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International Journal of China Studies

Notes for Contributors

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Editor's Foreword

The *International Journal of China Studies (IJCS)*, currently in its sixth year, was first started by Dr. Emile Yeoh Kok Kheng, then the Director of the Institute of China Studies at the University of Malaya, in 2010. Published three times a year, it has now published more than 15 issues, covering a wide variety of topics pertinent to the political, social, economic, cultural, foreign policy, and other dimensions of contemporary China. Some of the volumes in the past were also special volumes that were devoted to specific topics such as the South China Sea, Taiwan's 2012 elections, the 25th anniversary of the Tiananmen Incident, and others. Dr. Yeoh's editorship of all these issues and special volumes should be positively evaluated as a lasting contribution to the academic field of "China Studies" in Malaysia.

Dr. Yeoh has departed from the Institute of China Studies beginning in September 2014. Since then the editorship has been transferred to me. It is not only a privilege, but also a vote of confidence from my colleagues that I shall always feel grateful, to be assigned the responsibility to edit and manage this journal. I am under no illusion that editing an academic journal is a huge responsibility, and I shall take this responsibility with all the seriousness and commitment that I can afford.

As expected when there is a change of editor, the editorial team and board will also undergo some changes. We (the staff of the Institute of China Studies), as the collective owner of the journal, have decided that the editorial team and board should be streamlined somewhat to make it more efficient. To that end we unfortunately have to leave some distinguished scholars outside of the new editorial board. We shall always be grateful for their past contribution and services to the journal, though. To enhance the journal in certain other aspects, we have also invited some other scholars to join the board.

Finally, there will also be stylistic changes to the journal. JEL classifications will no longer be provided. Nevertheless, the aim of the journal, which is to publish good and academically relevant research articles and book reviews on China, will not be impacted. The standard of maintaining a good academic journal, the double blind review process, will be continued.

Dr. NGEOW Chow Bing
Institute of China Studies, University of Malaya

Research Articles

China's Investments in Malaysia: Choosing the "Right" Partners

Guanie Lim*

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Abstract

This paper examines China's outward foreign direct investment into Malaysia by analysing the major coalition partners of mainland Chinese firms that have invested into the country, a relatively underexplored topic. Based on personal interviews with parties familiar with the investment of mainland Chinese firms in Malaysia as well as published reports, this paper argues that a large portion of the mainland Chinese firms have cooperated with the government-linked companies (GLCs) in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms, and other entities i.e. neither the GLCs nor the ethnic Chinese firms. The mainland Chinese firms' strong preference of the GLCs is attributed to the dominance of the GLCs in the Malaysian economy, a direct result of the country's ethnocentric economic redistribution model. However, the preference of mainland Chinese firms for the GLCs, ethnic Chinese firms, and other entities is not uniform across the economic sectors. The preference for the GLCs decreases from the construction, to the manufacturing, and to the other services, agriculture, finance, and information and communication sectors. The preference for the ethnic Chinese firms and the other entities illustrates an opposite trend as it increases from the construction sector, to the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. The mainland Chinese firms' choice of coalition partners reflects the capitalist development and state-society relations of Malaysia, outcomes of the country's decades-old political economic mantra of wealth redistribution along ethnic lines.

Keywords: *China, economic globalization, ethnic Chinese business, foreign direct investment, political economy*

1. Introduction

Scholarly research on China's outward foreign direct investment (FDI) has attracted relatively little attention especially vis-à-vis the large body of research detailing the country's inward FDI. Such research was conducted more intensively only since 2004, following the rapid increase in Chinese outward FDI (see Zhang and Daly, 2011). The latest available information shows that China has invested as much as US\$84 billion in 2012, establishing the country as the world's third largest outward investor after the US and Japan (Sauvant, 2013). Prior to 2004, China was largely viewed as a "giant sucking vacuum cleaner for global inward foreign direct investment" (Wu, 2007: 445). As the Chinese economy matures in the near to medium term and more mainland Chinese firms internationalize their operations, it is reasonable to expect even more outward FDI from the country.¹ As China is also a prominent member of the Global South, the increase of its outward FDI is likely to have implications on the existing Global North-led political economic order (UNCTAD, 2010).

Implicit in the illustration above is the importance of FDI to economic development. For China, one of the most crucial reasons undergirding its economic success is the country's receptiveness towards the inflow of FDI, initiated by the 1979 economic reforms. Similar to China, Malaysia is another Global South country that has relied on inward FDI to propel its economic growth (Hill, 2012; Jomo, 2007). However, this model of economic development is increasingly under pressure as Malaysia has become a net FDI exporter since 2007 (see also Menon, 2014). It has also not been able to rely as much on its "traditional" sources of FDI (from the Western bloc, Singapore, and Japan) as before. The ensuing desperation has forced Malaysian policymakers to seek alternative sources of investment outside its "traditional" group of FDI contributors. To this end, China is one of the alternative sources of FDI most actively targeted by these policymakers (Bao, 2012; Khor, 2013; Lee, 2013; Malaysia-China Business Council, 2013). The gravitation to China is understandable as Malaysia has been the former's largest trading partner in Southeast Asia since 2009 (Shen and Chen, 2010). Since that time, China has also emerged as Malaysia's largest trading partner, enjoying a 13.8 per cent share of Malaysian trade in 2012 (Khor, 2013). Furthermore, Malaysian firms (especially those owned and managed by Malaysians of ethnic Chinese origins) have been active investors in China since it liberalized its economy in 1979, and some of them have also played a crucial role in attracting mainland Chinese firms to invest in Malaysia (see also Gomez, 2006; Shen and Chen, 2010).

With the above as a backdrop, the paper intends to analyse the organization of Chinese outward FDI in Malaysia by scrutinizing not only China's

unique and changing political economic context, but also Malaysia's. In particular, this paper attempts to examine the identities of the coalition partners of mainland Chinese firms (the vessels of the FDI) in their Malaysian investments. It further analyses the similarities and differences of such cross-border cooperation across various economic sectors. More broadly, the paper contributes to existing research detailing "South-South Cooperation", a research area that would likely gain prominence as the emerging economies – led by the likes of Brazil, Russia, India, China, and South Africa (BRICS) – exert their considerable (and still growing) influence in the foreseeable future. Based on personal interviews with parties familiar with the investment of mainland Chinese firms in Malaysia and published reports, this paper argues that a large portion of the mainland Chinese firms have cooperated with the government-linked companies (GLCs) (50 per cent of all firms) in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). The mainland Chinese firms' strong preference of the GLCs is attributed to the dominance of the GLCs in the Malaysian economy, a direct result of the country's ethnocentric economic redistribution model. However, the preference of mainland Chinese firms for the ethnic Chinese firms, the GLCs, and other entities is not uniform across the economic sectors. The preference for the GLCs decreases from the construction (76 per cent), to the manufacturing (29 per cent), and to the other services, agriculture, finance, and information and communication (25 per cent) sectors. Such a trend highlights the close relationship between the GLCs and the government in the construction sector, an advantage which the GLCs have exploited most effectively. On the other hand, the preference for the ethnic Chinese firms increases from a lowly 18 per cent in the construction sector, to 43 per cent and 33 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. While the ethnic Chinese firms are not able to secure state support as effectively as the GLCs in the construction sector, weakening the likelihood of cooperation with mainland Chinese construction firms, the lack of state support indirectly provides the ethnic Chinese firms with some freedom to expand into other less regulated economic sectors (outside of the construction sector) in which the presence of the GLCs is comparatively weaker. Their eventual success in these sectors has made themselves reliable coalition partners for mainland Chinese firms investing into Malaysia. Similarly, the preference for the other entities increases from a lowly 12 per cent in the construction sector, to 43 per cent and 58 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. Mirroring the cross-border cooperation pattern of their mainland Chinese counterparts

who have relied on the ethnic Chinese firms, this group of mainland Chinese firms has exploited the greater economic liberty outside the construction sector, i.e. sectors in which the participation of the GLCs is less active.

This paper begins with a critique on the theoretical underpinnings of the emergence of the mainland Chinese firms and its relationship to China's broader political economy. It emphasizes that the heavy presence of the Chinese state and associated patron-client networks have indirectly "toughened" these firms up in the domestic economy. The experience gained from operating in such a difficult setting has in turn eased their transition when they invest abroad, especially to countries with a similar political economy, i.e. weak corporate governance and heavy presence of the state sector in the economy. Illustrating the emergence of both the GLCs and the ethnic Chinese firms in Malaysia, it also underlines the need to be sensitive to the capitalist development and state-society relations in the host country (Malaysia). In the next section, the paper offers an analysis of Chinese outward investment, emphasizing its impact in Southeast Asia (especially Malaysia). This is accompanied by an identification of the gap in knowledge in the body of literature detailing Chinese outward FDI entering Malaysia. It then describes the research methodology before the major coalition partners of the mainland Chinese firms in their Malaysian investments are examined. This is followed by a discussion of the findings. The paper concludes with a summary of the main arguments and research findings, along with an analysis of their policy implications.

2. Theoretical Framework

There are a number of theories on the existence and growth of FDI, of which Dunning's eclectic paradigm (Dunning, 1988, 1993, 2000) is one of the most widely accepted. While this body of research is insightful in its own right, there has been some critique on the inadequacy of such theories in explaining outward FDI from developing countries (of which China is a key member). This is because they are modelled almost exclusively on the behaviours of relatively experienced multinational companies (MNCs), especially those from the Global North i.e. US, Europe, and Japan (Buckley *et al.*, 2007; Wei, 2010). Put another way, much less information is available on the behaviours of MNCs from developing countries such as China. More broadly, this lack of insight is perplexing as it does not commensurate with the comparatively larger corpus of literature detailing "South-South Cooperation" (see Alden and Vieira, 2005; Aykut and Ratha, 2004; Jilberto and Hogenboom, 2012; UNCTAD, 2010). In view of this situation, one is left wondering whether mainland Chinese MNCs behave differently compared to their counterparts from the Global North. To this end, this paper argues that a more critical

insight examining the political economy of the home (China) and host (Malaysia) countries, and the relationship linking their broader political economy to the corporate strategies of firms operating within specific economic sectors, is needed. Such a perspective is compelling because – should past data on the direction and intensity of China's outward flow of FDI provide a good indication of future performances – an increasingly larger number of mainland Chinese firms would be extending their operations beyond their national borders in the search for new markets and higher profits.

To better understand the outward investment of mainland Chinese firms, and how it takes root in Malaysia across different economic sectors, a more situational perspective is needed. Echoing Dicken (2011), this paper asserts that the *specific circumstances* of the investment scenario need to be taken into consideration. It also stresses the importance of being sensitive to the political economy prevalent in both the home (China) and the host country (Malaysia) of the firms involved. More specifically, this paper explores the identities of the partners of mainland Chinese firms in their investment abroad (in this case, it is Malaysia), and the reasons undergirding such collaboration by critically analysing empirical data on Chinese outward FDI entering Malaysia and literature detailing *capitalist development* in the former and the latter. As the following sections would reveal, the mainland Chinese firms predominantly cooperate with Malaysia's GLCs in their Malaysian investments, particularly in the construction sector. This development is partly the outcome of Malaysia's unique combination of ethnocentric policies and "pick the winners" approach, which encouraged the formation of the GLCs and their subsequent domination of the economy. In other words, the mainland Chinese firms' choice of coalition partners reflects the capitalist development and state-society relations of Malaysia, aftereffects of the country's decades-old political economic mantra of wealth redistribution along ethnic lines. In addition, the mainland Chinese firms are not averse to such an interventionist stance for they also operate in a similar set of political economy (albeit with some variance) and have gained substantial experience in navigating the patron-client networks interconnecting the state and the private sector before venturing abroad.

2.1 Capitalist Development: The Chinese Way

Upon the unification of China in 1949, the China Communist Party (CCP) organized a series of import substituting industrialization (ISI) in heavy industries led by newly formed state-owned enterprises (SOEs). Mao Zedong, chairman of the CCP, had wanted to build a socialist economic system, yet these efforts did not attain much success because of a low level of capital and expertise, obsolete technology, poor management system, and lack of willing

buyers for such products (Studwell, 2013). The situation worsened in 1960 as the Soviet Union withdrew all its advisers and discontinued aid to China after irreconcilable political and ideological disagreements emerged between the leadership of both countries (Vu, 2010). Until that point, the Soviet Union was the largest backer of the Chinese state, offering the latter advice and aid.

The desperation that ensued compelled Deng Xiaoping, China's post-Mao reformist leader, to push for a new development policy in 1979. Deng's reform was largely centred on two interrelated pivots – attraction of FDI and the professionalization of the SOEs. As Pereira and Tong (2005) explained, MNCs were encouraged to invest in China, especially to form joint ventures with the SOEs, so that technological and managerial expertise can be transferred to the Chinese. Many of these SOEs were also gradually privatized and internationalized during the process. One of the often-cited examples of such an inward FDI-induced growth is the Haier Group, which started out as a small and ailing SOE before becoming one of the best known names in the home appliances industry (see Liu and Li, 2002). The post-1979 reforms provided Haier with an opportunity to forge partnerships with other more well-managed foreign firms. In 1985, Haier entered into a joint venture with Germany's leading appliance maker, Liebherr, which allowed the Chinese SOE to tap into the expertise of its German partner. More specifically, Haier gained valuable managerial and technical competence from such an arrangement (see also Deng, 2003; Warner *et al.*, 2004). In terms of marketing capability, it not only enabled Haier to sell a broader (and better quality) range of products to the domestic Chinese consumers but also to the comparatively more sophisticated Western markets, a rarity for Chinese producers in the 1980s. To further consolidate its position, Haier utilized different internalization advantages available to it and adopted corresponding strategies (depending on the context) such as establishing its own manufacturing facilities outside of China (targeting the unique demands of the host market) and exporting finished goods directly out of its Chinese factories (relying on distributors in the export market) to serve its large and growing overseas market.

Notwithstanding the success story of Haier, one must also understand the broader dynamic surrounding the mainland Chinese firms. More importantly, China's opaque business environment (i.e. weak corporate governance structure and rule of law) and its relationship to the growth of mainland Chinese firms and their internationalization efforts must be unpacked. Yeung and Liu (2008: 71) observe that “many large state-owned enterprises – turned mainland transnationals – occupy monopolistic positions in China's enormous domestic market, in which predatory corporate behaviours are often observed and tolerated”. This development enables less well-managed SOEs to exercise their monopolistic power without due consideration of business risks and fear

of failures, becoming “too big” to fail and “too powerful” to be questioned. Enjoying strong political clout in the home country, some of these SOEs adopt a reckless and less-than-honest approach in their international investments. In extreme cases, international investments have even served as a conduit through which well-connected company executives and their cronies receive huge payoffs and kickbacks from host country bankers, underwriters, and joint venture partners (Yeung and Liu, 2008).

Nevertheless, the mainland Chinese firms’ familiarity in operating in a relatively challenging business environment, and experience in managing complex patron-client networks (both in China) have indirectly helped them when they invest in other developing countries in which a similar political economy is also present (see Michel and Beuret, 2009). The “baptism of fire” in China is especially relevant for their outward FDI in developing countries in which formal management systems are less effective than the centralization of information and decision-making (Yeung and Liu, 2008). Reflecting the business knowledge gained through years of operating in China’s unique political economic environment, many of the Chinese firms opt for a highly centralized management protocol in their cross-border operations, underscoring their reliance on swift decision-making, operational flexibility, and high adaptability to the host country’s business conditions (Yeung and Liu, 2008). Moreover, many of the mainland Chinese firms do not regard the weak corporate governance structure and rule of law in most (if not all) of the developing countries as significant hurdles in their internationalization efforts. To circumscribe these complexities, one of the most common measures is to enter into joint ventures with influential and well-connected firms from the host economies (see Wu, 2005). Wary of such manoeuvring, some critics have even accused these firms (and the Chinese state) of exacerbating the already dire situation of the FDI recipient states (Moyo, 2012; Naïm, 2007).

2.2 Capitalist Development: The Malaysian Way

For Malaysia, the state has played an active role in developing the economy since its independence in 1957. The interventionist stance is further solidified following the 13 May 1969 (mainly) Malay-Chinese sectarian violence. It is often argued that one of the primary causes of this incident is the growing socioeconomic inequality between the major ethnic groups, particularly between the relatively poorer native Malay and the richer Chinese (Gomez and Saravanamuttu, 2013; Teh, 2002). To eliminate poverty and achieve economic parity among the ethnic groups, an ambitious 20-year social engineering plan, the New Economic Policy (NEP), was implemented in 1971. Although the NEP officially ended in 1991, it has continued to flourish under the guise of other development plans. The NEP and its successor programs (hereafter

referred to as simply the NEP) are based on the principle of affirmative action favouring the majority *Bumiputera* (essentially Malay) ethnic group, often at the expense of other ethnic groups (Ooi, 2013; Pua, 2011).

The socioeconomic means to implement the NEP are diverse, but one of the government's more direct measures is to employ GLCs to venture into major sectors of the economy on behalf of the ethnic Malays (Gomez, 2013). Such a paradigm is epitomized by the 1980s decision to implement the state-led ISI in heavy industries such as automobiles, steel products, and cement. To ensure their success, the government imposed import quotas and high excise and import duties to shield the domestic market from foreign competition (Lee, 2012). These GLCs were viewed as proxies of Malay wealth, but corporate ownership were still concentrated in the GLCs themselves rather than in the hands of individual Malays (Shome and Syahira, 2009). In response, Mahathir Mohamad, Malaysia's longest serving Prime Minister (1981 to 2003), stressed the need to nurture ethnic Malay businessmen in control of well-capitalized firms (not limited to the pre-existing GLCs of that time) with international reputation, an effort that would constitute part of his *Bumiputera Commercial and Industrial Community (BCIC)* policy (Gomez, 2009). Furthermore, Mahathir's strong emphasis on redistribution along ethnic lines meant that it was politically difficult to groom other more well-capitalized and better-managed firms that were owned by the ethnic Chinese minority for these industrialization efforts (Studwell, 2013). While their rise was meteoric, almost all of these well-connected Malay entrepreneurs and the firms that they headed ran into difficulties during the 1997 Asian financial crisis. The government subsequently bailed out several of these firms and renationalized key privatized projects, making them *de facto* GLCs (if they were not already prior to this) (Gomez, 2012). Such extravagance was most glaring in the construction sector (see Wain, 2009). Despite the subsequent re-privatization exercise of some of the bailed out and restructured GLCs, many of them are only partially divested and continue to remain government-linked and controlled. The unsuccessful industrialization drive of these GLCs has not only drained the coffers of the government, but also stunted the country's manufacturing capacity, especially in the heavy industries. Exacerbating this situation is the lack of transparency in the management of these GLCs (see Athukorala and Waglé, 2011).

Yet, how do the Malaysian Chinese firms manage the pro-Malay state-society relations? Jesudason (1997) illustrates that some of the well-capitalized ethnic Chinese firms have forged political alliances with elites from the United Malays National Organization (UMNO), Malaysia's most influential political party and the chief architects of the NEP, for the growth of their enterprises. For instance, he argues that Quek Leng Chan (head of the powerful Hong Leong Group) utilized his alliance with Anwar Ibrahim, Malaysia's then

Deputy Prime Minister and current opposition leader, in the taking over of the banking and financial arms of Khoo Kay Peng's Malayan United Industries Berhad (MUI) in 1993. Prior to this event, it was alleged that Khoo's lack of support for Mahathir (the then Prime Minister) in the 1987 UMNO elections meant that he "was not in the government's good books" (Jesudason, 1997: 128). The political dimension of this acquisition is underscored further as "Quek was able to persuade Khoo to sell off the companies by offering political leverage to expand the companies' branch networks, which had remained frozen" (Jesudason, 1997: 128). Despite the close ties with the political elites, the ethnic Chinese firms generally receive comparatively less support from the state vis-à-vis the GLCs (see also Gomez, 2009; Tipton, 2009). This is particularly true for the ethnic Chinese firms operating in the construction sector as they are in direct competition with the GLCs. Moreover, the Malaysian Chinese firms enjoying state rents, at least during the Mahathir era, were required to apportion these concessions to well-connected Malay firms (and GLCs) (Gomez, 2012). In the manufacturing sector, Studwell (2013) shows that Malaysia's adoption of the NEP, especially its selection of the GLCs over the country's most successful ethnic Chinese firms in the ISI programs, has proven to be a double-edged sword for some of these ethnic Chinese firms. While they have been overlooked in terms of state support, they are allowed to operate with much less surveillance from the Malaysian state vis-à-vis firms enjoying state support. This has in turn provided them with a greater degree of freedom to pursue other types of business activities, usually related to their core businesses. To this end, some of the ethnic Chinese firms have indeed been hugely successful at exploiting their expertise in the manufacturing industry. For instance, Oriental Holdings Berhad (owned and managed by the Loh family) had set up a plant in Penang to assemble Honda motorcycles as early as 1969. The experience gained from assembling motorcycles proved useful as it helped the firm to expand into related and higher value-added manufacturing activities such as car assembly, and the design and production of vehicle components (Gomez, 2002). However, many of the ethnic Chinese firms are increasingly unable to upgrade their technical and managerial know-how to compete in the more knowledge-intensive and higher value-added operations of newer (manufacturing-related) economic activities such as modular electrical/electronic production and biomedical research (Henderson and Phillips, 2007). Overall, the ethnic Chinese firms are still able to thrive in this discriminating environment not only because of political support, but also because of their strong entrepreneurial ability and their recourse to the socioeconomic networks that the various ethnic- and clan-based trade associations provide them with, which have roots dating back to the pre-independence era. While the well-capitalized ethnic Chinese firms have gradually moved away from these socioeconomic networks, many of

the country's ethnic Chinese firms (particularly those in industries enjoying a relatively lower capital intensity e.g. trading and services) are still reliant on them (see Jesudason, 1997; Zwart, 2007).

