and deep understanding of the effects of these factors on the economic and social problems. Sophisticated function deduction gives us a systematic map of understanding the source of function. All these processes prove the rationality of choosing the specific model. In a way, the book aims to scientifically investigate the issues with a econometrical approach. As with the references in each chapter, this book can be used as a textbook to further explore the role of foreign direct investment and trade in economic development in China. But, from another perspective, it still lacks systematic theoretical methods to explain the fundamental theory of foreign direct investment and trade to facilitate readers' understanding. All in all, this is a very useful book that explores the topics of China's trade and foreign direct investment.

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Crossing the Chinese Frontier: Nation, Community, Identity and Mobility

Special Issue Editors: Samuel C.Y. Ku, Emile K.K. Yeoh and Titus C. Chen

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