As a result of the protection of the GLCs and the resilience of the ethnic Chinese firms, both of which were already big players in the economy prior to the 1997 Asian financial crisis, they have been able to further cement their status in the years following the crisis. For the GLCs, Menon and Ng (2013) illustrate that the large and growing presence of GLCs has been crowding out private investment in the Malaysian economy in the post-1997 years. While there has not been a similar study on whether the ethnic Chinese firms have crowded out the Malaysian economy, what is certain is that many of them (particularly the well-capitalized and well-connected ones) are able to resist a government intent on wealth redistribution along ethnic lines. Nevertheless, the dominance of the ethnic Chinese firms is not as strong as that of the GLCs, especially in economic sectors in which state support is a crucial factor in their success (i.e. the construction sector). Conversely, many of the ethnic Chinese firms have learnt to channel their entrepreneurial zeal instead to the sectors in which the GLCs are less active at such as small- and medium-scale manufacturing, trading, and services. More importantly, the market power of both groups of firms puts them in a good position to form commercial ties with foreign investors, primarily to acquire technology and other expertise. For the GLCs, one only needs to note Perak State Development Corporation's joint venture with South Korea's Doosan Heavy Industries and Construction Company Limited in the establishment of a cement producing facility in the state of Perak. The joint venture brings the best out of both parties – the latter's expertise in cement making and the former's close relationship with the authorities and marketing experience in the domestic market (Jomo, 2007). The ethnic Chinese firms are no less adept in their cooperation with foreign investors. An often-cited example is MBM Resources Berhad's lead role in the establishment of the Perusahaan Otomobil Kedua Berhad (Perodua), a 1993 automobile joint venture between MBM Resources, two GLCs, and two other Japanese MNCs (Daihatsu and Mitsui). Perodua has subsequently established itself as a successful compact car maker, with a growing capacity to export its products. In this venture, Daihatsu and Mitsui provide the manufacturing competency while their Malaysian counterparts contribute by bringing their knowledge of the domestic and regional marketplace to the table (see Gomez, 2012). The ability of the GLCs and the ethnic Chinese firms to secure FDI to advance their corporate goals combines well with the Malaysian state's generally positive attitude in courting FDI to fuel economic growth, complementing its reliance on the GLCs to participate in the economy directly and its ambivalence towards the ethnic Chinese firms. Apart from the sectors in which the GLCs are protected, e.g. the ISI programs and domestic

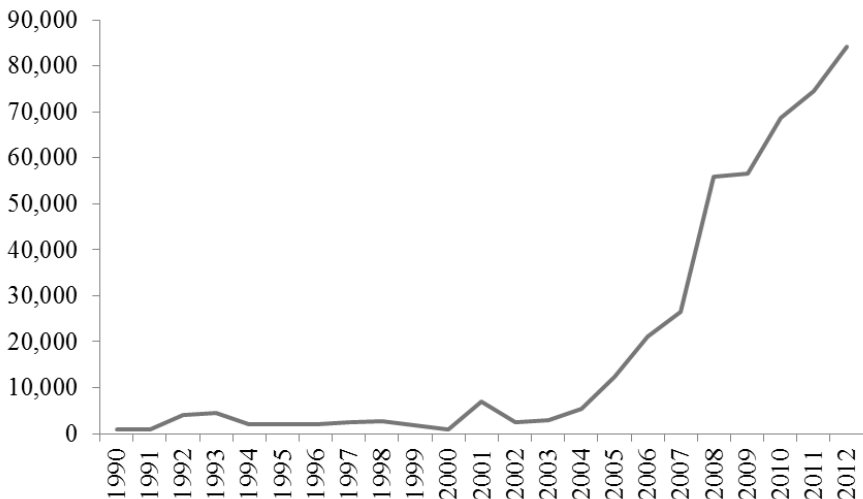
construction, the state has generally adopted a liberal approach towards foreign capital. As a result, foreign investors are not averse to investing in sectors in which the GLCs are absent or inactive in (Jomo, 2007; Lim, 2014). One only needs to look at the vibrant and export-oriented electronics sector in the northern state of Penang for a classical example of this type of inward FDI-induced growth (Henderson and Phillips, 2007).

The above paragraphs have showcased the ability of mainland Chinese firms in navigating opaque business environment (e.g. forging joint ventures with well-connected firms from the host country) when they invest abroad, and the receptiveness of Malaysian (GLCs and ethnic Chinese) firms in establishing alliances with foreign firms investing in Malaysia. More generally, both mainland Chinese and Malaysian firms display competencies in managing complex patron-client relationships in difficult environments, and strong business acumen. Also alluded to in the paragraphs above is the need to examine the political economy of the home and host countries (China and Malaysia respectively), focusing on their capitalist development and state-society relations.

3. China's Investment in Malaysia

Figure 1 depicts the outward flow of China's FDI from the years 1990 to 2012. It can be observed that the outward FDI has been relatively low during the 1990s, but escalated exponentially after 2000.

Figure 1 China's Outward Flow of Foreign Direct Investment at Current Prices and Current Exchange Rates, 1990–2012 (US\$; Million)

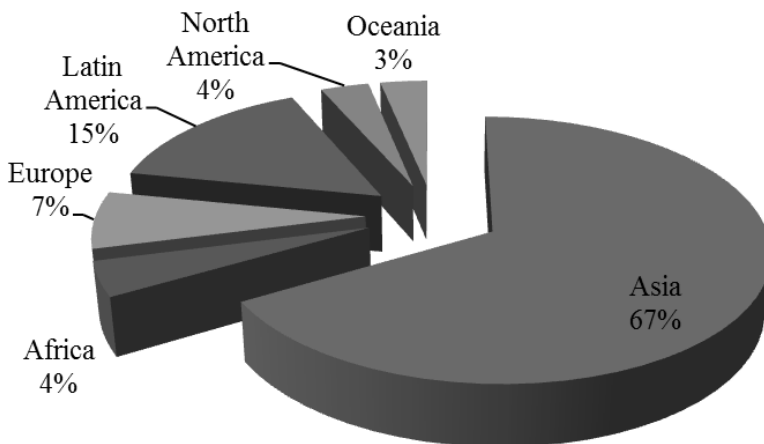


Source: United Nations Conference on Trade and Development.

While China remains the most attractive country in the world in attracting FDI, it has also become one of the largest outward investors since the turn of the century (see UNCTAD, 2012). Geographically, China's outward *flow* of FDI is unevenly distributed across the continents with its investments mostly going to Asia (67 per cent) and Latin America (15 per cent) (see Figure 2). These two continents account for 82 per cent of China's outward FDI from 2003 to 2012. Within Asia, Hong Kong is the largest recipient, capturing 84 per cent of Chinese outward FDI. Hong Kong's low tax and business-friendly environment is much appreciated by investors, including those from China. As Yeung and Liu (2008) argue, Hong Kong is an attractive location for the "round-tripping" of Chinese outward FDI back to China itself. To this end, some of the mainland Chinese firms first register their businesses in the city-state (transferring capital from China to Hong Kong in the process), then subsequently invest back into China in order to enjoy preferential treatment for inward FDI (see also UNCTAD, 2012). Nevertheless, Sutherland and Ning (2011) illustrate that while a significant amount of this outward FDI does "round-trip" back to China, an unknown amount may also "onward-journey" to third countries.

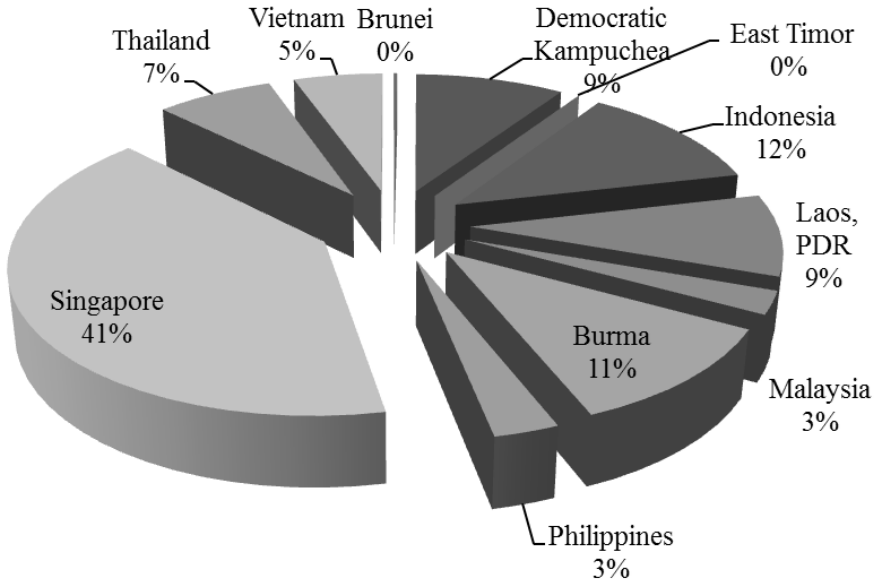
Within Southeast Asia, Singapore is the largest recipient of China's outward *flow* of FDI, capturing 41 per cent of the market share (see Figure 3). Like Hong Kong, Singapore is a top performer in the attraction of FDI primarily because of a low tax and pro-business environment. It is also seen as a gateway to the surrounding "hinterland" economies, e.g. Indonesia and

Figure 2 Geographical Distribution of China's Outward Flow of Foreign Direct Investment, 2003–2012 (%)



Source: CEIC Data Manager.

Figure 3 Geographical Distribution of China's Outward Flow of Foreign Direct Investment in Southeast Asia, 2003–2012 (%)



Source: CEIC Data Manager.

Malaysia (see UNCTAD, 2012). The second and third largest recipients in the region are Indonesia (12 per cent) and Burma (11 per cent) respectively, but their gap from the top spot is significant. Malaysia, on the other hand, is only able to garner 3 per cent of Chinese outward FDI designated for Southeast Asia.

For Malaysia, it has relied predominantly on FDI from the Western bloc, Singapore, and Japan – its “traditional” sources of FDI – to drive its growth. Therefore, Chinese FDI is still relatively new and modest in value vis-à-vis those originating from the “traditional” sources, a point made in the previous sections. More specifically, China has only begun to invest aggressively into Malaysian shores since 2010 (*Business Times*, 2013b; Lee, 2013; Zhuang and Wang, 2010). Predictably, there is a corresponding lack of research and empirical data on Chinese outward FDI entering Malaysia. While detailed statistics on such investments are not available at this point of time, statements from the Malaysian political and commercial elites (documented in secondary sources) suggest that the mainland Chinese firms invest chiefly in the basic metal (mining and manufacturing), infrastructure, and construction industries (see Bao, 2012; *Business Times*, 2013b; Lee and Ong, 2013). These three industries are also the fields in which Malaysia’s ethnic Chinese firms and

GLCs are most active at (see also Menon and Ng, 2013). Seen from this angle, it appears that the mainland Chinese firms have decided to participate in relatively mature economic sectors, either by themselves or by cooperating with other (Malaysian) firms. Yet, it is difficult to present such a position without a detailed research on the subject. The next section would illustrate some empirical data on Chinese outward FDI entering Malaysia, unpacking this issue and the identities of the partners (if any) of these mainland Chinese firms. More crucially, it explores the reasons sustaining such collaboration.

4. Methodology

This paper uses a “mixed method” approach, comprising personal interviews with knowledgeable parties and a reliance on secondary sources, to collect and analyse data on the mainland Chinese firms investing in Malaysia and their major coalition partners (see also Lim, 2014). As Yeung and Liu (2008) have asserted in their research on the outward FDI of mainland Chinese firms, more conventional research methodologies are inapplicable because of the relatively recent and, in some cases, obscure activity of mainland Chinese firms in Southeast Asia. The empirical analysis is based on primary data collected through personal interviews with parties that are familiar with the operations of mainland Chinese firms which have invested into Malaysia, namely active members of the Klang Chinese Chamber of Commerce and Industry (KCCCI), especially those who have regular business interactions with mainland Chinese firms. In addition, officers from the Malaysian trade and investment promoting agencies, and political and business analysts were interviewed. Secondary data published by the Ministry of Commerce (China), the United Nations Conference on Trade and Development (UNCTAD), and the CEIC Data Manager as well as academic manuscripts (e.g. Buckley *et al.*, 2007; Deng, 2003; Lee, 2013; Sutherland and Ning, 2011; Wei, 2010; Yeung and Liu, 2008; Zhang and Daly, 2011) were also referred to.

Thirty-six mainland Chinese firms were eventually identified. In-depth interviews with KCCCI members, trade and investment promoting officers, and political and business analysts were subsequently conducted from November 2013 to December 2013. The perspective of these parties is important as they were well-informed on the investment strategies and the operating mechanism of mainland Chinese firms in general. These interview sessions were open-ended and semi-structured, with a focus on the main coalition partners of these firms in their investments in Malaysia. In particular, the paper explored how and to what extent cooperation with the two main players of the Malaysian economy – the ethnic Chinese firms and the GLCs – help in improving the mainland Chinese firms’ access to resources and business prospects. For these 36 mainland Chinese firms, their choice of

coalition partners in Malaysia is not mutually exclusive. Put another way, they cooperate with more than one party, whenever the need arises. Nevertheless, most of these firms have cooperated with only a single coalition partner vis-à-vis four (out of a total sample size of 36) which have collaborated with more than one partner. The paper also analysed the sector-specific circumstances driving the internationalization process of these firms. All of the interview sessions were conducted in Malaysia.

Throughout the research, it became apparent that many of the mainland Chinese firms surveyed were SOEs. This is within expectations as mainland Chinese SOEs have traditionally played a leading role in the country's outward investment. Scissors (2011) reports that SOE ownership of the country's outward FDI has averaged about 96 per cent throughout a seven-year period (from 2005 to 2011). The latest available survey shows that share of SOE ownership has remained dominant, accounting for close to 90 per cent of total outward FDI in 2012 (see Cary, 2013). Some of the SOEs (e.g. Guangxi Beibu Gulf International Port Group Ltd, Macrolink Real Estate Company Ltd, and Sinohydro Group) have also invested in more than one business venture in Malaysia. A substantial portion of the mainland Chinese firms (67 per cent) were involved in construction and manufacturing activities while the rest of their counterparts invested in the other services, agriculture, finance, and information and communication sectors. In addition, a significant proportion of the mainland Chinese firms studied in this paper have invested in Malaysia through joint venture agreements with their coalition partners. Such a discovery is also not surprising as Wu (2005) has highlighted that joint venture and outright acquisition have become increasingly popular modes of cross-border expansion for mainland Chinese firms.

To improve the reliability of the primary data provided by the interviewees, the data were cross-validated with published reports and company websites (if available). The use of these sources of information allowed for data verification and triangulation, which helped to improve data accuracy (see also Sim, 2009). As several of the themes discussed – mainly interethnic ties and state-society relations – are considered sensitive in both China and Malaysia, the interviewees were promised confidentiality. It must nevertheless be cautioned that this research was conducted with a relatively small sample size (n=36) and under non-random conditions.

5. Findings: Major Coalition Partners of Mainland Chinese Firms Investing into Malaysia

Table 1 shows that mainland Chinese firms have cooperated with three major coalition partners when they invest into Malaysia: (i) ethnic Chinese firms; (ii) GLCs; and (iii) other entities (i.e. non-ethnic Chinese firms and non-

Table 1 Major Coalition Partners of Mainland Chinese Firms Investing into Malaysia

<i>No.</i>	<i>Firm</i>	<i>Sector</i>	<i>Ethnic Chinese Firms</i>	<i>Government-Linked Companies</i>	<i>Others</i>
1	Beijing Urban Construction Group	Infrastructure (Construction)			X
2	China Harbour Engineering Company Ltd	Infrastructure (Construction)		X	
3	China Three Gorges Project Corporation	Infrastructure (Construction)		X	
4	Export-Import Bank of China	Infrastructure (Construction)		X	
5	Gansu Chamber of Commerce	Infrastructure (Construction)			X
6	Guangxi Beibu Gulf International Port Group Ltd	Infrastructure (Construction)		X	
7	Guangxi Beibu Gulf International Port Group Ltd	Infrastructure (Construction)	X	X	
8	Sinohydro Group	Infrastructure (Construction)		X	
9	Sinohydro Group	Infrastructure (Construction)		X	
10	Agile Property Holdings Ltd	Property (Construction)	X		
11	Country Garden Holdings Company Ltd	Property (Construction)	X		
12	Country Garden Holdings Company Ltd	Property (Construction)		X	
13	Greenland Group	Property (Construction)		X	
14	Guangzhou R&F Properties Company Ltd	Property (Construction)		X	
15	Hao Yuan Investment Pte Ltd	Property (Construction)		X	
16	Macrolink Real Estate Company Ltd	Property (Construction)		X	
17	Zhouda Real Estate Group	Property (Construction)		X	

Table 1 (continued)

<i>No.</i>	<i>Firm</i>	<i>Sector</i>	<i>Ethnic Chinese Firms</i>	<i>Government-Linked Companies</i>	<i>Others</i>
18	Aluminum Corporation of China Ltd	Manufacturing		X	
19	China South Locomotive and Rolling Stock Corporation Ltd	Manufacturing		X	
20	Comtec Solar Systems Group Ltd	Manufacturing			X
21	Daiyin Textile and Garment Group	Manufacturing			X
22	Haier Group	Manufacturing	X		X
23	Jinan Iron and Steel Group	Manufacturing	X		
24	Shougang Group	Manufacturing	X		
25	Perfect World Company Ltd	Gaming (Other Services)			X
26	Hopefluent Group Holdings Ltd	Property (Other Services)	X		
27	Chery Automobile Company Ltd	Trading (Other Services)	X	X	
28	Diving Best Group	Trading (Other Services)			X
29	Macrolink Real Estate Company Ltd	Trading (Other Services)			X
30	Midea Group	Trading (Other Services)	X	X	
31	TCL Corporation	Trading (Other Services)		X	
32	China Sinochem Group Corporation	Agriculture	X		
33	Bank of China Ltd	Finance			X
34	Industrial and Commercial Bank of China Ltd	Finance			X
35	Huawei Technologies Company Ltd	Information and Communication			X
36	ZTE Corporation	Information and Communication			X

Source: Author's estimation based on interviews and secondary sources.

GLCs). As noted in the previous section, the selection of coalition partners for these mainland Chinese firms is not mutually exclusive. In other words, they cooperate with more than one party, whenever the need arises. For example, the Midea Group has partnered both an ethnic Chinese firm and a GLC in its Malaysian investment. To this end, a total of four mainland Chinese firms (i.e. Guangxi Beibu Gulf International Port Group Ltd, Haier Group, Chery Automobile Company Ltd, and Midea Group) have cooperated with more than one coalition partner. Because of the non-mutually exclusive selection of coalition partners by these four mainland Chinese firms, some of the statistics do not add up precisely to 100 per cent. Despite this minor statistical shortcoming, the finding still provides a clear overall picture of who the mainland Chinese firms cooperate with in their Malaysian ventures. Table 1 also shows the distribution of these firms' coalition partners, across and within the economic sectors surveyed. Furthermore, mainland Chinese firms' affinity to the three types of coalition partners varies considerably between the respective economic sectors.

Overall, a significant portion of the mainland Chinese firms prefer to cooperate with the GLCs (50 per cent of all firms), while a smaller percentage have collaborated with the other entities i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms), and the ethnic Chinese firms (28 per cent of all firms). However, it can be observed that the preference for the three types of coalition partners is uneven from one economic sector to the other. In the construction sector, more than three-quarters (76 per cent) of the mainland Chinese firms surveyed prefer to cooperate with the GLCs. Comparatively, only 18 per cent and 12 per cent of the mainland Chinese firms have collaborated with the ethnic Chinese firms and other entities respectively. In the manufacturing sector, 43 per cent of the firms have established commercial alliances with the ethnic Chinese firms and the other entities respectively. Only 29 per cent of the mainland Chinese firms cooperate with the manufacturing GLCs. In the other services, agriculture, finance, and information and communication sectors, 58 per cent of the mainland Chinese firms rely on the other entities as their coalition partners. Meanwhile, 33 per cent and 25 per cent of the mainland Chinese firms have collaborated with the ethnic Chinese firms and the GLCs respectively.

6. Discussion

The findings of this paper illuminate a few salient points. Firstly, a large portion of the mainland Chinese firms have cooperated with the GLCs (50 per cent of all firms), while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities, i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). This reaffirms

the research of Menon and Ng (2013), who argue that the GLCs play a (overly) dominant role in the Malaysian economy. Their dominance is in turn attributed to the history and political economic development of the country, both of which shaped especially by the ethnocentric NEP. Although critics have argued that the implementation of the NEP is arbitrary and often used as a vehicle for political patronage (see Gomez, 2009; Gomez and Jomo, 1999; Ooi, 2013), it has undeniably encouraged the formation of various GLCs to promote interethnic equality (in principle, at least). The ethnic Chinese firms have also thrived, to some extent, in spite of their ethnic minority status. Although it is difficult to pinpoint any single factor for their success, it must be stressed that the more successful ethnic Chinese firms have occasionally been able to secure some form of political support. Nevertheless, such support is rather limited vis-à-vis that enjoyed by the GLCs. In view of the strong economic representation of both the ethnic Chinese firms and the GLCs and their links to the authorities, it is only logical for foreign investors (including those from China) to collaborate with these “*Di Tou She*” (the literal meaning is local snakes; a Chinese business term to describe capable local firms, usually with good connections) (personal communication, 29th November 2013). Such a development is also not surprising as both the ethnic Chinese firms and the Malay-centric GLCs have been shown to be adept at forming commercial ties with foreign investors, whenever the need arises. Perak State Development Corporation’s joint venture with South Korea’s Doosan Heavy Industries and Construction and the Perodua (a Japanese-Malaysian automobile joint venture company) are only two names among a long list of such cross-border cooperation. For the mainland Chinese firms that have not depended on the GLCs and the ethnic Chinese firms, they are a testament to Malaysia’s (somewhat selective) economic openness. However, like the ethnic Chinese firms of Malaysia, their presence is also circumscribed by the redistributive nature of the NEP, as the following paragraphs would illustrate.

Secondly, the mainland Chinese firms’ preference for the ethnic Chinese firms, the GLCs, and other entities is not uniform across all economic sectors. In the construction sector for example, 76 per cent of the mainland Chinese firms have cooperated with the GLCs vis-à-vis 18 per cent and 12 per cent which opted for ethnic Chinese firms and other entities. Such an observation can be explained by the inherent nature of the construction sector, particularly the reliance of the firms on accessing state resources (primarily land and the awarding of government projects) and the large capital outlay involved (usually accompanied by a long gestation period). Under such a scenario, it is conceivable that mainland Chinese firms would be tempted to work with the GLCs as their close ties to the government confer them with some form of “political advantage” as far as the distribution of state resources such as land and concession agreement is concerned (personal communication, 20th

November 2013). Further encouraging this tie up is the lack of transparency regarding the operations of these GLCs (see Athukorala and Waglé, 2011; Teh, 2002). For example, one only needs to note the controversy surrounding the 1Malaysia Development Berhad (1MDB), the joint venture partner of the Export-Import Bank of China in the development of the landmark tower in the Tun Razak Exchange (TRX), the country's new financial district (see *Business Times*, 2013a) (see Table 1). More specifically, opposition lawmakers and financial analysts have questioned the seemingly high debt level accumulated by the 1MDB, which reached Malaysian Ringgit (MYR) 38.4 billion in August 2013. This debt level is even more worrying as it has been accumulated "against a backdrop of paltry profits, derived largely from the shuffling of assets... and the revaluation of properties purchased at steep discounts from the government" (Lopez, 2013). Furthermore, there is disquiet on the alleged transfer of large sums of money (about MYR7 billion) to an offshore account in the Cayman Islands (see Vinod, 2013). The secretive nature of such dealings has prompted critiques to label the 1MDB as a "part strategic investment arm and part political slush fund" (Lopez, 2013). While this paper does not suggest any wrongdoings by the 1MDB or the Export-Import Bank of China, it is nevertheless difficult to convince neutral observers that their joint venture agreement to develop the landmark tower in the TRX would be conducted in an at-arms-length manner, in view of the highly publicised negativity and allegations surrounding the 1MDB (see also Lim, 2014).

Meanwhile, a different dynamic exists in the manufacturing sector, illustrated by a high incidence of alliance – 43 per cent in both cases – between the mainland Chinese firms and their Malaysian Chinese counterparts, and between the mainland Chinese firms and other entities. The proportion of mainland Chinese firms opting for the GLCs stands at a comparatively lower 29 per cent. Why is there such a strong preference for the ethnic Chinese firms and the non-GLCs and non-ethnic Chinese firms? Such an outcome can be partly explained by the Malaysian Chinese firms' ability in exploiting their expertise in the manufacturing industry despite a lack of state support. Parallel to this development is the failure of the state in cultivating competitive and sustainable manufacturing GLCs although considerable resources have been allocated for such purposes (especially in the heavy industries), a pointed remark raised by Wain (2009) and Studwell (2013), both renowned researchers studying Malaysia's political economic development. A business analyst further revealed that most of the manufacturing GLCs underperform because they are essentially the products of a misguided and ill-conceived industrialization drive by the Malaysian government (personal communication, 22nd November 2013). This view is also echoed by a trade promoting officer who claimed that running a manufacturing business is

naturally difficult, and the ethnic Chinese firms usually outperform their GLC counterparts because the former is exposed to the realities of the marketplace and is thus more adept in managing the operations (personal communication, 22nd November 2013). Such a situation best exemplifies Ji Kang Dimensi Sendirian Berhad and Hiap Teck Venture Berhad (both firms owned and managed by Law Tien Seng, a prominent Malaysian Chinese entrepreneur), the joint venture partners of Jinan Iron and Steel Group and Shougang Group (both large Chinese steelmakers) respectively (see Table 1). Law has been an active player in the Malaysian and Asian steel industry for a number of decades, but he was largely ignored by the Malaysian state during the country's heavy industrialization growth during the 1980s. The ambivalence from the authorities, along with his entrepreneurial drive, allowed Law to explore other opportunities within and without the steel industry. According to RM Research (2012), Law's business portfolio has since expanded from the distribution and manufacturing of steel related products to the mining, property investment and development, food and beverage industries. Within the steel industry, Law's group of companies have steadily acquired the ability to make more complex steel products from their humble beginnings in steel pipe fabrication. Furthermore, Law's extensive network of contacts and rich corporate experience in China has made him a good coalition partner for mainland Chinese firms, e.g. Jinan Iron and Steel Group and Shougang Group intending to invest into Malaysia. In addition, both the GLCs and the ethnic Chinese firms have not been particularly active in the newer types of manufacturing activities e.g. solar wafer, modular electrical/electronic products, and biomedical products. Therefore, mainland Chinese firms have invested into Malaysia without a need to rely on the GLCs and the ethnic Chinese firms for their technical expertise or market knowledge. To this end, Comtec Solar Systems Group Ltd, Daiyin Textile and Garment Group, and Haier Group have all invested in fully-owned Malaysian subsidiaries to manufacture and market solar wafer, textile-related products, and household appliances respectively, fulfilling their corporate objectives without the need of a local coalition partner (see Table 1). For Haier, it has collaborated with the ethnic Chinese firms in its distribution and sales network while keeping the manufacturing competence fully in-house. This is an expected event as the Malaysian state has generally adopted a rather liberal attitude towards industries in which the GLCs are weak at. The continued pre-eminence of Penang's predominantly Western- and Japanese-owned electronics cluster is one of the most obvious examples of this liberal policy.

In the other services, agriculture, finance, and information and communication sectors, more than half (58 per cent) of the mainland Chinese firms rely on other entities as their coalition partners. Meanwhile, 33 per cent and 25 per cent of the mainland Chinese firms have collaborated with

ethnic Chinese firms and GLCs respectively. Mirroring the cross-border cooperation pattern of the manufacturing sector, it can be observed that the GLCs are not the most popular choice for the mainland Chinese firms. This observation can be explained by the relative lack of presence of the GLCs in these sectors. In other words, these sectors are comparatively more open to market participation by non-GLCs. Compared to their counterparts in the construction and manufacturing sectors, mainland Chinese firms participating in the other services, agriculture, finance, and information and communication sectors display a higher tendency – 58 per cent compared to 12 per cent and 43 per cent in the two former sectors – to collaborate with non-ethnic Chinese firms and non-GLCs. For the ethnic Chinese firms, the generally low capital requirement and ease of operation of the other services, agriculture, finance, and information and communication sectors are especially attractive. In spite of the marginalization by the NEP, these ethnic Chinese firms are still thriving in this environment because of their ability to tap into the cross-border socioeconomic networks that the various ethnic- and clan-based trade associations confer them with. While the well-capitalized ethnic Chinese firms no longer utilize these networks actively, many of the country's ethnic Chinese small and medium enterprises (SMEs) are still reliant on them. The utility of these networks is particularly useful for trading firms. For instance, Alado Corporation Sendirian Berhad (a privately held firm owned by Tan Sri Cam Soh Thiam Hong, a prominent ethnic Chinese businessman) is adept in utilizing its business prowess in the automobile industry to formalize a business arrangement with Oriental Assemblers Sendirian Berhad (another ethnic Chinese firm) to assemble completely-knocked-down (CKD) automobile kits of China's Chery Automobile Company Ltd into completely-built-up (CBU) units. In addition, Alado Corporation is also able to establish a Malaysia-China joint venture with Chery Automobile – with the Lembaga Tabung Angkatan Tentera (LTAT) or the Armed Forces Fund Board (a GLC) as a passive investor – in the distribution of the CBU units across Malaysia (Abdullah, 2009; Ang, 2006) (see Table 1). More prosaically, the business approach of Alado Corporation reinforces Jesudason's (1997) and Zwart's (2007) research, highlighting that many of Malaysia's ethnic Chinese firms (particularly those in industries enjoying a relatively lower capital intensity e.g. trading and other services) are still reliant on ethnic-based socio-economic networks.

More broadly, mainland Chinese firms seem to be at ease with the political economy of Malaysia, particularly the dominance of the GLCs and (to a smaller extent) the ethnic Chinese firms. Their adaptability to this state of affairs can be attributed to the learning experience gained from navigating the complicated set of state-society relations back in China. Such exposure helps them manage the nexus of politics and business in Malaysia, which

is somewhat different – an emphasis on wealth redistribution along ethnic lines – yet just as challenging vis-à-vis that of the mainland. This finding reinforces Michel and Beuret's (2009) research on the controversial behaviour of mainland Chinese firms in their investments in developing countries, arguing that their familiarity in operating in a relatively challenging business environment, and experience in managing complex patron-client networks (both in their home country, China) have indirectly helped them when they invest in other developing countries in which a similar political economy is also present. The “baptism of fire” acquired from operating in China implies that it is unrealistic for the mainland Chinese firms to insist on or hope for at-arms-length dealings in Malaysia, a developing country with its unique set of complicated state-society relations and associated patron-client networks. Some of the mainland Chinese firms have even managed to juggle their economic interests with Malaysia's two dominant economic actors, evidenced by the manner in which Guangxi Beibu Gulf International Port Group Ltd and Country Garden Holdings Company Ltd establish their Malaysian operations (see China Central Television, 2013; Han, 2013; Khor, 2013). These two mainland Chinese firms have been able to work with both the ethnic Chinese firms and the GLCs for different business ventures (see Table 1).

7. Conclusion

This paper has analysed the major coalition partners of 36 mainland Chinese firms that have invested into Malaysia. It has argued that a large portion of the mainland Chinese firms have cooperated with the GLCs (50 per cent of all firms) in their cross-border investments, while a smaller percentage have cooperated with the ethnic Chinese firms (28 per cent of all firms), and other entities, i.e. neither the GLCs nor the ethnic Chinese firms (33 per cent of all firms). This reconfirms the assertion that the GLCs play a dominant role in the Malaysian economy. Their dominance is attributed to Malaysia's capitalist development and state-society relations, both of which shaped particularly by the ethnocentric NEP. For the GLCs, their rise and subsequent domination of the economy is a direct result of state support. Although the ethnic Chinese firms receive less support from the state vis-à-vis the GLCs, they are still able to function as a useful coalition partner for the mainland Chinese firms investing into Malaysia. Many of the ethnic Chinese firms have also consolidated their positions, excelling in less regulated sectors such as trading. For the sizeable contingent of mainland Chinese firms that have not depended on the GLCs and the ethnic Chinese firms in their Malaysian investment, they are a testament to Malaysia's (partial) economic openness. However, the mainland Chinese firms' reliance on other entities is also circumscribed by the redistributive nature of the NEP.

More specifically, the preference of mainland Chinese firms for the ethnic Chinese firms, the GLCs, and other entities is not even across the economic sectors. The preference for the GLCs decreases from the construction (76 per cent), to the manufacturing (29 per cent), and to the other services, agriculture, finance, and information and communication (25 per cent) sectors. Such a trend highlights the close relationship between the GLCs and the government in the construction sector, an advantage which the GLCs have exploited most effectively. Their position provides them with better access (*vis-à-vis* other firms) to state resources such as land and concession agreements, major advantages in any kinds of enterprise (especially the construction sector). On the other hand, the preference for the ethnic Chinese firms increases from a lowly 18 per cent in the construction sector, to 43 per cent and 33 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. It is apparent that the ethnic Chinese firms cannot secure state support as effectively as the GLCs in the construction sector, weakening the likelihood of cooperation with mainland Chinese firms. Nevertheless, the lack of state support indirectly provides the ethnic Chinese firms with some freedom to expand into other less regulated economic sectors (outside of the construction sector) in which the presence of the GLCs is comparatively weaker. Their success in these sectors has made themselves worthy coalition partners for mainland Chinese firms investing into Malaysia. The preference for the other entities increases from a lowly 12 per cent in the construction sector, to 43 per cent and 58 per cent in the manufacturing, and the other services, agriculture, finance, and information and communication sectors respectively. Like their counterparts who have relied on the ethnic Chinese firms, this group of mainland Chinese firms have exploited the greater economic liberty in sectors in which the participation of the GLCs is less active.

More importantly, the paper has underscored the influence of political considerations in the internationalization of mainland Chinese firms. It also shows that a country's socio-political institutions are able to influence firm dynamics and their cross-border investment strategies. Such a perspective is illustrated in the mainland Chinese firms' selection of coalition partners. To this end, they have shown their adaptability in navigating the political economy of Malaysia, evidenced by their cooperation with both the GLCs and the ethnic Chinese firms. The ease with which they cooperate with Malaysia's two largest economic actors across different economic sectors can be partly explained by the learning experience gained from navigating an equally, if not more, complicated set of state-society relations back in China.

What then are the policy implications of this paper? Firstly, FDI from developing countries such as China can be as important as that from the "traditional" developed countries, e.g. the Western bloc and Japan. Hence,

policy makers should not solely target outward FDI from the “traditional” developed countries as there are considerable socioeconomic benefits to be derived from engaging in the much touted “South-South Cooperation”. In this regard, Malaysian policy makers have to be applauded for their determination in courting FDI from China, a fellow member of the Global South. More crucially, it would be beneficial for Malaysia to attract manufacturing FDI from China to bolster its relatively underdeveloped manufacturing sector, especially in the more technologically advanced activities. While the benefits of a robust manufacturing sector are beyond dispute, Malaysia’s developmental record suggests that the country has not been able to craft or implement an industrial policy to groom its manufacturing firms on a consistent and sustainable basis (Jomo, 2007). Even the much touted Economic Transformation Programme (ETP), launched in 2010, is also not particularly specific in attracting foreign manufacturing firms to establish their operations in Malaysia. Within the context of this paper, the findings show that there is a high incidence of alliance between the mainland Chinese manufacturing firms and the ethnic Chinese firms of Malaysia, suggesting that Malaysia’s manufacturing sector could benefit from the unique relationship linking China’s business community and their Malaysian Chinese peers. However, there is a natural limit to the amount and types of FDI that Malaysia can attract from China (and other countries) should there be no urge to curtail the distortions introduced by the NEP, and transform the economy to one which is less ethnic-based and more meritocracy-driven. Although various Malaysian leaders have sought to alleviate the situation after the retirement of Prime Minister Mahathir in 2003, their efforts have been lacklustre at best (Menon, 2014; Pua, 2011). The lack of success of these reforms implies that the NEP is too deeply embedded in the nation’s collective psyche, especially among the ethnic Malays. Prime Minister Najib’s recent backtracking from his 2009 pledge to reform the NEP is one of the most prominent examples of such fault lines undergirding the country (Salim, 2013).

Related to the above point is the argument that ethnic-based business networks are not necessarily counterproductive to economic development (cf. Backman, 2001). This paper has highlighted that Malaysia’s ethnic Chinese firms and their ethnic Chinese business networks are a useful conduit integrating both the Malaysian and Chinese economies. Although the Malaysian Chinese firms and their mainland Chinese partners may lack the resources of other better-endowed firms, e.g. the GLCs in the construction sector, their nimble and on-the-ground approach, complemented by the deep entrepreneurial support from the ethnic Chinese business networks, contributes to local economic development. In other words, Malaysia stands to benefit from these cross-border ethnic Chinese business networks. The

investments of the mainland Chinese firms are particularly useful for the Malaysian government as it seeks to reduce its dependence on the GLCs, which have been shown to crowd out private investment.

Notes

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1. The term “mainland Chinese firms” is used in this paper to avoid confusion with the “ethnic Chinese firms”. The latter refers to firms owned and/or managed by ethnic Chinese people living outside China (e.g. Hong Kong, Macau, Taiwan, Malaysia, Singapore, and Thailand). Within the context of this paper, “ethnic Chinese firms” refer to those firms owned and/or managed by the ethnic Chinese populace of Malaysia, unless specifically mentioned otherwise.

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Does Intra-Industry Trade Matter During Economic Crisis? An Assessment of Malaysia-China Trade⁺

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Abstract

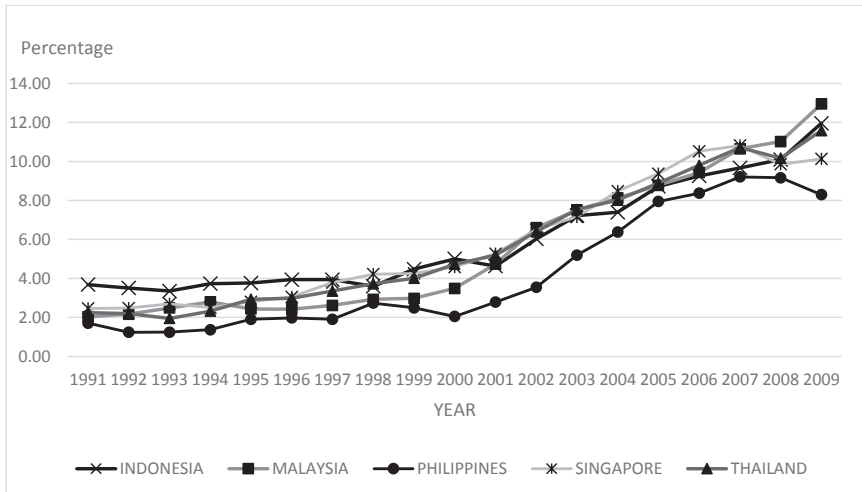
China is Malaysia's largest trading partner. A significant part of this trade is intra-industry trade (IIT), Malaysia being a major participant in global supply chains that end in China, increasingly the final processing destination. Two economic crises in a decade have raised the question of the link between IIT and economic crises – specifically whether crises impact IIT or whether participation in IIT can protect against external risks, including from crises. This study finds that IIT between Malaysia and China has not been impacted by the Asian Financial Crisis but somewhat by the Global Financial Crisis. As a corollary, IIT has offered some protection from the former crisis but not from the latter. These findings have several implications. First, the severity of a crisis matters for IIT. Second, a strategy of participation in global supply chains ultimately depends on technological and organizational capability.

Keywords: *intra-industry trade, economic crisis, Malaysia, China*

1. Introduction

The last decade of the 20th century and the first decade of the 21st are notable for three major economic developments. The first is growing intra-Asian trade that has been a driving force behind Asian economic integration. At the centre of this development is China, the world's largest exporter. Trade between China and ASEAN countries is one of two foci of integration, the other being China and Northeast Asia. Institutionally, China-ASEAN trade has been brought under the umbrella of the China-ASEAN Free Trade Area (CAFTA) which came into effect on 1 January 2010. When fully implemented, CAFTA is expected to become one of the largest trading blocs in the world.¹

Figure 1 ASEAN5 Countries' Shares of Trade with China, 1993–2009



A perspective of the growth of ASEAN-China trade is given in Figure 1 for the period 1991 to 2009. For each of the ASEAN countries shown, a rising share of trade with China can be observed, with Malaysia's share the highest in 2009.

The second development is production fragmentation of increasing complexity that is producing lengthening global supply chains. These chains began life as in-house vertical production chains for manufactured products in multinational corporations, but technological advance allowed distinct phases of the production process to be undertaken in different geographic locations to capture cost or market advantages.

China is again the elephant in the room with respect to supply chains, being the final destination of most chains as well as the market for their final output. Its importance stemmed both from an abundance of low-cost skilled labor and its growing domestic market for final products. As its domestic corporations took control with more segments of supply chains, some, like Haier and Huawei, have evolved to become multinational corporations in their own right. The advent of supply chains is altering what many perceive to be China's competitiveness in manufactures threatening to change the "North-South" character of the trade with ASEAN countries' to a situation where China export manufactures and ASEAN countries supply raw materials and/or intermediate inputs.

A trade-dependent ASEAN is also a major player as producer of intermediate goods in these supply chains, although both with respect to trade openness and supply chain participation, there is variation among member

countries. Indeed, with IIT a rising share of trade, ASEAN's greater trade dependence (126.8 per cent in 2009) compared to China (48.4 per cent) suggests that IIT plays a much more important role in ASEAN than in China.

The third development has been the onset of two economic crises a decade apart, one originating in Southeast Asia and the other global. Asia is the only part of the world to suffer both. ASEAN is at the epicentre of the Asian Financial Crisis (AFC) of 1997-1999, while also suffering damage because of its export orientation in the Global Financial Crisis (GFC) that began in 2008.

This paper speaks to these three developments through examining the bilateral trade relations between Malaysia and China. As already indicated, inclusion of China requires no justification. As for Malaysia, it has also figured prominently in each of these three developments. China has become its largest trading partner since 2009. It is deeply integrated into global supply chains with upstream supplies coming mainly from the US and downstream exports to China for final assembly (World Bank 2014). And it suffered major damage during the AFC, as well as a sharp reverse when the GFC struck. Hence, as it celebrated its 40th anniversary of full diplomatic relations with China in 2014, the theme of this paper is Malaysia-China relations from the Malaysia perspective.

The specific issue discussed is the significance of intra-industry trade (IIT) in the China-Malaysia economic relationship in the specific context of two financial crises – the Asian Financial Crisis of 1997-99 (AFC) and the Global Financial Crisis (GFC) that began in 2008. It seeks to provide answers, even if partial, to the following questions:

- (1) How important is IIT in Malaysia-China bilateral trade?
- (2) Did the onset of crises, specifically the AFC and the GFC, affect the intensity of China-ASEAN IIT?
- (3) As a corollary, did the existence of IIT mitigate the adverse impact of these crises?
- (4) What are the implications of this relationship for future Malaysia-China trade?

This discussion of the recent past has relevance for the future because intra-ASEAN trade with China and production networks will continue to strengthen, and also because, as indicated by Reinhart and Rogoff (2009), crises will continue to plague the future. Learning from the past provides valuable clues to what will inevitably occur in the 21st century.

This paper is structured as follows. Section 2 presents a brief review of literature on IIT in general and for China and Malaysia in particular. The significance of Malaysia-China trade and the growing importance of IIT is the subject of Section 3. Section 4 looks at the impact of crises on IIT intensity

during the AFC and GFC. The extent to which IIT insulates against external risk is documented in Section 5. Section 6 concludes.

2. Brief Literature Review

The principles of IIT as a departure from arms-length trade and its significance have been extensively discussed at the theoretical level since the seventies (see Greenway and Torstensson, 1997: 251-253).² This significance not only has implications for trade policy (Navaretti, Haarland and Venables, 2001) but also extends to links with technological change (Yusuf, Altaf and Nabeshima, 2004), employment relocation (Cabral and Silva, 2006) and foreign direct investment (see, for instance, Fukao, Ishido and Ito, 2003, Xing, 2007). Research has also included measurement of IIT (e.g. Azhar and Elliot, 2006; Dixon and Menon, 1995), specific industries especially in East Asia (e.g. Ernst, 2002; Gangnes and Van Assche, 2010; Turkcan, 2010) and countries or regions (Brulhart and Elliot, 2002)), in which global production networks (also referred to as production fragmentation), figure prominently.

Thanks to its growing participation in IIT, East Asia is the subject of a growing number of studies. These include Ando (2006), Ernst (2002), Fukao, Ishido and Ito (2003), Gangnes and Van Assche (2010), and Xing (2007). Also Zhang *et al.* (2005) studied the determinants of IIT for China and found that China's IIT with its trading partners is increasingly technology-intensive.³ Kimura and Obashi (2009) compared characteristics of production networks in machinery parts in China's regions and ASEAN, finding similarities and contrasts between them. Studies of specific industries in a Southeast Asian country had also been undertaken (see, for example Austria 2006).

Early studies reported increasing IIT for Malaysia (Chandran and Pandiyan, 2003; Menon, 1996), partly the result of government involvement in markets (Rasiah, 1995). This increase, however, came with adjustment costs in the form of large inter-industry payroll changes (Brulhart and Thorpe, 2000). Specific industries were also investigated, with the Malaysian electronics industry having been shown to grow rapidly driven by intra-industry trade in electronic components but labor productivity had been stagnant since the early 2000s (Parinduri and Thangavelu, 2011). For manufacturing, Abu Bakar and Normaz (2013) found manufactured goods, machinery and transport equipment dominated Malaysia's IIT but no quality improvement was observed. Finally, bilateral IIT between Malaysia, China and Japan was investigated by Arip, Lau and Satoru (2011).

With Asia impacted by two major economic crises since the mid-1990s, studies that link economic crises to IIT are beginning to emerge. For instance, Obashi (2009) examined the resilience of Asian production networks during

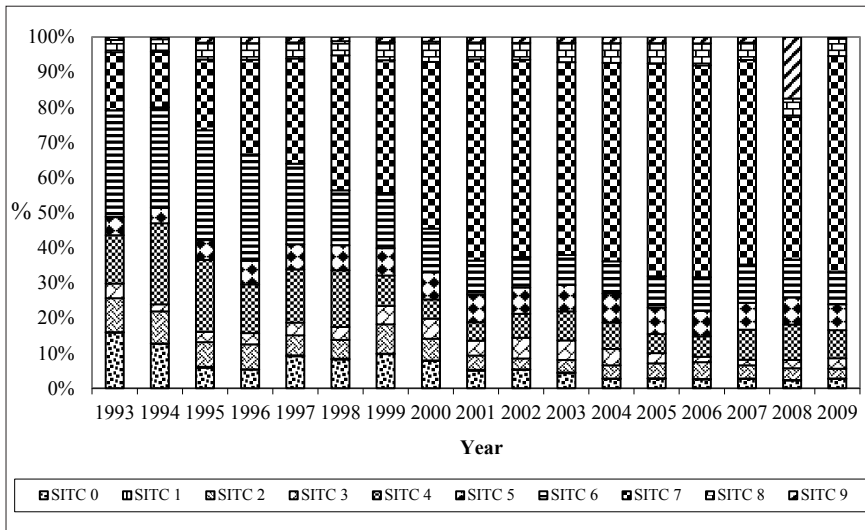
the AFC, while Escaith, Lindenberg and Miroudot (2010) investigated the role of global supply chains in explaining the collapse of trade during the GFC.

3. Malaysia – China Bilateral Trade and the Importance of IIT

Malaysia is a founding member of ASEAN.⁴ Its position as the second most trade-oriented country, measured in terms of the ratio of trade (exports plus imports to GDP) in ASEAN (after Singapore) has been lost to Vietnam because of the latter's recent rapid increase in trade, especially with China (Anwar and Nguyen, 2010; Vuving, 2006). However, it is an important player in IIT.

The importance of IIT in the Malaysia–China trade relationship is shown in Figure 2 above in which trade is classified by one-digit SITC. The category SITC7, machinery and transport equipment, has accounted for the largest trade share since 1997, this share rising from 16.5% in 1993 to 61.5% in 2009. This has occurred as Malaysia established itself as a major player in the electronics supply chain. The second largest trade share is that of SITC6, manufactured goods classified chiefly by material, this share shrinking as that of SITC7 expands. A notable feature of SITC6 is the rough balance between exports and imports, suggesting the importance of IIT. These two categories combined has accounted for an increasing share of total trade, suggesting Malaysia's undiminished reliance on the export of manufactures.

Figure 2 Composition of Malaysia-China Bilateral Trade, 1993-2009



Source: UNCTAD Handbook of International Trade and Development Statistics – various years.

In this paper, IIT intensity is measured using the Grubel–Lloyd (GL) index (Grubel and Lloyd 1975).⁵ Following Austria (2004), the level of IIT intensity is characterized as weak if the GL Index is between 0.00 and 0.249, mild if it is between 0.25 and 0.49, moderately strong if it is between 0.50 and 0.749 and strong if it is between 0.75 and 0.99.

Table 1 shows IIT intensity indices for single-digit SITC industries in Malaysia-China trade for the year 1993, 1998, 2009, and 2013. The year 1993 represents the early days of IIT, the two middle years those during which the AFC and GFC were at their peak, and 2013 the most recent year.

Several features are notable from Table 1. First, trade in mineral fuels (SITC3), a primary commodity, has weak IIT intensities throughout the period from 1993 to 2013. But trade in food and live animals (SITC0)⁶ began with weak IIT intensity until the onset of the AFC, but had mild to moderate IIT intensity after the AFC. Second, as already noted, manufactured goods and machinery (SITC6 and 7) are consistently the industries with strong IIT intensity. The high IIT indices for these two groups despite the intervening

Table 1 IIT Intensity Indices for Malaysia-China Trade, by Single-digit SITC, 1993-2013

<i>Industry</i>	<i>1993</i>	<i>1998</i>	<i>2009</i>	<i>2013</i>
SITC0 Food and live animals	0.2440	0.1863	0.3466	0.5380
SITC1 Beverages and tobacco	0.0184	0.1785	0.6506	0.3748
SITC2 Crude materials, inedible, excluding fuels	0.7379	0.4912	0.4283	0.2653
SITC3 Mineral fuels, lubricants and related materials	0.2384	0.1966	0.2057	0.1574
SITC4 Animal and vegetable oils, fats and waxes	0.7666	0.4039	0.0115	0.3536
SITC5 Chemicals and related products, n.e.s.	0.4143	0.9993	0.8701	0.3140
SITC6 Manufactured goods classified chiefly by material	0.6935	0.8872	0.8462	0.8126
SITC7 Machinery and transport equipment	0.7996	0.7299	0.9724	0.8135
SITC8 Miscellaneous manufactured articles	0.2085	0.3019	0.4695	0.4463
SITC9 Commodities and transactions not elsewhere classified	0.4394	0.1606	0.5504	0.9907

Source: Authors' calculations.

crises show the strong links of these two industries in the global supply chain, especially those that end in China. Third, a group of other industries have IIT indices that fluctuate from year to year. Examples are beverages and tobacco (SITC1), animals and vegetable oils (SITC4), and chemicals (SITC5).

4. The Impact of Crises on China-Malaysia Intra-industry Trade

To analyze the link between IIT and crises, IIT intensity of industries is measured for 2-digit SITC exports and imports using data from UNCTAD. To permit focus on the AFC and GFC, the periods under consideration are 1993-1997 (pre-AFC), 1998-2003 (post AFC), 2001-2006 (pre-GFC) and 2007-2009 (GFC and after). A country that bears comparison with Malaysia is Vietnam. The latter has, as indicated earlier, displaced Malaysia as the second most globalized economy in ASEAN. Its electronics and electrical equipment (E&E) exports are, like Malaysia's, relatively low in value-added and technology but IIT intensity has been growing.

Table 2 summarizes changes in IIT intensity for bilateral trade between Malaysia and China for the sub-periods defined above. The proportion of industries with moderate and strong integration rose in the post AFC period 1998 to 2003, reaching a peak in 2001-2006 but fell almost to the pre-AFC period in the GFC and post-GFC period. It appears therefore that the AFC was associated with strengthening IIT while the GFC was associated with the opposite. The latter is also associated with Malaysia's eroding competitiveness in high-tech exports (World Bank 2014). China's rising technological intensity in its IIT is also likely to give it a bigger role, i.e. by lengthening the segments of the supply chains it controls at the expense of Malaysia.

Table 2 Changes in IIT Intensity in Malaysia-China and Vietnam-China Trade, 1993-2009

Country	Period	1993-97	1998-2003	2001-06	2007-09
	<i>Malaysia</i>				
% of industries with $0.00 < IIT \leq 0.249$		49.15	36.51	36.51	42.86
% of industries with $0.25 \leq IIT \leq 0.499$		22.03	25.40	22.22	25.40
% of industries with $0.500 \leq IIT \leq 0.749$		22.03	22.22	30.16	19.05
% of industries with $0.750 \leq IIT \leq 0.999$		6.78	15.87	11.11	12.70
Total % of industries with $0.00 < IIT \leq 0.49$		71.18	61.91	58.73	68.26
Total % of industries with $0.50 \leq IIT \leq 0.99$		28.81	38.09	41.27	31.75

Source: Authors' calculations.

Table 3 reveals what happened to IIT intensity during the years of the two crises. With respect to the AFC, there was little change either way. Generally fewer than 10% of industries with different degrees of IIT intensity increased or decreased their IIT intensity in both years of the crisis (1997-1998 and 1998-1999). For almost every group of industries in the table, more industries increased their IIT intensity than decreased it.

The AFC appears therefore to have had little impact on IIT, which continued to intensify all the way through the mid-2000s. Although posing a major challenge to Southeast Asia, the AFC was primarily regional with the US and European economies continuing to boom. Global production networks of multinational corporations (MNCs) continued to supply products for these thriving economies from China as the main final assembly platform, while China itself was little affected by the AFC.⁷ Malaysian industries that were part of these networks were beneficiaries of this boom,⁸ and, indeed, exports brought Malaysia out of the AFC.

A somewhat different picture emerges from the figures for the GFC. First, the impact on IIT intensity in the first year of the Crisis was muted, probably because the GFC arrived very late in 2008. However 15% the group of industries with medium IIT intensity (index between 0.5 and 0.75) saw their IIT index fell to the low IIT intensity group (index between 0.25 and 0.5). Second, the second year of the crisis saw a strong impact on industries in the highest IIT intensity group, 24% of which fell into lower IIT intensity groups. Thus the GFC had a major impact on industries with high IIT.

Table 3 Malaysia: Changes in IIT Intensity by Industry during the AFC and GFC

<i>% of Industries in which IIT changed</i>	<i>AFC</i>		<i>GFC</i>	
	<i>1997-98</i>	<i>1998-99</i>	<i>2008-09</i>	<i>2009-10</i>
<i>IIT Index fell from:</i>				
0.75 and above to below 0.75	9.93	11.43	6.29	23.65
0.5-0.75 to below 0.5	6.24	7.03	15.03	4.37
0.25-0.5 to below 0.25	4.62	5.27	6.92	4.68
<i>IIT Index rose from:</i>				
0.5-0.75 to above 0.75	5.31	4.62	4.56	3.28
0.25-0.5 to above 0.5	8.08	6.81	6.13	4.06
0.0-0.25 to above 0.25	14.09	14.73	8.02	7.64

Source: Authors' calculations.

5. IIT as a Hedge against Risk During Crises

Just as the question of whether economic crises have an impact on IIT intensity can be asked, so can the question of whether participation in IIT offers a degree of protection from economic crises. To the extent that process trade has significant import content, fluctuations in exports will be balanced by movements in imports in the same direction. The result is fairly stable net exports. This was the case with China's overall trade in the GFC –when exports fell, so did imports, with the result that even during the Crisis, China maintained a current account surplus. Does this logic apply to bilateral trade between Malaysia and China?

Table 4 shows changes in exports and imports during the years of the AFC and GFC for SITC6 and SITC7 as well as for total trade between Malaysia and China. Insulation from shocks can take the form of either maintaining growth in the face of collapse or at least of muting its impact. For the AFC this was indeed the case for SITC6, with the category's exports expanding faster than total exports to China. But it was not the case for SITC7 because Malaysia was and is much more an importer of transport equipment, and the AFC would severely impact such imports. When the GFC arrived, IIT proved to be of little avail – SITC6 exports to China fell much more than total bilateral exports, with the SITC7 exports telling the same story. In the case of imports during the AFC, those for SITC6 did track changes in exports, as predicted by IIT, but SITC7 imports tracked total imports. The link between imports and exports is even looser during the GFC. Overall, then, these figures

Table 4 Malaysia-China Trade: Percentage Change in Exports and Imports during the AFC and GFC

	<i>AFC</i>		<i>GFC</i>	
	<i>1997-98</i>	<i>1998-99</i>	<i>2008-09</i>	<i>2009-10</i>
<i>Exports:</i>				
SITC6	+95.2	+65.8	-15.2	-80.9
SITC7	+24.5	-52.5	-16.0	-30.0
Total exports	+5.9	+15.3	+0.5	+31.2
<i>Imports:</i>				
SITC6	+37.5	+94.2	-6.3	+5.5
SITC7	-21.0	+33.3	+21.1	+41.3
Total imports	-17.4	+15.3	-14.0	+20.0

Source: Authors' calculation.

show that while IIT offers a degree of protection during regional crises, it is of little avail for global crises. Further, the nature of the industry – whether it is an exporter or an importer, the type of products – matters as much as the degree of IIT. Finally, in terms of bilateral trade, the country context is important in that it determines the composition of that trade

6. Conclusions

Trade plays a major role in Malaysia's relations with China. With Malaysia locked into global supply chains organized by multinational corporations, IIT is a significant part of this trade. This form of trade has the advantage of being less susceptible to the factors that affect arms-length trade but the disadvantage of being dependent on the health and organization of supply chains. These advantages and disadvantages can be material during times of economic crisis, from which Asia, including Malaysia and China, have suffered twice in the space of a decade. Understanding the IIT linking the two countries' bilateral economic relations is important for the 21st century because such crises will still occur, albeit not necessarily under the same circumstances as those of the recent past.

In seeking to answer the questions posed in section I, this paper found, first, that IIT intensity is high for the trade in manufactures (including E&E goods) and equipment, but low for primary commodities involving little processing. Second, while the AFC had no impact on IIT, with a rising trend in this intensity continuing through the crisis, the GFC led to some reversal in IIT intensity. The latter can be explained by the argument that a global crisis can damage global supply chains. Third, the paper also found that whether participation in global supply chains and increasing IIT intensity can reduce risk exposure to external shocks also depends on the magnitude of these shocks. An important question that arises is that although the GFC, through its negative impact on global chains may have increased exposure to external shocks, would the gradual shift towards intra-Asian trade be able to moderate that impact on Malaysia's IIT? In other words, is "decoupling" in trade likely to have the same benefits on trade vulnerability to shocks as IIT intensification is alleged to have?

Fourth, an implication of these findings is that even if effective only for regional crises, IIT intensification can be beneficial and a basis for future strengthening of Malaysia-China trade. However, this is likely to be a challenge for several reasons. First, although IIT had been the major source of trade growth, Malaysia's prospects for IIT intensification are limited, its technology industries losing competitiveness from human capital constraints even as supply chains are lengthening. Second, with China upgrading its technology, giving it the capacity to take over larger parts of supply chains,

Malaysia will face a changing comparative advantage landscape not to its advantage. The loss of competitiveness in technology-intensive industries will lead to Malaysia ending up more as a supplier of raw materials all of which have low IIT intensity. This will in turn increase the vulnerability of the country's exports to external economic crises.

Notes

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1. It will have a population larger than that of the EU and NAFTA combined. See Greenwald (2006).
 2. OECD (2002) and Ruffin (1999) also provide clear expositions on the principles involved.
 3. Research shows greater technology intensity to be associated with more IIT; e.g. “higher value chain of production where higher quality of goods have been produced in order to maintain competitiveness” by Azhar *et al.*, 1998; Zhang *et al.*, 2005), “... coupled with technology spillover” by Fukao *et al.*, 2003, Xing, 2007; Buckley *et al.*, 2007, Liu & Buck, 2007, Chuang and Hsu, 2004; Lemoine and Ūnal-Kesenci, 2004; Montobbio, 2005); and “... innovative capability” by Guan and Ma, 2003 and Liu and Zou, 2008.
 4. The other five member countries joined two decades or more later – Brunei

Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999.

5. The GL index is $IIT_i = 1 - \frac{\sum |X_i - M_i|}{\sum (x_i + m_i)}$ where X and M refer to exports and imports between two countries respectively, i refers to the particular industry, and $0 \leq IIT \leq 1$. Since the primary purpose of this paper is to measure the overall relationship between IIT and exposure to crises, no attempt had been made to distinguish between horizontal and vertical IIT.
6. This group consists both of unprocessed food like cereals, vegetables and fruits but also processed food like milk products like cheese and yogurt, as well as beverages like coffee and tea. Increased food processing would have led to higher IIT intensity.
7. China's exports to the US totaled \$75.24 bil. in 1997 and \$85.41 bil. in 1998, representing percentage increases over the previous year of 18.8% and 13.5% respectively.
8. Obashi (2009) confirmed the resilience of Asian production networks during the AFC, with intermediate products enjoying more stability than finished products.

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The Iranian Nuclear Dilemma: A Comparative Analysis of Chinese and US Strategy

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Abstract

The Iranian nuclear energy program has remained a contested issue since the early 1990s, dividing international community into two opposing camps. On the one side, the US and its major partners argue that Iran's nuclear program is not for peaceful purposes and if Tehran insists on nuclear development, punitive action must be taken. On the other side, China and Russia maintain that a difference between nuclear technology for civilian and military purposes must be made. Thus, they argue, whereas all nuclear proliferation activities by non-nuclear countries must be prevented, states should be allowed to acquire nuclear technology for peaceful purposes. China, a major power in the opposing camp and Iran's largest energy partner, emphasizes that nuclear proliferation activities must be separated from trade in energy and that a rules-based mechanism must be set up to deal with the Iranian nuclear issue. This paper offers a comparative analysis of the US and Chinese policy toward Iran's nuclear energy program, attempting to shed light on the features of the two distinct approaches to what it calls the Iranian nuclear dilemma. It maintains that the disagreement stems from China's principle-based and economics-driven Persian Gulf strategy which conflicts with US hegemony-based and security-driven policy to the region. It holds that while the Iranian nuclear dilemma requires China to take steps to safeguard its energy interests in the Persian Gulf, it also provides Beijing with the opportunity to promote its vision of international governance based on harmony and mutual respect.

Keywords: *Iranian nuclear crisis, China, Iran, United States, energy security, Persian Gulf*

1. Introduction

Nuclear energy development creates a dilemma between security and trade policies of competing states.¹ This research argues that Iranian nuclear energy policy has critical implications for China-US relations.² It is maintained that both Iran and the US have been entrapped in a historical entanglement in the Persian Gulf. The three-decade long hostility between the US and Iran has pulled Beijing into the Iranian nuclear issue because of its economic and political relationship with Tehran, which has continued unhampered in spite of US continuous pressure. Two factors weigh heavily in the existing policy discord. First, Beijing and Washington have structurally different approaches to the ways and methods of international governance. Second, Iran is of a strategic value for China both as a provider of oil and as an asset to check on the US dominance in the Persian Gulf. Hence, Beijing is not likely to participate fully in the US-led security regime against Tehran at the cost of its established foreign policy practice and strategic interests. If the nuclear crisis puts the Chinese and US policy in further discord, this will inevitably create greater tension between the two major powers in their relationship in the Middle East.

Three interrelated developments have led to the existing China-Iran energy nexus in the Persian Gulf. First, ever since Beijing overhauled its foreign policy doctrine in the Middle East from one of Third World solidarity to principle-based and economics-driven engagement in the early 1990s, it has worked to build relations in the Middle East on the ideas of non-interference and mutual benefit. China's renouncement from the policy of export of ideology convinced the conservative Iranian leadership to seek better relationship. Hence, China-Iran relations developed along economic and political lines. Second, China's ever growing energy consumption and stagnant domestic production obliged the country to seek oil abroad by negotiating directly with the governments some of which have been ostracized from the international energy regime, including Iran. Finally, the mounting Western sanctions over Iran's nuclear energy program have stimulated Tehran to seek energy partnership with Beijing. As a result, it has offered China's national oil companies (NOCs) exploration and production rights that have not been readily available in other regional markets long appropriated by powerful Western multinationals.

The United States, on the other hand, has had no direct diplomatic, military and economic engagement with Iran since 1979. Thus Iran-US energy relations have been non-existent for the past three decades. Furthermore, US dependency on the Middle East for its energy import has been in decline for over ten years now and, in about two decades, the North America region will achieve near self-sufficiency from the Middle Eastern oil (IEA, 2012). This

is in stark contrast to China, which is projected to rely on the Middle East for over 70 per cent of its total oil import by 2030. Thus, the lack of political and economic engagement with Iran renders it much easier for Washington to sanction Tehran although it has thus far refrained from a direct military action since such a move would still threaten US political and economic interests once the region is destabilized due to a war.

As it appears, contrary to the predictions that the US would be militarily disengaged from the Persian Gulf as it achieves greater energy self-sufficiency (Downs, 2006; Friedberg, 2005), it is now more involved due to enduring geopolitical considerations – primarily to maintain dominance in the region in order to prevent any regional or outside power to gain foothold, to provide protection for the countries positioned inside its alliance network, and to keep the strategic Gulf of Hormuz open for international energy trade and thus ensure price stability. The hegemonic nature of the US policy could be best observed in the recent military build-up in the Persian Gulf amidst growing tension vis-à-vis Iran’s nuclear energy program (Auken, 2012). On the other hand, China’s political and economic engagement in Iran is of a principled nature in which trade in oil is separated from nuclear proliferation. Thus China has continued energy trade with Iran even when it meant digressing from its traditional policy in the Middle East. This strategy has been best observed in the Syrian Crisis which could not be thought of in isolation from the Iranian nuclear issue. China has been firm in its support of the Syrians’ right for self-determination without outside interference and vetoed several US-led UN resolutions against Damascus (Stea, 2012).

In this study, the Iranian nuclear issue is discussed comparatively from the US and Chinese perspectives. For this purpose, it first offers an historical account of US-Iran and China-Iran relations with a focus on the post-Cold War period. Second, it looks at the divergent strategies of China and the US vis-à-vis the Iranian nuclear program and explores the underlying logic in the two countries’ strategies. Third, it provides an analysis of the China-US policy discord in the Persian Gulf and its implications for their bilateral relations. Finally, it sums up the analysis with a note on further research.

2. Iran’s Nuclear Energy Program

Iran’s nuclear energy program dates back to the early 1950s. Throughout the Shah era, Iran has primarily cooperated with Germany, France and the United States to kick-start an ambitious nuclear energy strategy under which it planned to build about 20 nuclear power reactors by 1994. In 1957, the Shah signed a civilian nuclear cooperation agreement with the US. In the same year, Germany and France began to build two nuclear power units each. In the meantime, Iran made certain efforts to demonstrate that it did not pursue

nuclear proliferation. As a sign of good faith, Tehran joined the International Atomic Energy Agency (IAEA) in 1958 and signed the Nonproliferation Treaty (NPT) in 1968 (Leverett & Leverett, 2013). It also offered to the UN General Assembly a draft resolution, calling for establishing a nuclear-free zone in the Middle East as early as 1974 (Kerr, 2012; Reardon, 2012).

The 1979 revolution brought a short-lived change in Iran's nuclear energy strategy. On certain religious and moral grounds, the new government adopted a highly skeptical posture toward the acquisition of nuclear technology. The nuclear hiatus is also attributed to the considerable loss of brainpower in the aftermath of the Revolution which led to a large scale flight of educated Iranians from the country. However, from the mid-1980s onwards, Tehran's nuclear energy program went through another major transformation as it moved from anti- to pro-nuclear energy (CIA, 1988). This change in policy was partly due to the use of chemical and biological weapons against Iran by the Iraqi Army during the Iraq-Iran War. The failure of the Western powers to address the issue forced Tehran to reconsider its strict anti-nuclear energy approach (Chubin, 2006: 7-10). Throughout the 1990s, Tehran's nuclear program remained a consistent but low-scale concern until an exiled opposition group revealed the existence of secret nuclear facilities in Iran. The revelation caused a major international backlash and under growing pressure, Tehran agreed to expanded safeguards and inspections by the IAEA. However, consistent differences of opinion between the West and Iran prevented a final deal on nuclear enrichment (Reardon, 2012: 15).

In 2006, the P5+1 Group, the permanent five members of the UN Security Council (UNSC) plus Germany, offered comprehensive proposals to Iran. Tehran's initial reaction was positive and in September of the same year, the sides were about to reach a tentative deal. But, due to the proposed deal's requirement that Iran suspend all enrichment-related activities, Tehran rejected the offer. Successive failures in the negotiations on the nuclear issue and the inability of the sides to reach a consensus enabled the US to rally the UNSC to vote for the first sanctions resolution against Iran (Resolution 1737) in 2006. Although much weaker than planned by the US due to Russian and Chinese reservations, R1737 prohibited many forms of civilian nuclear and ballistic missile cooperation with Iran, imposed financial sanctions on several Iranian entities tied to the nuclear program, and set a deadline for Iranian compliance. The Security Council passed the second resolution when Iran failed to meet the February 2007 deadline. The new measures extended financial sanctions to more state entities and banned Iran from exporting arms. About one year later, in March 2008, a third Resolution (R1803) came into effect, prompting more stringent measures against Tehran. Finally, the UNSC passed Resolution 1929 in June 2010. However, none of the sanctions lived up to the US expectations mainly because China and Russia blocked the inclusion of clauses that, as

was argued by the opponents, might do more harm to civilians than force the political elite to change opinion. Still, the US managed to establish a legal framework to initiate unilateral sanctions. Following this, in 2011 and 2012, the United States and Europe enacted extensive sanctions on the Iranian finance and energy sectors, including placing foreign firms doing business with the Iranian Central Bank on the blacklist (Reardon, 2012: 18-25).

In November 2013 a major development took place at the P5+1 meeting in which the sides reached a first step agreement on Iran's nuclear program. Under the deal, Iran agreed to halt enrichment above 5 per cent and neutralize its stockpile of near-20 per cent uranium. Tehran also promised to allow inspectors from IAEA to its strategic enrichment facilities. However, later, conflicting statements from the sides have clouded the early optimism and suggested that the parties might have serious differences in their interpretation of the agreement. Furthermore, the US went ahead with its fresh sanctions on Iran's economic interests, drawing angry comments from the Iranian side (Peterson, 2013). Obviously, at this point, the Iranian nuclear issue is far from being concluded and major differences of opinion and clash of interests among the primary actors still exist.

3. United States: From Friend to Foe

US engagement with Shah-era Iran was composed of two major components: energy cooperation and anti-communist alliance (Speedie, 2012). On the energy front, in 1953, the CIA worked with the British secret service to restore the Shah Reza, who advocated extensive privatization of the energy sector, by overthrowing the elected government of Musaddeq, who sought to re-nationalize the oil industry. The US benefitted greatly from the shift in energy policy in Tehran and maintained close relationship with the regime. With the redistribution of the British production shares, eight private US companies were awarded 40 per cent of the Iranian oil. On the ideological front, the Shah helped Washington in its anti-communist efforts in the Middle East. Tehran served as a forward base for clandestine operations on the border of the Soviet Union against "the expansion of communist influence and [as] a counterweight to the pro-Soviet Arab regimes and movements" (Katzman, 2012: 6).

This two-pronged strategy came to an abrupt end in 1979 when the anger toward the two-decade long oppressive rule and growing anti-Western sentiment led to an Islamic revolution and the overthrow of the Shah regime in Iran, apparently taking then Carter administration by surprise.³ As in many other newly established countries of East Asia in the post-World War II era, anti-colonialism created a popular discourse of resource nationalism among the Iranian masses who demanded full nationalization of the oil sector. Also, the new Iranian government became a firm advocate of non-alignment

while it opposed firmly the Soviet communism, as well. In consequence, economically, Washington lost a reliable energy partner and, strategically, it lost an ally that used to function as an ideological proxy in the Middle East. From that point on, US-Iran bilateral relations deteriorated quickly. The US government imposed first sanctions on Iran during the Embassy Hostage Crisis in 1979.⁴ Mutual hostility escalated further in 1984 when the US added Iran to the list of countries that support terrorism. Yet, of all the issues of contention, Iran's nuclear energy program has become the most controversial mainly due to its potential implications for regional security and the balance of power (Sanger, 2012).

Concerned that nuclear proliferation would lead to instability, increase the likelihood of a nuclear war and give nations "a sense of greater independence", various US administrations took cautious steps in providing Iran assistance in nuclear technology (Burr, 2009: 21). Nevertheless, soon after the Shah's assumption of power, Washington signed a civil nuclear cooperation agreement. Under the deal, it promised Iran technical assistance and cooperation on research on nuclear technology (Poneman, 1982: 84). Hence, as part of the agreement, the US supplied about 6 kg of enriched uranium to Iran for fuel in a research reactor in September 1967 (NSA, 1980). In fact, Washington was so confident of Tehran's peaceful intentions that, in March 1975, the Energy Research and Development Administration classified Iran as one of the least likely candidates to seek nuclear weapons (Cahn, 1975).⁵ Thus almost a year prior to the Iranian Revolution, the two sides signed an agreement for the provision of eight reactors by the US.

However with the sudden fall of the Shah regime, Iran's Western-backed nuclear program collapsed entirely as well, and the political and strategic delinking of Iran from the international system shifted the country's status from a friend to a foe. Following geopolitical fault lines, Tehran's nuclear energy program soon turned into a potential threat to regional and global security in the eyes of US policy makers. Thus, a first set of anti-nuclear sanctions came in 1982 during the Reagan administration in which, along with 62 other countries, Iran was put on a nuclear watch list (Benjamin, 1982). A second round of sanctions against Iran came into force in 1995. The law stipulated that any foreign company investing over \$40 million to the development of petroleum resources in Iran would be penalized. These efforts seemed to pay off until fresh revelations showed that Tehran's quest for nuclear technology remained unchanged in the early 2000s. This development gave way to the process of multi-party negotiations that have been ongoing until this day.

It follows that post-Revolution US-Iran relationship has been dominated by mutual antagonism and distrust except for brief moments of limited interaction. At the core of this is a struggle between two different sets of values, one promoted by Iran as a country aspiring for regional great power status

and the other by the US as an established unilateral hegemon (Bill, 1999: 44-46). Iran's geostrategic significance as the gatekeeper of the strategic Gulf of Hormuz (EIA, 2011) further motivates US administrations to consistently seek to prevent Tehran from rising as a regional powerhouse. Iran's nuclear energy program has become a crucial aspect of this struggle.

The United States has attempted to contain Iran through alliance diplomacy and military build-up in the Persian Gulf, hoping to keep Tehran's economy from developing, marginalize its regional standing and isolate it in international organizations. For these purposes, first, it has built a formidable military presence in the Persian Gulf, including a carrier battle group in Bahrain. Second, it has sought to weaken regional actors such as Iraq and Syria, thereby preventing a regional bloc from emerging. Third, it has maintained an implicit patron-client relationship with anti-Iranian governments such as Israel, Saudi Arabia and other Gulf monarchs (Bill, 1999: 44-46). Finally, it has fortified these clients militarily through arms sales, logistical help and training.

At the centre of the US Iran policy is the concern that a nuclear Iran would be a major regional power with an international posture more defiant of the established rules and norms. Nuclear proliferation would drastically change the regional balance of power that currently favours the US allies including the Gulf States and undermine US military dominance. Beyond the Middle East, Tehran's nuclearization would have a ripple effect across nations that identify themselves with the non-aligned grouping. Furthermore, Washington worries that Tehran may share its nuclear experience with other rogue or untrusted states such as Venezuela, Syria and North Korea. Finally, the US is concerned about Israel's safety in the event that Iran achieves nuclear deterrence capability (Kerr, 2012: 2). Washington fears that if Iran acquired nuclear weapons, this would erode Israel's overwhelming military superiority in the region and disrupt the existing balance of power.

4. China: The Act of Strategic Balancing

Due to growing Western pressure on Iran's nuclear energy policy, China-Iran relations shifted from the contentious arms' sales and key technology transfers during the 1980s to more neutral trade in oil in the late 1990s. Overtime, energy has become the main axis around which the Sino-Iranian economic partnership revolves. In 2012, Iran became China's fourth largest supplier of crude oil (10-12 per cent of its total import), and currently China is Iran's largest trade partner.⁶

Beijing established full diplomatic relations with the Shah's Iran in 1971 and since then the two countries have developed peaceful economic, military and political relationships. China and Iran shared a vision of non-alignment, and economic and political sovereignty; ideas that were largely

derived from the two nations' respective historical experience: The fact that China and Iran had no history of war and that both had been subject to the humiliating experience of colonialism reinforced the mutual social and political identification. Although relations remained rather limited in the aftermath of the Chinese Revolution because of China's cooperation with Russia and Iran's vehement opposition to Soviet expansionism, by the mid-1960s and particularly after the Sino-Soviet split, the two countries started to establish more substantial ties. As a result of the warming relations, in 1969, Tehran declared support for the PRC's UN bid to replace Taiwan. Political rapprochement soon translated into greater economic cooperation: For instance, bilateral trade volume during the 1960s reached at levels 20 times higher than the previous decade (Mackenzie, 2010; Huwaidin, 2002; Dorraj and Currier, 2008).

Today, cooperation in energy constitutes the backbone of the Sino-Iranian economic relations (Calabrese, 2006). Apart from a partnership that results almost by default from China's ever-increasing energy needs and Iran's vast amounts of hydrocarbon resources, US sanctions against Tehran have further encouraged more comprehensive ties between the Chinese and Iranian industries. Indeed, as Iran has been forced into deeper isolation from international energy markets, China has gradually become the dominant external player in country's economy (Mackenzie, 2010). China-Iran bilateral trade, initially centered on arms sales, has over time become almost completely energy-driven. The structural shift in China-Iran economic relations coincided with the emergence of Iran's nuclear energy program as a focal point of greater international concern.

It appears that just as Iran's foreign policy objectives and domestic political situation lead the US to become involved more deeply in the Persian Gulf both militarily and politically, the overwhelming US presence leads the Iranian leadership to not give up altogether on its nuclear development program. Facing such a vicious cycle of mutual antagonism between Iran and the US, the Chinese policy-makers seek ways to avoid getting entangled in this power struggle while remaining relevant in the region's geopolitics and economy. Thus, Beijing considers Iran's geographic location as an important asset for China's regional strategy to balance the United States and secure energy resources. Indeed, Iran occupies a key location in the Persian Gulf, the most vital energy route in the world, and has the ability to effectively control the Strait of Hormuz, a chokepoint that connects the energy rich Persian Gulf and the Indian Ocean (EIA, 2012).⁷ Also, to its north Iran borders the Caspian Sea, which is at the centre of the energy-rich Central Asian region. Hence, Beijing views the military developments in the Persian Gulf as one of a potential threat toward the security of the trade routes and the stability of the energy rich trade partners, including Iran (Mackenzie, 2010).

All in all, China-Iran interaction is multi-leveled as it centres not only on overlapping energy interests but also on significant historical ties and geostrategic balancing against the US (Harold and Nader, 2012). Hence, the defining character of the bilateral relations is mutual geopolitical and economic concerns that enable the two nations, regardless of their divergent ideologies, to sustain a principle-based pragmatic relationship (Casting and Fite, 2012). China finds supporting Iran in the international stage to be strategically viable since Tehran is the only country to meaningfully counterbalance US dominance in the Persian Gulf (Lin, 2010). It is China's interest to have Iran as an ally both for its energy supply and for a certain degree of control in a volatile but strategically vital region (Harold and Nader, 2012: 12; Kemenade, 2009). In a sense, Iran's unwavering posture in the face of Western pressure appears to find an echo among the Chinese strategic circles who adopt the *realpolitik* of counterbalancing the US and promoting the Chinese vision of international governance based on universally applicable rules and norms (Shambaugh, 2011).

As is seen in many visits made by high level officials from both sides over the past decade, Tehran, too, desires to maintain strategic and economic ties with Beijing. As Iran is heavily sanctioned and isolated from the international economic system, China offers Tehran the much needed breathing space in the form of energy deals and other economic transactions. Consequently, since the end of the Cold War, both China and Iran have been regarded by the Western strategists as both prospective challengers of the international regime led by the US and aspirants for great power status (Garver, 2006).

China-Iran relationship involves strategic competition, as well, and at times the two sides find their geopolitical interests at odds. First and foremost, Beijing's growing strategic clout in Pakistan and a possible militarization of the Port of Gwadar leads the Iranian government to seek partnerships to balance China in the Arabian Sea and the Persian Gulf. In this respect, Iran hopes to gain leverage against Beijing by cooperating with India. For this purpose, it aims to increase energy cooperation with New Delhi by working together on the development of its strategically-located Port of Chabar. China's energy interests in Central Asia and Russia are also potential points of competition between the two countries. As China deepens its energy cooperation in the region, Iran finds itself being marginalized as an energy provider. Nevertheless, Iran continues to elicit considerable political support from Beijing for its civilian nuclear energy program.

China's approach to the Iranian nuclear issue has been quite consistent ever since the country terminated all nuclear-related cooperation with Iran in 1997 (ICG, 2010). Still, China-Iran energy relations continued to create tension between Beijing and Washington. As the US effort toward Iran's nuclear program has grown in scope, it began to involve other non-nuclear realms such as Iran's financial institutions and the Central Bank. The US has

frequently argued that China's energy relations and technology-sharing with Iran weakened the sanctions regime. In the face of frequent and persistent criticism from Washington, China has actively pursued a strategic balance: On the one hand, it has taken a firm position against Iran's possession of nuclear weapons (or any other non-nuclear states, for that matter) and the prospect of a closure of the Gulf of Hormuz in the event of a military confrontation in the region (Kasting and Fite, 2012: 22). Beijing has, on the other hand, formally opposed any unilateral US or European sanctions on Iran that would do more harm to the civilian population than to the government (Wines, 2012).

Broadly speaking, China's post-1997 nuclear diplomacy rests on three fundamental principles: First, Beijing has adhered to the long-held tenet of non-interventionism. Second, it has worked to ensure that nuclear proliferation would be prevented in the Middle East and no country would have a military superiority over the others (e.g., maintaining a balance of power), fearing that a major power disparity would lead to an arms race and further destabilize the region. Finally, Beijing has expressed support for the idea that sea routes and chokepoints must be kept open and no disruption to the flow of goods and commodities should be tolerated. As part of its balancing strategy, the Chinese leadership emphasized Iran's rights and obligations as a signatory to the NPT and member of the IAEA (Zhenqiang, 2005). Thus, Beijing backed Iran's sovereign right to have nuclear technology and produce nuclear energy for peaceful purposes (Calabrese, 2006: 10). This way, Chinese leadership has strived to both avoid the risk of being associated with either side and protect its stakes in the Iranian energy sector (Kasting and Fite, 2012: 4).

The China-Iran partnership on nuclear technology dates back to the mid-1980s (Calabrese, 2006: 9). In the early 1990s, Beijing agreed to sell Iran nuclear research equipment, (NTI, 2011: 516-519; Reardon, 2012: 13). However, deepening ties between Beijing and Tehran drew a succession of criticisms from Washington. Growing international concern ultimately prompted Beijing to announce that all nations receiving nuclear technology from the PRC needed to accept the IAEA safeguards. However, US-China tension over the Iranian nuclear energy program continued throughout the 1990s even after China promised in a confidential letter sent to then-Secretary of State Madeline Albright to cease all nuclear cooperation with Iran in 1997 (Reardon, 2012: 14). As a result, since 2001, numerous Chinese entities have been sanctioned by the US government under the Iran Nonproliferation Act (Kan, 2012: 71-77).

To avoid direct confrontation with the US over Iran's advances in nuclear technology with Chinese assistance, Beijing took the economic route. Thus, from the early 2000s, the centre of contention between China and the US shifted from China's material assistance for Iran's nuclear program to Beijing's energy trade with Iran and the political support it offered to Tehran at the Security Council and other platforms (Calabrese, 2006: 10). It has been

often stated that China's diplomatic shield for Tehran has greatly affected the prospects of the US efforts to isolate Iran and push for a change in its nuclear policy. China, in this regard, has come under dual pressure: On the one hand, Washington tried to convince China to join in the US-led efforts with respect to nuclear proliferation, investment in trade and energy, and arms sales. On the other, Iran pursued Chinese support by presenting itself as a viable and reliable partner in energy and investment. Unwilling to strain relations with both Iran and the US, China strived to maintain relatively stable relations with both countries (Kasting and Fite, 2012: 4). To ensure this, Beijing has not squarely objected but delayed the passage of each Security Council resolution and watered down several UN sanctions, making them voluntary rather than mandatory, to mitigate their impact on Iran's civilian energy sector and China's investment in the country (Garver, 2011: 76).

China abstained from endorsing fully the US-led sanctions that it considers as unilateral and internationally non-binding (Garver, 2011: 81). Cui Tiankai, China's ambassador to the US, told reporters at a briefing in Washington in February 2012 that, "We voted for these [Security Council] resolutions and we have been enforcing them most strictly. But we do have reservations on unilateral sanctions and this is nothing new." Talking on the same issue, Foreign Ministry spokesman Liu Weimin indicated that "China opposes placing domestic law above international law and does not favor unilateral sanctions against other countries." Consequently, China has continued to defend its principled position on Iran's nuclear energy policy as compliant with international law, separating trade in energy and other commodities from cooperation on nuclear technology.

Chinese officials have reiterated Beijing's position frequently on different platforms. In January 2012, on the same day when then US Treasury Secretary Timothy Geithner met former Chinese Premier Wen Jiabao and Vice President Xi Jinping amid escalating international tensions over Iran's nuclear program, foreign ministry spokesman Liu Weimin defended China-Iran oil trade, arguing that "Beijing's energy needs do not have anything to do with the Tehran's nuclear issue and should not be affected" (Ying, 2012). This position on the nuclear issue has therefore required Beijing to seek a balance between the two policy extremes of Iran and the US. However, China's principle-based balancing strategy has increasingly clashed with US security-driven strategy, leading to the Iranian nuclear energy dilemma.

5. The Iranian Nuclear Energy Dilemma

Essentially, Iran's uranium enrichment activity is consistent with its Non-proliferation Treaty (NPT) commitments and International Atomic Energy Agency (IAEA) safeguard obligations (Huntley, 2006: 730). However, Tehran

has thus far failed to convince the larger international community of its peaceful intentions. Washington's major concern has been that should Iran achieves nuclear enrichment technology, this might dilute international counter-proliferation activities, undermine its strategic network in the Middle East and, in the long run, strengthen Chinese and Russian positions. Overall, a nuclear Iran with an adamantly independent foreign policy would have a negative impact on the US dominance in the region (Dueck and Takeyh: 2007: 189).

Although the outline of a nuclear deal between the P5+1 and Iran is well-understood⁸ and an agreement is "readily at hand", the US administration remained unwilling to endorse it (Dreyfuss, 2013). According to Chinese observers, the disagreement stems from the US and its allies' interpretation of the workings of the non-proliferation regime. According to the Western view, international agreements, including the NPT, are goal-oriented rather than rules-based. China, on the other, favours a rules-based approach in which international regulations "are created through the consent of independent, sovereign states and are to be interpreted narrowly" (Leverett and Leverett, 2013). The repeated criticism by Beijing of US unilateralism and interference in the sovereignty of weak nations originates from this divergence of interpretation (Bridge, 2010).

Obviously, China has a greater leverage on Iran than other parties that are involved in the debate over Tehran's nuclear energy program because of its principle-based and more stable foreign policy not tainted with a history of mutual antagonisms. Such leverage, however, has a major drawback: it could be China that would lose economically the most if more punitive sanctions were imposed on Iran and a major disruption occurred to the flow of oil from the Persian Gulf in the event of a military confrontation (Shen, 2006). Iran is a major supplier of crude oil and Chinese firms have considerable investment in Iran's energy, infrastructure, transportation and telecommunication sectors. The United States, on the other hand, has no economic or diplomatic relations with Iran and has little to lose in terms of energy acquisition even in the event of a closure of the Strait of Hormuz by Iran since both the US and Europe have "strategic oil reserves and could get some Persian Gulf oil through Red Sea pipelines" (Krauss, 2012). Also, US dependency on foreign oil, and primarily on the oil from the Middle East, has declined considerably. Indeed, according to various studies, "dependence on overseas oil has decreased from 60 per cent of US consumption in 2005 to a little less than half now" (Eland, 2011; Crooks and Fifield, 2013).

However, this is not to say that decreasing energy dependency on the Persian Gulf grants the US a full immunity from the negative effects of a crisis in the Persian Gulf. First of all, as a major customer of oil from international markets, the US economy is vulnerable to price increases. Thus even zero reliance on the Middle East would be of little meaning in the face

of a crisis that would push the global spot prices up. Therefore, the US has to maintain a firm military and political presence in the Persian Gulf and ensure that oil flows unhindered and prices remain stable. Also, as a global hegemon, the US would not willingly empty an important region to others since such a move would be perceived as abandonment by not only its traditional ally, Israel, but also by the Gulf monarchs whose regime survival relies largely on Washington's line of support. Furthermore, a power vacuum created by a US withdrawal would invite other major powers, including China, to assume leadership.

By effectively controlling the Persian Gulf, the US enjoys a strategic check on Beijing. Indeed, the Chinese Navy is still behind the US in terms of force projection capability in high seas. In the event of a crisis, the US Navy can effectively halt the flow of strategic commodities from the Persian Gulf in order to force China into compliance. Finally, powerful interest groups in Washington have so far advocated Israel's vital interests. Given the strength of these lobbies in the Capitol Hill, it is almost impossible for any US administration to dramatically alter its Iran policy and seek full political rapprochement. For all these reasons, energy independency will not likely result in a meaningful realignment of US strategy in the Persian Gulf.

There is no doubt that successive governments in China have worked hard to uphold and promote the nation's principled model of international governance, economic interests and sovereign foreign policy making capability over the past decades. Whereas Iran's large reserves of oil and natural gas have thus far contributed to China's program for sustained economic development, its international isolation offered Beijing an opportunity to extend its influence across the Middle East. In the final analysis, a stronger and more confident Iran would be a check on US dominance over the Persian Gulf, and an increased US military presence in the region would drain its resources and hamper its militarized containment strategy in the Asia-Pacific (Garver, 2011: 77; Harold and Nader, 2012: 2).

By keeping Iran relatively weak and the US preoccupied, a persisting crisis in the Persian Gulf presents China with great geopolitical benefits as well. Indeed, a stronger and more confident Iran might pose a serious challenge to China's interests in the Middle East. Thus a dual strategy of making use of the US and its allies to check on Iran and using Iran to balance the US would be to the advantage of Beijing as long as the *status quo* in the region remains unchanged. Nevertheless, although it is too early to speak optimistically of a breakthrough, with recent successful negotiations on Iran's nuclear program at P5+1 meeting, there is now a chance that the nuclear deadlock might be overcome in the foreseeable future. If that happens, it will mean that China's long held position on Iran's nuclear energy development is confirmed.

6. Conclusion

It is understood that although their relations are not overtly conflictual, China and the US have important policy disagreements over Iran's nuclear energy program. Essentially, the disagreement stems from China's rules-based strategy, which conflicts with US' unilateral approach. As is seen, Beijing, on the one hand, wants a distinction to be made between trade in energy and cooperation on nuclear weapons technology and, on the other hand, it argues that the international nuclear energy regime must be rules-based, multilateral and indiscriminate. To this end, it argues for a principled approach to the Iranian nuclear crisis based on non-interventionism and mutual respect for sovereignty. Washington, to the contrary, considers any trade with Iran as a breach of the sanctions regime and seeks to mobilize the NPT selectively and, if consensus is lacking, unilaterally (Mbanje and Mahuku, 2012). Furthermore, it resorts to punitive actions such as destructive cyber-attacks on Iran's nuclear facilities in a clear breach of the rules of national sovereignty.

Obviously, a number of strategic and ideational factors inform China's policy toward Iran. Firstly for China, Iran is an important energy and investment partner. Due to the lack of presence of Western multinationals, Iran offers Chinese firms a more viable business environment. Secondly, Beijing considers Iran as a strategic asset to check and counter US dominance in the Persian Gulf. As long as the US is engaged in a conflict with Iran, the Persian Gulf will not fall under total US control (Mackenzie, 2010: 18). Thirdly, a perpetual crisis and instability obliges the US to maintain a large military presence in the region, impairing its ability to fully concentrate on East Asia where the US sets out to engage and contain China. Fourthly, Beijing's firm opposition to the use of coercive power in international relations enables it to draw a distinction from the Washington Model and promote its negotiation and consent-based approach (the Beijing Consensus) as an attractive alternative (Calabrese, 2006: 11). Finally, and more practically, the Chinese leadership understands that too much pressure and rigidity in negotiations with Tehran would lead to an eventual failure of the entire process and a likely collapse of the non-proliferation regime as a whole.

It appears that the Iranian nuclear dilemma will continue to be a point of contention between China and the US. Divergent regional concerns, understandings and strategies of the two countries may fall even further apart if the civil war in Syria leads to a unilateral military campaign against Damascus. Hence, as it unfolds, the Iranian nuclear energy issue will have broader implications for US-China relations. Noticing that the traditional punitive measures and counter-measures have proven to be largely futile, emphasis must be made on the distinct features of China's principled approach as a viable alternative model for international governance and conflict

resolution. For it is clear that the US hard-handed approach has thus far failed to produce the desired outcomes.

The Iranian nuclear dilemma has been unfolding and, because of the nature of the conflict that obliges major parties to maintain a certain degree of strategic ambiguity, conditions on the ground might change dramatically without clear warning signs. Any research on this issue, therefore, needs to keep this fact in mind and adopt a comparative method to bring more voices into the study of the Iranian nuclear dilemma. In this respect, further research should adopt a multi-party analysis and look at it from the unique perspective of other actors within the P5+1. Especially the viewpoints of Russia and France would be of great importance in understanding the power balance within the grouping. Such a study would certainly shed further light into the future course and prospects of the Iranian nuclear crisis.

Notes

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 2. Iranian nuclear energy development refers to Tehran's nuclear enrichment activities. Iran holds that its nuclear program is solely for peaceful purposes and consistent with the International Atomic Energy Agency (IAEA) safeguards and Non-proliferation Treaty (NPT) obligations whereas the US and its major partners argue that Tehran has been seeking nuclear weapons capability.
 3. In his visit to Iran in the early days of 1978, President Jimmy Carter described Iran as "an island of stability in a turbulent corner of the world." Less than a year later, students stormed the US Embassy.
 4. The Embassy hostage crisis became the critical watershed moments, signaling an important shift in US-Iran relations.
 5. The list included India, Taiwan, South Korea, Pakistan, and Indonesia.
 6. Although Iran remained China's third largest supplier of oil for the most part of the previous decade, due to the latest round of financial sanctions on the companies that do business with the Iranian Central Bank, it slid to the 4th place in 2012.

7. The Strait of Hormuz is the world's most important oil chokepoint due to its daily oil flow of about 17 million bbl/d in 2011, up from between 15.7-15.9 million bbl/d in 2009-2010.
8. In sum, the agreement calls for a Western recognition of Iran's right to nuclear enrichment in return for Tehran's acquiescence of more comprehensive and intrusive monitoring of Iran's nuclear facilities by the IAEA.

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Riparian Relations between India and China: Exploring Interactions on Transboundary Rivers

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Abstract

Riparian tensions have arisen as one of the major factors complicating overall relations between India and China in the 21st century. The absence of a treaty or mechanism regulating shared river waters between India and China has created a situation where cooperation or conflict between these two nations can ensue over freshwater resources. China, being the upper riparian country, unconstrained by legally binding commitments to maintain the current level of flow or direction of the transboundary rivers (mainly Tsangpo/Brahmaputra), is being perceived by India as being in an overtly advantageous position as it controls the availability of freshwater in its North-eastern region, thereby not only holding immense strategic power over India, but also causing an immense imbalance of power in favour of China. This paper will examine riparian relations between India and China by exploring two facets of the issue: first, the hydro-related doctrinal understanding in both countries will be examined as this informs their discussion on transboundary rivers and thereby underpins their stands on the issue; second, the external implications of the domestic water-diversions plans of both nations like the River Linking Project of India and the North-South Water Transfer project of China will be explored in order to assess the external dependence and impacts of both these projects and thereby assess possible reactions to these projects in these countries which will impact their riparian relations. In conclusion it was found that the overall riparian relations of India and China remain unpredictable albeit shy of outright war as despite the absence of stated principles and doctrines about water sharing; both countries possess common traits with regard to managing transboundary rivers. It was found that both nations have a proclivity towards cooperation rather than conflict when it comes to managing riparian relations with neighbours, but it is best to understand riparian relations in a continuum rather than as conflictive or cooperative.

Keywords: *Riparian relations, transboundary river, India-China relations, water sharing*

1. Introduction

Freshwater resources, which account for 2.79 per cent of the global water resources, are coming under increasing strain in several parts of the world (Padowski and Jawitz, 2009). Fast growing world population, industrialization requirements, and climate change are some of the reasons responsible for the increasing strain on freshwater resources. By 2015, it is estimated that nearly 3 billion people will be facing uncertainty in terms of availability of freshwater, and it is predicted that this scarcity could translate into heightened competition for water at the intra-state and inter-state level (Wolf, 2009: 20).

There are about 263 watersheds that cross the political boundaries of two or more countries. These international river basins cover 45.3 per cent of the land surface of the earth, host about 40 per cent of the world's population, and account for approximately 60 per cent of global river flow (Khalid, 2004: 553). These international river basins have been transformed into tense arenas for competitive exploitation of water by riparian nations which are in dire need of freshwater resources. Consequently, international disputes, over harnessing the potential of transboundary river water, have arisen in several parts of the world. However, transboundary nature of rivers has, in the past, induced riparian nations to cooperate over water management, even as disputes rage over other issues (Wolf, 1999).

Riparian relations of India and China are examined in this paper with an emphasis on the hydro-related doctrinal understanding in both countries and the external implications of the domestic water-diversions plans of both nations. The main research questions which are posed in this paper include the following:

1. Is there strain on the freshwater resources in India and China and the subsequent riparian concerns which arise from this strain?
2. What will be the transboundary impact of India and China's water diversion projects?
3. What are the riparian attitudes of India and China in the context of their level of adherence to international doctrines of river water management?

2. Freshwater Strain in China and Riparian Concerns

China is facing acute freshwater strain as it has to support 20 per cent of the world's population on 5 per cent of the world's renewable freshwater (KPMG, 2012). Water shortages are felt in the agricultural, industrial and municipal sectors (Rosegrant, *et al.*, 2002). Sustained economic growth in China is threatened by depleted freshwater resources, inefficiency in its use and pollution (Gleick, 2008: 79). Chinese leaders recognize the need to move away from coal, which currently supplies 70 per cent of the country's electricity, to

clean energy sources like hydroelectricity (Turner, *et al.*, 2013: 12). Adding to China's water woes is the uneven distribution of its water resources. China's northern regions are densely highly populated and industrialized yet water-starved while its west and south have abundant water resources.

During the 1980s and 1990s, the Chinese government implemented coast-biased regional development policies which aggravated regional inequality. In order to correct this imbalance, China adopted the "Great Western Development" (GWD) strategy in 1999 (Hong, 2012). Among other policies of the GWD, it was expected that the western region could help ease water shortages in the northern region by way of water transfer schemes and hydroelectricity projects on rivers originating in the west (Lai, 2002: 448). Recent reforms to address China's water problems, including the 2011 No. 1 Central Document outlined plans to invest US\$600 billion over the next decade to fund water supply projects (Lagos and Jiang, 2011).

Water stress and the increasing number of droughts in the northern provinces have led to the construction of dams and water transfer projects in China. China has constructed several grandiose long-distance water transfer projects. These have included projects involving transfers from the Biluhe River to Dalian, the Huanhe to Qingdao, the Lanhe to Tianjin, and the Luanhe to Tangshan, among others.

The Tibetan plateau, which is also known as the third pole, has enormous amounts of freshwater potential which China is looking to harness to ease the water scarcity it faces. China is currently undertaking numerous water projects in Tibet. Ten of Asia's largest rivers by volume originate in the Tibetan Plateau and serve 47 per cent of the world's population (Pomeranz, 2013: 5). These rivers are transboundary in nature and several of the Chinese dam and water transfer projects are on these rivers. The potential adverse impact of China's projects is the basis for the transboundary tensions which are brewing between China and its riparian neighbours.

The South North Water Transfer Project (SNWTP) is the most ambitious water transfer project which China is constructing. It plans to transfer surplus water from the southern region in China to its northern areas. Ideas of such a diversion were present as early as 1952 when Mao Zedong is said to have remarked that the south has plenty of water and the north lacks it, so if possible why not borrow some. The term for the project – *nan shui bei diao* (South-North Water Diversion) – appeared in a Political Bureau directive in 1958 (Biswas, *et al.*, 1983).

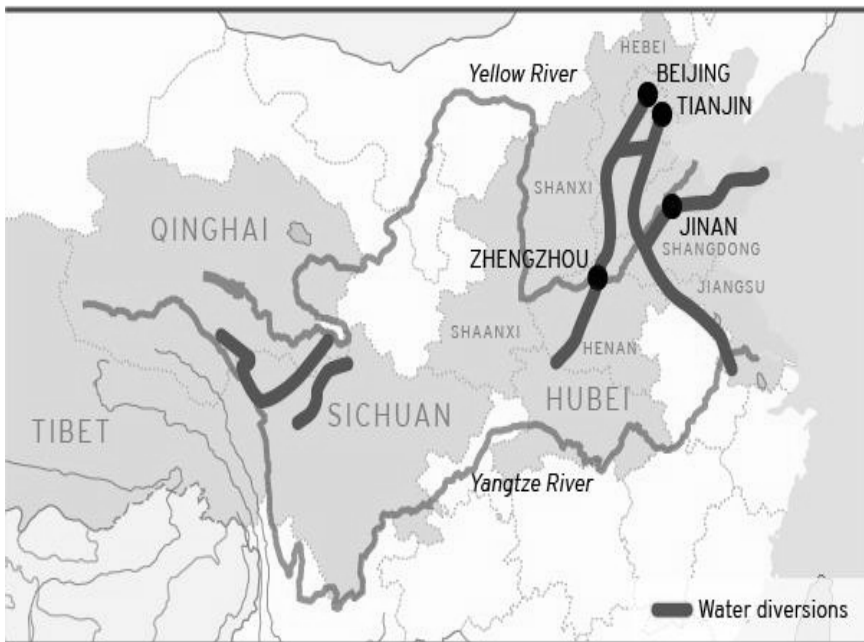
The Chinese government did not seriously consider the project until severe droughts hit the Northern provinces in the 1990s. In 2000, President Jiang Zemin stated: "In order to radically alleviate the severe water shortage in the north, it is necessary to implement the South-North Water Transfer Project" (cited in Yang and Zehnder, 2009: 339). In 2002, Li Ling published

the widely read book *Saving China Through Water From Tibet*, which listed various causes and options for tapping the rivers of the southern region. The SNWTP was formally approved in 2002.

The SNWTP is comprised of northern, central, and western routes designed to transfer water from the southern provinces to the parched northern provinces of China. In the Northern/East Route water will be diverted from the Yangtze River (Shao and Wang, 2003: 8). The Middle Route plans to divert water from the Danjiangkou Reservoir on the Hanjiang River to Beijing (Shao and Wang, 2003: 8). The western route will harness water from the upper reaches of the Yangtze, Yellow, Yarlung Zangbo, Nu, and Lancang Rivers to Lanzhou (Lai, 2002: 453). The project is slated for completion in 2050. The total cost of all the three routes is estimated at around 60 billion US dollars (Shao and Wang, 2003:9). The total diversion capacity is estimated to be 45 billion m³ (Hong, 2005).

There are several supporters of the SNWTP in China, ranging from politicians to engineers. They state that water stress in the northern region will be alleviated by the project; it will lead to flood control and several energy requirements of China will also be met. However, another faction in China protests the move to undertake such massive water transfer projects.

Figure 1 The Three Routes of the South-North Water Transfer Project



Source: www.brookings.edu

They stress that it could lead to adversarial ecological impacts like decreasing wetlands, saltwater intrusion, habitat destruction, floods and droughts. There are also concerns over whether the water transferred will be clean enough to use when it reaches its destination (Schneider *et al.*, 2011). There is also the issue of possible water shortages in the south, apprehensions of earthquakes, threats to biodiversity hotspots and the fact that the Himalayan glaciers are shrinking rapidly, which complicates the transfer of water from Tibet (Pomeranz, 2013: 7).

China's water-diversion projects are a source of major concern to the countries downstream, which complain about Beijing's lack of transparency and reluctance to share information. China does not have any water-sharing agreements with downstream countries (Pomeranz, 2013: 4). China's 12th Five-Year Plan (2011-2015) calls for an increase in the use of hydroelectric power which the downstream countries have interpreted as indicating that China will be accelerating its damming and diverting activities on its transboundary rivers (China's Energy Policy, 2012).

China has built more dams on its rivers than the rest of the world combined (Chellaney and Tellis, 2011). China began building the first series of dams on the Mekong River in 1986. Since then, it is claimed that, Chinese dams have lowered water levels, disrupted sediment flows, and damaged the health of fisheries in Myanmar, Thailand, Laos, Cambodia, and Vietnam (Turner, *et al.*, 2013: 13).

The Western line of the SNWTP is the most controversial of the three lines as far as India is concerned. It includes building a dam on the Great Bend of the Yarlung-Tsangpo, where the river curves into the Assamese plain of India and becomes the Brahmaputra (Malhotra-Arora, 2011). China intends to dam "...the Yarlung-Tsangpo/Brahmaputra at the Great Bend near the Shuomatan point... – by channeling a total of 200 billion m³ of water annually and linking up with the central and eastern routes of South to North Water Transfer Project. Although there has been no official confirmation that the construction of the 'Great Western Route' will go ahead, it continues to be a debated option to solve China's emerging water crisis" (Svensson, 2011). According to several reports, China has already constructed 10 dams on tributaries of the upper Brahmaputra, with three more under construction at Dagu, Jiacha, and Jiexu on the middle reaches of the Brahmaputra. It is also constructing a 510-megawatt dam at Zangmu in the middle reaches of the Brahmaputra (Shah and Giordano, 2013: 29).

China insists that the dams it is building on the Yarlung-Tsangpo are "run of the river," which operate without storing or diverting water. China has vehemently downplayed the likelihood of the western diversion due to the difficult terrain and associated technical challenges (Turner, 2013: 15). New Delhi, however, harbours fears that Beijing's dams are not "run of the

river” but will instead store and divert water preventing and/or controlling its flow into India. Adversarial ecological and environmental outcomes are other reasons which have led to protests among the lower riparian nations over China’s transboundary designs.

Prime Minister Manmohan Singh of India issued a statement on 4 August 2011, stating that Chinese leaders had assured him that no such diversions plans were imminent. Although China provides limited hydrological and flood data to India through a memorandum of understanding renewed in May 2012, Singh emphasized the need for a joint mechanism for sharing information on transboundary projects (Turner, 2013: 15). India harbours suspicions about China’s diversion projects as in the past there have been fatal floods in Arunachal Pradesh and Himachal Pradesh which were traced to unannounced excess water releases by China (Shah and Giordano, 2013: 30).

Additionally, it is stated by experts like Jayanta Bandopadhyay that the SNWTP is mostly about damming and diverting China’s domestic rivers and the flow of the Brahmaputra River will not be impacted as most of its water comes from the tributaries like Subansiri, Lohit, Dhansiri, Kopili, Namdang, Bhoroli which originate in India. Furthermore, on the basis of hydrological budgeting it has been established that “...the Yarlung Tsangpo is a minor contributor to the total flow of the Brahmaputra. Further, snow and glaciers supply about 34% of its total flow” (Bandyopadhyay, 2013). Additionally, it has been scientifically established that “...Tsangpo discharge is primarily derived from rainfall (~80%)...” (Bookhagen and Burbank, 2010).

3. Freshwater Strain in India and Riparian Concerns

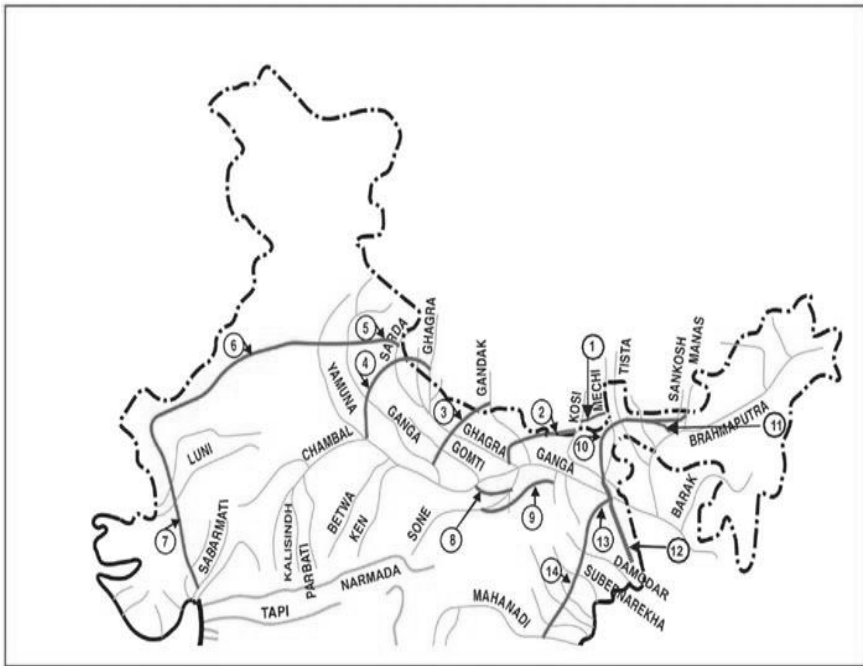
India faces a plethora of freshwater related problems. Apart from acute water scarcity, India faces issues of food insecurity, drought, floods, inter-State river-water disputes, unresolved issues relating to rivers with riparian neighbours, groundwater depletion, arsenic poisoning, shrinking of wetlands; and the uncertainties arising from predictions of climate change. One of the main predicaments facing water resources management in India, like in the case of China, is the unevenly distributed freshwater water supply throughout the country. India’s North and North-East have abundant water supply while its South remains water-starved. In an effort to deal with this uneven distribution of water, the nationwide plan of Interlinking Rivers (ILR) of India has been proposed. It intends to link the rivers of India with a view to transfer excess/surplus water of the northern rivers to the south rivers.

Sir Arthur Cotton, since the early decades of the 19th century had thought of a plan to link rivers in southern India for inland navigation (National Water Development Agency, 2006). K.L. Rao, the then Minister of Irrigation, in 1972 had mooted the idea of interlinking of rivers by connecting the Ganga

with the Cauvery River. In 1977 Captain Dastur initiated the concept of a “Garland Canal” around the Himalayan, Central and Peninsular India. The then Ministry of Irrigation (now Ministry of Water Resources) and Central Water Commission formulated a National Perspective Plan (NPP) for Water Resources Development in 1980, envisaging inter-basin transfer of water from surplus basins to deficit ones.

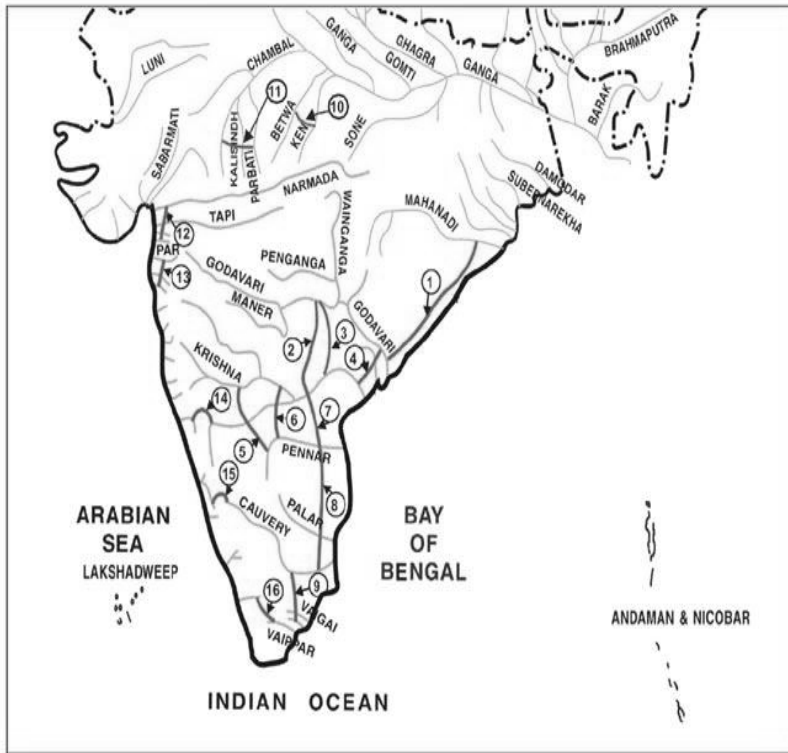
The National Perspective Plan comprised of two components viz. Himalayan Rivers Development and Peninsular Rivers Development. Himalayan Rivers Development Component envisages construction of storage reservoirs on the principal tributaries of Ganga and Brahmaputra rivers in India, Nepal and Bhutan along with interlinking of river systems to transfer

Figure 2 Proposed Inter Basin Water Transfer Links – Himalayan Component



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| 1. Kosi – Mechi | 8. Chunar- Sone Barrage |
| 2. Kosi – Ghagra | 9. Sone Dam – Southern Tributaries of Ganga |
| 3. Gandak – Ganga | 10. Manas – Sankosh - Tista - Ganga |
| 4. Ghagra – Yamuna * | 11. Jogighopa – Tista – Farakka (Alternate) |
| 5. Sarada – Yamuna * | 12. Farakka – Sunderbans |
| 6. Yamuna – Rajasthan | 13. Ganga (Farakka) – Damodar – Subernarekha |
| 7. Rajasthan – Sabarmati | 14. Subernarekha – Mahanadi |
- * FR Completed

Figure 3 Proposed Inter Basin Water Transfer Links – Peninsular Component



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|--|---|
| 1. Mahanadi (Manibhadra) – Godavari (Dowlaiswaram) * | 9. Cauvery (Kattalai) – Vaigai – Gundar * |
| 2. Godavari (Inchampalli) – Krishna (Nagarjunasagar) * | 10. Ken – Betwa * |
| 3. Godavari (Inchampalli) – Krishna (Pulichintala) * | 11. Parbati – Kalisindh – Chambal * |
| 4. Godavari (Polavaram) – Krishna (Vijayawada) * | 12. Par – Tapi – Narmada * |
| 5. Krishna (Almati) – Pennar * | 13. Damanganga – Pinjal * |
| 6. Krishna (Srisailam) – Pennar * | 14. Bedti – Varda |
| 7. Krishna (Nagarjunasagar) – Pennar (Somasila) * | 15. Netravati – Hemavati |
| 8. Pennar (Somasila) – Palar- Cauvery (Grand Anicut) * | 16. Pamba – Achankovil – Vaippar * |
- * FR Completed

Source: nwda.gov.in

surplus flows of the eastern tributaries of the river Ganga to the west, apart from linking of the main Brahmaputra and its tributaries with the Ganga; and the Ganga with Mahanadi. Peninsular Rivers Development Component is divided into four major parts, viz. 1) Interlinking of Mahanadi-Godavari-Krishna-Cauvery rivers, 2) Interlinking of west flowing rivers, north of Bombay and south of Tapi, 3) Interlinking of Ken-Chambal, 4) Diversion of other west flowing rivers.

The National Water Development Agency (NWDA) was set up in 1982 to establish the feasibility of the proposals of NPP. The plan was in cold storage until 31 October 2002 when it was brought to the fore once again by the Supreme Court of India, led by retired Chief Justice BN Kripal (Shankari, 2004). In 2003, the Supreme Court of India enjoined the Government of India to complete the ILR project by 2016. A task force was constituted to embark upon the Project and Suresh Prabhu was asked to lead it. The Supreme Court of India directed the executive government to implement the inter-linking river project in its final judgment dated 27 February 2012 (Ramaswamy, 2012).

According to the present proposal, the ILR will connect 37 major rivers via 30 links consisting of dams and canals. It is estimated to cost about 120,000 billion USD and will be the single largest water development project in any sector, anywhere in the world (Bandopadhyay and Sharma, 2006). According to the NWDA the Interlinking of Rivers (ILR) Plan would give benefits of 25 million hectares of irrigation from surface waters, 10 million hectares by increased use of ground water, totaling 35 million hectares and 34,000 MW of hydro-power generation (National Water Development Agency, 2006). In addition the likely incidental benefits will be drought mitigation, flood control, domestic and industrial water supply, navigational facilities, employment generation, fisheries, salinity control, pollution control, recreation facilities, infrastructural development and socioeconomic development (National Water Development Agency, 2006).

However, there are several detractors of this project. B.G. Verghese found the ILR as “frighteningly grandiose”, a “misapplied vision”, “extravagantly stupid”, “anihilatingly wrong”, a “subcontinental fiasco”, “a flood of nonsense”, a “dangerous delusion” or a case of “hydrohubris” (Verghese, 2003).

Several scientists and environmental experts view the project as posing a great threat to the environment and ecology of the whole region. According to Jayanta Bandopadhyay, the ILR could sound “the death knell” for mangroves in the delta region of West Bengal and Bangladesh. Salinity would also make inroads into the region, affecting thousands of hectares of arable land. Furthermore, thousands of fishermen would be jobless if the ILR is implemented (Khalid, 2004: 554). Wetland and groundwater recharge capacity would also decrease in the Brahmaputra Dependent Area (Khalid, 2004: 556).

Others argue that rainwater harvesting is a better solution than inter-basin water transfer (Shah, *et al.*, n.d.: 18). Many worry about the transfer of river pollution that accompanies inter-basin water transfers. Another view claims that “surplus” water is a vague concept as every drop performs some ecological service all the time (Shiva, 2003). According to one estimate, the ILR would displace about 5.5 million tribals and farmers (Vombatkere, 2003).

India’s ILR also includes plans for water transfer on rivers which are transboundary in nature. While Nepal and Bhutan are upper riparian nations;

Bangladesh is the lower riparian nation as far as India is concerned. Nepal has adopted a very cautious approach towards the interlinking proposal and has shown neither opposition nor support. Nepal's concerns revolve around the social and environmental costs of the ILR. Two of Bhutan's rivers Manas and Sankosh (tributaries of Brahmaputra) are included in the ILR, however, there have not been any protests from Bhutan as there does not appear to be any threats of inundation and population displacement to Bhutan (Bhaduri and Barbier, 2008: 376).

Bangladesh, being the lower riparian nation, is highly apprehensive of India's ILR. The ILR would interlink all but one of the 54 rivers Bangladesh shares with India. Bangladesh fears that the ILR would lead to adversarial ecological and environmental conditions. The ILR, it has been estimated, will upset the natural balance of water flow and those sedimentation processes that are vital to the survival and growth of floodplains and the Bengal delta. This may result in a rise in sea level in the Bay of Bengal which will result in submergence of land, displacing millions. This should also be considered by India as it risks the onslaught of climate refugees in case such submergence occurs. There are also fears in Bangladesh that construction of a dam at Jogighopa would provide India with an opportunity to control the entire amount of water flowing into Bangladesh, giving India an enormous strategic upper hand (Bhaduri and Barbier, 2008: 376). On the other hand, Bangladesh could benefit from the ILR plan, if the surplus water from Brahmaputra, which creates frequent floods, is diverted (Bhaduri and Barbier, 2008: 376). However, Dhaka would be at India's mercy if the ILR is completed without involving Dhaka as a partner in the project.

4. Riparian Attitudes of India and China

China and India are upper riparian nations to a number of other nations. Their water transfer and water linking projects have the potential of impacting the ecology of the entire river basins which are international in nature and could have an adversarial effect on the population dependent on these rivers. Moreover, the lower riparian countries are unable to prepare for the potential fallouts of such projects as the damage remains, to a large extent, impossible to estimate or gauge. Neither China, nor India has satisfactorily dealt with the queries of their respective lower riparian nations. Being militarily and economically more powerful than the lower riparian nations, their perceived unilateralism on river issues has fuelled the sense of foreboding amidst lower riparian nations.

Doctrines and principles of International Water Law offer some remedies to tackle contingencies which may impact riparian nations. The following doctrines of International Water Law, if adhered to, will help assuage the

lower riparian nations and will, to a great extent, mitigate chances of disputes over activities of upper riparian nations from turning into conflicts: *The Doctrine of Absolute Integrity* which stipulates that a state may not alter the natural flow of waters passing through its territory in any manner which will affect the water in another state, be it upstream or downstream; the *Doctrine of Limited Territorial Sovereignty* which conforms to the general legal obligation to use one's property in a manner which will not cause injury to others; the *Doctrine of the Communality of International Waters* which assumes a communality or riparian communalism of interest between or among basin states, and treats the total volume of basin water as a shared resource; the *Doctrine of Correlative Rights* where the emphasis is on the most efficient utilization of joint water resources, rather than on ownership rights (Kliota, 2001: 233-4).

Along with the abovementioned doctrines, the following principles of International Water Law will also help alleviate tensions between riparian nations: the *Doctrine of Equitable Use* which requires the interests of all riparian countries to be taken into account when allocating and using the waters of international water courses; the *obligation not to cause harm* which includes the duty of preventive and cooperative action; the *Joint development of international rivers* which is understandably difficult to achieve because of questions of sovereignty, ownership of waterworks, jurisdiction, financing, scope of cooperation, etc. (Kliota, 2001: 234-5).

China was one of the three countries which voted against the 1997, UN Convention on the Law of Non-Navigational Uses of International Water-Courses (although not yet in force) which provides a common framework for cooperation within international river-basins (Malhotra-Arora, 2011). India abstained from voting on this Convention and remains a non-signatory as well. Article 5, contained in Part II of the Convention on the Law of the Non-Navigational Uses of International Watercourses of 1997 requires that a State sharing an international watercourse with other States utilize the watercourse, in its territory, in a manner that is equitable and reasonable vis-à-vis the other States sharing it (Convention on the Law of the Non-Navigational Uses of International Watercourses, 1997).

Apart from the Convention on the Law of the Non-Navigational Uses of International Watercourses of 1997 there are other international frameworks which can be adhered to by India and China in order to manage transboundary concerns. For instance, the Convention on the Protection and Use of Transboundary and International Lakes, also known as the Water Convention, is an international environmental agreement which aims to improve national attempts and measures for protection and management of transboundary surface waters and groundwaters. The Convention obliges "Parties to prevent, control and reduce transboundary impact, use transboundary waters in a

reasonable and equitable way and ensure their sustainable management. Parties bordering the same transboundary waters shall cooperate by entering into specific agreements and establishing joint bodies. The Convention includes provisions on monitoring, research and development, consultations, warning and alarm systems, mutual assistance, and exchange of information, as well as access to information by the public” (UNEC Water Convention, 1997).

The Espoo Convention of 1991 stated that the Parties shall take all measures to “prevent, reduce and control significant adverse transboundary environmental impact from proposed activities” (Espoo Convention, 1991: 2). It also stressed that the party of origin shall ensure that an “environmental impact assessment is undertaken prior to a decision to authorize or undertake a proposed activity” that is likely to cause a “significant adverse transboundary impact” (Espoo Convention, 1991: 3).

Instead of adhering to these doctrines and principles, the lower riparian nations claim that both China and India seem to be following the outdated and redundant *Harmon Doctrine of Absolute Sovereignty* in its riparian dealings. The doctrine claims the absolute freedom of a riparian state, often the uppermost riparian, to utilize the waters flowing through its territory, regardless of the effect of its actions on other riparian states.

China and India have both been callous about the sentiments of their lower riparian neighbours. India has not had any consultation with Dhaka in relation to its ILR project even though it plans to inter-link several rivers which eventually flow into Bangladesh, which indicates India’s inclination towards the Harmon Doctrine of Absolute Sovereignty in its river water dealings. In China’s case, in April 2013, Beijing rejected a proposal by India to create a new mechanism – for example, a water commission, an intergovernmental dialogue, or a formal treaty – for dealing with water issues between the two countries (Wirsing, 2013: 23). Similarly, India’s attitude towards Bangladesh with regard to riparian issues remains lacking in commitment and political will to solve contentious transboundary issues. China has rejected all proposals to join as a full member of the Mekong River Commission (it only has observer status) for managing water-disputes, and has stuck to its strategy to develop hydropower from the Mekong and Salween unilaterally without consulting other nations (Svensson, 2012: 12). These attitudes of China and India lend traction to the view held by the lower riparian’s that the former continue to heed the Harmon Doctrine and that they do not treat rivers, even those that are transboundary, as a shared resource which needs cooperative development mechanisms involving all concerned stakeholders.

As a redeeming fact, nonetheless, both China and India have a history, however small, of some water-sharing/diving treaties with their neighbours. India takes part in sharing hydrological data and welcomes collaboration in hydroelectric projects. For instance, in April 2013, Nepal, India, and

Bangladesh forged an important agreement to jointly exploit hydropower and manage water resources for mutual advantage, especially in the Ganges River Basin (Wirsing, 2012: 24). The 1960 Indus Waters Treaty (IWT) between India and Pakistan has survived over a half century, and effectively weathered the Bhaglihar and the Kishanganga disputes. Although the IWT, is not without its set of critics in both India and Pakistan, especially with regard to its implementation, it is however, without doubt, a successful water division treaty and is based on terms which are greatly favourably to downstream Pakistan.

The manner in which Kazakhstan got China to agree to a river water treaty could serve as an example for the other lower riparian nations looking to sign similar treaties with China. China had been diverting water from the Irtys River since the 1990s and planned, by 2020, to double the volume of water diverted from the river. Diverting the river led to reduced flow and increased pollution in Kazakhstan. The Kazakh press published a series of unfavourable articles that induced China to negotiate and resulted in agreements being signed over sharing water quality information in 2006. In 2007, Russia and Kazakhstan brought water usage and rights of international rivers as a discussion topic to the Shanghai Cooperation Organisation Forum and in 2011, an Agreement on Water Quality in Transboundary Rivers was signed (Economy, 2012).

The following are the agreements specifically signed on transboundary rivers by China: *China-Mongolia Agreement on Protection and Utilization of Transboundary Waters* (1994), *China-Kazakhstan Agreement Concerning Cooperation in the Use and Protection of Transboundary Rivers* (2001), *China-Kazakhstan Agreement on Water Quality Protection of Transboundary Waters* (2011), *China-Russia Agreement Concerning the Reasonable Use and Protection of Transboundary Waters* (2008), *China-Russia Agreement on Khanka/Xingkai Lake International Natural Reserve* (1996).

5. India-China Riparian Issues: Larger Questions, Broader Narratives

India-China water relations brings into question the idea of nation-state as it is known as many other narratives are brought into the frame when dealing with inter-state water issues. In the case of India and China and the Brahmaputra river it is pertinent to examine the narratives of Tibet in China and the Northeast region in India while considering the subject of water issues over the Brahmaputra instead of simply examining it as an India-China bilateral issue without giving attention to the finer aspects related to this issue like the regions concerned within India and China, and other aspects and details in question which are not satisfied by simply using the nation-state as the matrix to base such a study. Riparian relations between India and China do

bring into focus the need for the regions within these countries to take up the issue of solving the water related issues. Tibet, being the headwaters and the Northeast in India being the region into which the river flows into makes these two areas the key stakeholders in the riparian issue over the Tsangpo-Brahmaputra. Beijing and New Delhi would do well to include voices from Tibet and Northeast in the process of deliberating on riparian issues especially in the context of the Brahmaputra. Both Tibet and Northeast of India have a society-culture-religion-economy based largely on the Tsangpo-Brahmaputra. For both these regions saving and protecting the river is of utmost priority which provides a motivation for them to cooperate to promote the most ecologically sound practices of this river. The fact to be noted, however, is that, even if willing, neither can Tibet assert enough pressure on Beijing, nor can the Northeast of India assert enough pressure on New Delhi to prevent business as usual diplomacy from overtaking a nature-based approach to the negotiations on the Brahmaputra.

While analysing the riparian frictions emerging between India and China a glimpse is provided into the kind of resource choices these countries are making. There is undoubtedly a race to create hydroelectricity producing structures on the Tsangpo-Brahmaputra by India and China which is adding to the alarmism in the literature surrounding these activities. Question arises as to why these countries are making these resource choices and whether the decision to opt for hydroelectricity over the complications it creates between neighbours is fruitful over the other option of relying on coal-related sources of energy. It is clear that by commissioning the most number of dams in the world, China has opted for clean energy resources regardless of the complications it causes with its lower riparians. For China, if examined from this perspective, it is essentially a bargain between maintaining good relations with its neighbours by forgoing damming activities for hydroelectricity projects on transboundary rivers or pursuing such projects which will not only assuage great powers but will promote a healthy culture for future energy related projects which will become more and more commonplace for sustaining the rapidly rising Chinese economy.

There are several theoretical underpinnings which can be considered to explain China's and to an extent India's indulgence in constructing such massive water transfer projects. In his work "Oriental Despotism", Karl Wittfogel establishes the idea of the hydraulic society, claiming that all political power in Asia is derived from control of water resources (Wittfogel, 1957). Wittfogel establishes large infrastructure projects as a keystone of China's "hydraulic society". Chalmers Johnson suggested that a "developmental state" is characterized by having strong state intervention, as well as extensive regulation and planning (Johnson, 1982). Kenneth Pomeranz categorizes China's commitment to construct large-scale water infrastructure

projects as evidence of a “developmentalist project” (Pomeranz and Burke, 2009). In *Mao’s War against Nature*, Judith Shapiro argues that the core of Mao’s views towards nature is best summed up as *ren ding sheng tian* (man must conquer nature) (Shapiro, 2001).

However, there are other changes which China is initiating with regard to its diplomacy in relation to its lower riparians, possibly in an attempt to assuage them about its benign intentions with regard to its river-water projects. Recently, there have been several subtle shifts in relation to China’s attitude towards addressing the apprehensions of the lower riparians. For instance, government officers from Laos, Thailand, Vietnam have corresponded with officials from China and have begun to exchange hydrological data on transboundary rivers including the Mekong. Another case in point, “...China for the first time conceded that rivers are assets of all countries (meaning upper riparian, middle riparian and lower riparian countries)” (Joshi, 2013). It is also a marker of the fact that China intends to portray to its neighbours that it understands that there is no zero-sum equation as far as environmental activities are concerned, there can only be the question of efficiency while dealing with environment related issues. Additionally, such steps by China also indicate that it is intending to move away from the conflict-cooperation dichotomy and perhaps in inkling towards looking at rivers as a resource which has to be looked upon as a shared asset.

Another important aspect which is highlighted while examining water relations between India and China is that of the impact of riparian issues on the notion of absolute sovereignty. Questions of autonomy, control and legitimacy arise while dealing with riparian issues between nations. These matters are complicated even more when two relatively equal powers are involved. Question also arises about the kind of sovereignty bargain which India can make to ensure that China takes its interests and concerns into consideration. Here, it is important for India to take note of the other demands which are emanating from the Chinese side for instance that of Arunachal Pradesh. It is important for India to ensure that any bargain struck with China over water issues come only after thorough hydrological budgeting of the amount of dependency India has on the flow of the Brahmaputra which is sourced from China is conducted. On the basis of hydrological budgeting it has been established that “the Yarlung Tsangpo is a minor contributor to the total flow of the Brahmaputra. Further, snow and glaciers supply about 34% of its total flow” (Bandyopadhyaya, 2013). Additionally, it has been scientifically established that “...an important distinction between the Himalaya’s two largest rivers is that Tsangpo discharge is primarily derived from rainfall (~80%), whereas Indus discharge has a significant snowmelt component (~66%)” (Bookhagen and Burnak, 2013). These facts throw light on the fact that the Brahmaputra is not dependent on the water that flows from China to

a great extent and instead tributaries form its major source apart from rainfall, making it less dependent on China's activities on its upper reaches.

Here, the notion of first-user rights makes negligible sense since most of the flow begins in India, thereby offsetting any advantage India may achieve in rushing to establish dams before China on the Brahmaputra, apart from the fact that China, nor India recognize any international convention or treaty which provides the first-user rights argument any legal backing for it to stand regardless of which country claims such a right.

In order to avoid tensions from turning into conflicts, China and India need to be mindful of the reservations of the lower riparian nations. They need to increase transparency and environmental and social impact assessments of projects on transboundary rivers and participate in multilateral venues (Turner, *et al.*, 2013: 17). China and India must also address what appears to be a systemic bias in favour of mega-projects (Pomeranz, 2013: 9). Internally, instead of opting for water diversion plans, China and India need to expand energy efficiency initiatives; increase wind and solar energy development; foster better understanding of the water-energy-food nexus and create national consciousness of water and energy conservation (Turner, *et al.*, 2013: 17).

6. Conclusions

Freshwater is coming under increasing stress in this energy hungry region, rendering all concerned riparian countries as potential candidates who could attempt to harness these transboundary rivers for their own use, perhaps with an aim to establish first-user rights. Moreover, unlike oil and other strategic resources, freshwater does not have any viable substitute. In order to ensure that cooperation trumps conflict in the case of transboundary rivers of Asia, it is pertinent to ensure that transparency and joint development of such rivers are undertaken; and that the Harmon Doctrine is permanently shelved in favour of the Doctrine of Absolute Integrity.

India and China share several rivers and have been unable to, thus far, solve the transboundary river concerns that have cropped up between them. India is wary about China's diversion projects and has been unable to urge China to commit to water-sharing/dividing treaties. Indian and Chinese official pronouncements indicate their intention of diverting, damming, transferring, and linking transboundary rivers, which bode ill for the health of riparian relations of not only India and China but for their relations with other riparian countries as well. Both the SNWTP and the ILR are projects which have a long and elaborate history. They were products which were conceived of in the 20th century and are the symbols of engineering feats which have defined India and especially China. They are the culmination of several such engineering marvels where nature has been manipulated to serve humans

and they thus are seen as the natural choices for India and China in the 21st century, both of which have a history replete with grandiose projects which have kept alive the faith on the usefulness and productivity of large scale construction projects.

Emphasis on large scale water transfers with possible transboundary impacts by both India and China and between India and China adds a volatile component to the riparian relations thereby lending credence to Gleick's thesis of conflict which specifies that water resource are a source of conflict between nations. India and China, are, to some extent, militarily and economically compatible which could propel either nation to resort to military means to settle transboundary riparian issues. Gleick's contention that water resources arise as sources of conflict when riparian nations plan developmental projects on such rivers seem to offer the most-plausible platform for evaluating the possible conflicts which may arise between India and China over rivers originating in Tibet and flowing across both countries. Additionally, Gleick's identification that control of Water Resources, especially with regard to urgency to establish and ensure "access to water" being a root cause for riparian tensions which has the potential of leading to outright conflict is also helpful for evaluating the possible violence which may arise from India and China's rush to dam, link and divert water to ensure continued and augmented access to the resource. Gleick also identified the possibility of transboundary rivers emerging as military tools where water resources or water systems are used by a nation, as a weapon during military action. This also helps in understanding the basis which underlies India's apprehensions that China could manipulate its control on the headwaters of transboundary rivers in order to gain an advantage in other issue-areas.

However, it needs to be mentioned that a war over water between India and China does not seem imminent. Aaron Wolf's thesis which states that countries are more likely to cooperate over water than pursue military ways out of water disputes seems to be a more apt framework in order to conceive the attitudes of China and India over riparian issues. India and China may not have stated principles and doctrines about water sharing; however, they do seem to have some common traits with regard to transboundary rivers which understate the nature of riparian relations between them. For instance, neither has signed the UN Convention on the Law of Non-Navigational Uses of International Water-Courses, nor are they willing to submit to invasive regional water mechanisms with their riparian neighbours, plus, both nations have some history, however scanty, of water agreements with some of their lower riparian nations; these similarities show that both nations have comparable ways of dealing with riparian issues which provides a basis for them to tackle their riparian issues in the future. Additionally, going to war over water will be costly for China and India on other issue-areas. Neither can

afford to launch a full-fledged war over transboundary rivers as first of all, it is impossible to gauge the possible adversarial ecological and environmental fallouts of such a war; and moreover, it is unknown whether warring over water and preventing its flow in the process will be able to fulfill the water ambitions of either nation or will instead unleash environmental, social and ecological havoc of untold proportions.

India and China's water relations are shaped by various factors which are specific to these two countries. Riparian relations between the two countries do not hinge on cooperation or conflict; instead they are yet to take a definitive and concrete form. Tendencies emanating from their riparian attitudes portray that both nations do not want a military solution to any transboundary riparian complexities, however neither are willing to totally submit to the wishes of their respective lower riparian nations, which suggests that riparian relations can be understood in a continuum rather than as purely conflictive or cooperative.

It is undoubted that freshwater is coming under increasing strain in the contemporary world in general and in Asia in particular; and with the population graph continuing to rise and the agricultural and industrial water needs refusing to relent, the strain on freshwater resources is only going to climb, rendering it urgent for China and India to defuse riparian tensions and ensure that water resources are managed in the most efficient and ecologically sound manner possible.

Note

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Massage (*àn mó*) and Related Services as Popular Culture: New Consumption and Fluid Sex Hierarchy in China

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Abstract

With the rise of affordability Chinese people are now focusing on new forms of consumer products and services, such as massage. Today, massage and related services have become one of the most popular forms of consumption in China, and are available in the five star hotels of mega cities as well as in small township shops, catering to the needs of various social classes. This paper examines how massage and related services have increasingly become popular in townships, with adults of both the sexes as ready consumers. Under this development, mainstream sex stereotypes have been reproduced, where young females provide services to male clients, reinforcing traditional sex roles. At the same time, female clients have also engaged in this new consumption through receiving services from young male providers, breaking the mainstream sex hierarchy. However, the patterns of service that are consumed by members of the two sex categories are not the same: male clients have overwhelmingly consumed body massage, shoulder massage, etc., while female clients have consumed hair care, face massage, and foot massage. This paper concludes that massage and related services have become popular culture in China through catering new consumer products and through reinforcing and/or breaking the mainstream sex stereotypes and hierarchy.

Keywords: *massage, sex, popular culture, consumption, client*

1. Introduction

Like other ancient medical practices in Asia, therapeutic massage has been used as a form of treatment – in traditional Chinese medicine – since ancient times. Many other medical systems worldwide have promoted the practice of massage, such as those of the Egyptians, Greeks, Indians, Japanese and

Romans, for therapeutic reasons (Cavaye, 2012: 43). Late 19th and early 20th century massage literatures reveal that massage was practised by doctors and nurses as an “orthodox medical therapy” (Goldstone, 2000: 69). However, massage achieved its modern therapeutic form from the hand of Pehr Henrik Ling, a late 18th to mid-19th century Swedish physical therapist who used massage in association with exercises and specific movements such as medical-gymnastics (Holey and Cook 2003). As a continuation of this development, massage had become an acceptable medical therapy by the early 20th century “when the focus of care moved to biological sciences” (Cavaye, 2012: 43; Saks, 2005). The Chinese medical classic *Huang Di Nei Jing* (the Medical Classic of the Yellow Emperor) discusses the development and importance of massage as a therapeutic method (*Huang Di Nei Jing*, 2009: 271-72). According to the *Huang Di Nei Jing*, massage originated in central China, in relation to the patterns of disease. The text denotes that the landscape in central China is “flat and damp, and living things are produced in abundance” by heaven and earth, and people eat a “wide variety of foods” and are not “overworked” (*Huang Di Nei Jing*, 2009: 272). All these characteristics are related to their disease patterns, such as common atrophy, chills and fever, and massage is considered suitable to treat these diseases (*ibid.*). Today, massage is no longer the mainstream healing method to treat chills or fever for the Chinese people. With the rise of globalization and rapid economic development, massage has been transformed into a new form of consumer product.

This study examines to what extent massage and related services have become popular consumer products in contemporary China. What are the driving forces behind this development? Can such development be called popular culture? To what extent are sex stereotypes involved in this development? And finally, under what circumstances does the development of massage and related services make the existing sex hierarchy more fluid?

The development of massage in various parts of the world could be seen as an outcome of gender bias, as “sexuality or sexual stigma” associated with prostitution and sex work (LaPointe, 2000: 1), health rejuvenation, a rise in sub-health conditions, and a rise in the number and interest in relaxation therapies, etc., with male clients consuming the services of female service providers. However, I understand the development of massage and related services in contemporary China to be caused by the rise of “self-centred consumer capitalism”, apart from the above causative factors. One of the major theoretical frameworks used in this study is that of “consumptive capitalism”, which was introduced by Paul Heelas. In his latest volume Paul Heelas claims that new age spiritual movements are simply a product of self-centred consumer capitalism (Heelas, 2008). The development of massage in China is a part of self-centred consumer capitalism and has been promoted

by the private sector and supported by the government. The emerging middle class in China have taken on an array of technical, management and professional occupations that demand not only their skills but also long hours of commitment on the job. The result has been that many suffer from burn-out syndrome at both mental and physical levels (Islam, 2012). Massage and related services are consumed by the middle classes for physical and mental relaxation, rejuvenation, stress reduction and relief from physical pain. The touching of the body of members of the opposite sex may also be seen as an important motivation behind this development, as clients and service providers are usually of the opposite sex.

2. Research background

This research is based on fieldwork. The fieldwork was conducted in Tangjiawan Township of Zhuhai City, Guangdong Province, the People's Republic of China. Tangjiawan Township is located at the north of Xiangzhou District in Zhuhai City, and has a total population of 100,000, among which 29,000 people are permanent residents. With an area of 130 square kilometres, Tangjiawan faces Zhongshan City to the north and is composed of three parts: Tangjia, Jingding and Qi'ao. The survey and participant observation were conducted mainly in the Tangjiawan market area and included places such as Tangjiawan Ying-Wu Hair Salon, XinLi Lu Hair Salon, JuLong FaYi, ShangYi Hair Salon, YanZi Foot Massage, Jie Mei Bao Jian Zhongxin, Dragon Union Foot Massage Center, and Dragon Union Hair Salon. Dragon Union Foot Massage Center and Dragon Union Hair Salon are located within the same complex with common ownership but different operations.

There are 18 massage and related service centres in Tangjiawan market (an area of approximately one square kilometre): 4 massage centres, 9 salons, 4 beauty parlours and 1 spa. The massage service centres provide a range of services such as body massage (*quán shēn àn mó*); various forms of Chinese and herbal medicine foot treatment (*zú bù àn mó*), including Chinese medicine foot treatment, Tibetan medicine foot treatment, foot treatment for kidney health, hot spring foot massage, foot massage for beriberi, cupping, etc. Salons also offer a broad spectrum of services including hair wash with head and shoulders massage, Thai hair wash + ginger juice + face wash, Thai hair wash + water therapy + face wash, Thai hair wash + ice therapy, face therapy (to take away blackheads, and to moisturize and apply whitening mask), fire treatment, haircuts, and non-professional head and shoulder massage and massage for whole body. Beauty parlours provide services such as face therapy, massage for back, arm, hand, and shoulder, and face massage.

Data were collected in July 2010 and January-February 2011. Primary data collection techniques employed in this study were survey with structured

questionnaire and participant observation. There were two types of sample: clients who had consumed massage and related services, and service providers. The total number of the sample was 100 – 50 clients and 50 service providers. The sample was chosen through a simple random sampling method. Majority of the samples were found from Ying-Wu Hair Salon, XinLi Lu Hair Salon, JuLong FaYi, ShangYi Hair Salon, YanZi Foot Massage, Jie Mei Bao Jian Zhongxin, and Dragon Union Hair Salon. Remaining samples were found from other institutions providing similar services in Tangjiawan market. This paper also includes some data based on the personal experience of the researcher during participant observation.

Of those clients and service providers surveyed in Tangjiawan market, all the service providers were migrant workers with relatively low education whereas the majority of the clients came from Guangdong Province and had higher educational backgrounds than the service providers. The majority of the service providers came from the neighbouring provinces, such as Hunan, Jiangxi, and Guangxi Zhuang Autonomous Region, and this exemplifies the relatively higher economic development of Guangdong Province. Table 1 will help the reader to get a comprehensive picture of the socioeconomic background of the clients and service providers I surveyed.

3. Massage as Popular Culture in China

Popular culture generally refers to mass culture or mainstream culture made popular by the media for mass consumption. Popular culture is not static and constantly changes over time and circumstances. Contemporary popular culture has no boundary and is always hanging, and this makes popular culture a random collection or clutter. Raymond Betts has perceived contemporary popular culture as about “seeing things”, “about buying and having”, and/or “about being distracted and entertained” (Betts, 2013: viii). Robert Hewison defines popular culture as “collage culture”, with some forms of popular culture invisible or random (Hewison, 1986).

Over the decades, numerous and diverse forms of popular culture have been developed in Asia. The Chinese media author Anthony Fung has categorized Asian popular culture in his recent volume into four categories: most forms are mainly connected to the global production process; a few “culturally indigenous forms” distinguish themselves and “stand out in the global market”; many hybrid forms “lie within the continuum of global-local production and circulation networks”; and finally there are some “elaborate cultural forms and products that can be converted to something global for certain situations” (Fung, 2013: 1-2).

Popular culture has been described in mainstream literature as “mass-produced images changing their forms in seconds, popping up as advertise-

Table 1 Population Characteristics of Clients and Service Providers (percentage)

<i>Background Indicator</i>		<i>Clients (n = 50)</i>	<i>Service Providers (n = 50)</i>
Education	College/University	50	6
	Middle school ¹ or lower	24	70
	Other forms or levels of formal education	26	24
Residence or home town	Zhuhai City	18	Nil
	Other cities, impoverished towns or countryside of Guangdong Province	50	34
	Neighbouring provinces	32	66
Monthly income	RMB 3000 or below	46	66
	RMB 5000 or above	10	6
	Income levels between RMB3000 and RMB5000	Unknown	28
Age	30 or below 30 years	44	78
	Above 30 years of age	56	22
Sex	Male	56	22
	Female	44	78
Marital status	Married	66	38
	Single	32	62
	Unknown	2	Nil

ments” on television, computer monitor, i-pad and i-phone screen, and others. Mega-malls to cyberspace, automobiles to movies, tourist destination to airports, Walt Disney to theme park, all venues and arenas are included in this fray (Betts, 2013: viii). China is not an exception, as it is the country in which the world’s largest number of online users, as well as many automobiles users and airport users, live – partly because she has the world’s largest population.

Some scholars see popular culture as revolutionary, and the revolution “takes place primarily in the global commodity market as a deviant by-product of the mass consumer culture” (Bowman, 2013: 45; Kato, 2007: 2). The rise of massage as popular culture, particularly in China, is a relatively new phenomenon that symbolizes a new form of revolutionary consumerism under which many people consume massage and related services.

4. Contamination and Consumer Capitalism

Popular culture is often criticized by various non-mainstream groups that deem popular culture to be superficial, consumerist and corrupted. The shift of massage from a medicated therapeutic method to a product for relaxation and rejuvenation in contemporary China represents a new form of consumerism. Over the last two decades, there has been a “massive expansion of consumption in China”, clearly represented by the development of niche markets not only for luxury goods but also for food, recreation, health products, personal products, healthcare, pharmaceuticals, etc. (Ciochetto, 2011: 92). Consumption has been defined in mainstream literature as “the process by which consumer goods and services are created, bought, and used” (McCracken, 1990: xi); and as an “historic artifact” which has resulted from many years of “profound social, economic, and cultural change” (*ibid.*: 3). In the modern world, “culture and consumption have an unprecedented relationship” (*ibid.*: xi). China is not an exception: “consumption has to be seen as a fundamental component of contemporary Chinese cultural practices” (Latham, 2006: 231). Several decades of economic reform since the 1980s in China have successfully transformed the nature of contemporary “Chinese capitalism” and have created a new consumer market directly linked to “globalization and transnational cultural interaction” (*ibid.*: 231-33). This makes Chinese consumerism associated with “urban popular culture” (Evans, 2006: 183-84). Indeed, a large portion of contemporary Chinese consumers are the inhabitants of urban areas, while the rural population still lags behind in participating or sharing the cake brought by globalization and economic reform. However, the nature of consumption in China is also “constantly changing itself” and “constantly participating in other areas of cultural change” (Latham, 2006: 232).

Historically, however, massage techniques have been used as one of the foundations of Chinese medical theory and practice. Various techniques, such as moving the body’s protective *qi* by pressing, kneading, pinching, rubbing, tapping, and brushing areas between the joints, and using the thumbs, fingertips, and knuckles, etc. are used in massage therapies. After the communist revolution and formation of the Peoples Republic of China (PRC) in 1949, massage became a popular practice, “whereas ‘tuina’ refers to the medicalized therapeutic massage” that has eventually become a part of the curriculum in the schools of Traditional Chinese Medicine. Although *Tuina* was generally taught through the apprenticeship education system and some practitioners still learn through direct transmission from a family lineage or apprentice master, various educational institutions accredited by the relevant authority in China offer more institutionalized and professional *Tuina* courses for their students (Zhan, 2013: 327) .

Today, Tuina and other forms of massage therapies such as foot massage, head massage, shoulder massage, leg massage, foot trimming, hand trimming, Thai massage, Tibetan massage, etc., can be found from mega-mall to small streets in China. All, or most all, of the three to five star hotels in various cities in China offer a large selection of massage choices, from full body massage of various kinds to different kinds of foot massage, and everything in between (Herzberg and Herzberg, 2011: 61). Advertisements for every kind of imaginable massage therapy can be found in the hotel lobby or just next to the front desk. In recent years, massage services are provided by blind people, and there are more than 40,000 professionally qualified blind masseurs providing services in hospitals, clinics and hotels across China (Yu, 2003). The China Disabled Persons' Federation launched a nation-wide project in 1997, which aims to nurture a healthy market for massage by blind people by setting up a system involving training, exams for professional qualifications and registration of clinics (*ibid.*).

Various forms of massage have been developed and used in China as therapeutic methods to heal diseases. They are provided by trained and/or skilled professionals. Medication and health needs were the key reasons for offering and receiving massage therapies in the past. However, massage has been transformed into a product for relaxation and rejuvenation, and beauty products in contemporary China are offered by unskilled providers and serve the purpose of profit within unregulated consumer capitalism. Such change is linked with the change of other socio-economic and cultural factors, such as the growing possibility for accumulation of disposable income among urban citizens, the marginalization of rural areas from which most of the massage service providers come, the inspiration for an increased fluid sex boundary according to Western norms and values, etc. Massage services are offered in small townships of contemporary China such as Tangjiawan by providers without significant training backgrounds. Statistics from my survey reveal that many massage providers are unskilled migrant workers who choose this profession to make a living, as it is easy to get a job in the massage industry. Of those service providers surveyed, 44 per cent chose the job to make a living and because it is easy to gain skill in massage. Others chose this profession for various other reasons, including personal fascination, the chance to meet different types of people, higher income, etc. A majority of them had gained their skill either through observing workmates or through short-term (not longer than a week) training organized by the employers. Only 42 per cent of those surveyed had gone to a training school to gain professional skills, though none of them were graduates from a Chinese Medicine university or college.

There is clear paradox between perception and reality among clients and service providers about the need for professional training for massage

services. Both clients and service providers acknowledge the importance of training and skill for providing massage. However, the vast majority of clients do not have any idea about the professional qualifications of their service providers. Many of them simply do not care, as long as their service providers can satisfy their needs.

5. Case: Dragon Union Foot Massage Center

Dragon Union Foot Massage Center is one of the biggest and most popular massage centres in Tangjiawan market. There were 37 massage service providers – in total, 35 females and 2 males – on duty during our visit in July 2010. The centre provides services that include foot massage and body massage, KTV, brothel, etc. Working hours start at 11:30 a.m. and continue until 3:00 a.m. in the late night, although the busiest period starts after about 8:00 p.m. The foot massage centre provides membership cards that can be purchased for RMB60, with a validity period of six months and which can be renewed. A member can enjoy a discount of about 30 per cent for ordinary foot massage. Dragon Union foot massage centre also offers various packages – Package A costs RMB108 and includes whole body (including planters) massage (60 minutes) plus back care with milk bath salts (60 minutes) that enhance body resistance, relieve muscle stress and promote rejuvenation. Package B costs RMB98 and includes whole body care with milk bath salts (90 minutes), which effectively improve skin problems caused by the polluted environment.² Relaxed skin, prevention of bacteria, enhancement of permeability of capillaries, and healthy, naturally white and perfect skin are advertised in the materials and flyers distributed by the foot massage centre. The centre also provides foot washing and massage with Tibetan medicine, planters moving cupping, skin scraping with oil essence for leg nerves, etc.³

Miss Huang⁴ from the Dragon Union Hair Salon offered me a hair wash during participant observation. She was in her early twenties and had been

Figures 1 and 2 Advertisement Pictures of Dragon Union Foot Massage Center

聚龍足浴保健中心
Dragon Union Foot Massage Center

经典养生套餐服务项目

经络五行养生 80分钟/项

功效: 通经活络、加速气血循环、祛风祛寒、舒缓肩颈椎疼痛、固本培元之功效、舒缓头部神经压力、改善头晕、头痛、手脚麻木症状、提高睡眠质量、使皮肤更有光泽、润滑。

藏药足底理疗 80分钟/项

地址: 珠海唐家商業廣場聚龍俱樂部
電話: 0756-3317111

Source: These photos of a flyer distributed by the Dragon Union Foot Massage Center were taken by the author.

working in this profession for three months. She left her two year old daughter under the supervision of her mother in the countryside near Zhanjiang City, an impoverished area of Guangdong Province. Her husband had disappeared for a year and there was no other wage earner in the family. She had completed middle-school education before entering the job market. She found it easier to gain skill in hair washing and head massage and so got this job. She learned the skill from her co-workers, who had been working longer than she had. She hoped she could quit this job as soon as she could find another job, although her income washing hair would be higher than other jobs she might find. However, her employer gave her a basic salary which was very low – the rest of her income depended on the number of clients she could entertain.

There is a common tendency among workers to entertain as many clients as possible to boost their income and that presents them with a potential health risk, because of the long working hours. The average turnover in this profession is very high. Of those service providers surveyed, the majority had been working in this profession for a relatively short period – less than three years – and only a little more than a quarter of them had been working for more than five years. However, more than half of the service providers preferred to continue in this profession, as decisions to do so depend on various other factors such as availability of expected job, working satisfaction, job location and income. Most of the service providers encountered common challenges, such as that of entertaining a larger number of clients (an average of ten clients each day), that many clients were too demanding and that it was difficult to satisfy the diverse needs of the clients, that of a harsh working environment, etc. Service providers also encountered occupational health risks, including tiredness, pain in their fingers, unexpected body contact with the clients, etc. As no health insurance or protective mechanism is available for the service providers, they have to silently tolerate all these circumstances. Most of these shops do not buy health insurance for the workers, and so occupational health risk is a potential challenge. The suggestions the workers made to improve the situation were: arrangement of professional training by the employers; use of better consumable products such as massage oil, cream, wash shampoo, etc.; improvement of the monitoring system by the government and other regulatory agencies; the ensuring of licensing; and the development of a better quality control mechanism. Many shops offered unauthorized massage services and their businesses were not regulated by the governing agencies. We did not find any shop during our participant observation which could provide us with an invoice (tax slip) for the payment we made for their services, simply because they were not authorized to issue any invoice.

The rise of consumer capitalism under the development of massage and related services in China is another key break to understand this new consumption. Those clients surveyed in this study had consumed one or more

Figures 3 and 4 Billboards Advertising Massage and Related Services



Sources: Photos were taken by the author from billboards hang on in various location of Tangjiawan market area.

of three categories of services. The largest group had consumed various forms of massages such as body massage, foot massage, shoulder massage, etc., the second largest group had consumed hair related services and these included hair wash, hair design and hair care, and the third largest group had consumed face related services such as face wash and facial beauty. Most of the clients who receive hair related services do so in association with finger, hand and body massage. For example, at the Dragon Union Hair Salon we were also offered hand, finger, and shoulder massage after hair wash with shampoo. This is commonly included in the hair wash package, although it is all called *xǐ tóu fǎ* in Chinese (hair wash with shampoo).⁵

Most of the clients at the Dragon Union Hair Salon were regular consumers of these services, and half of them consumed these services at least once a month. The major reasons appeared to be: for relaxation and rejuvenation, stress reduction, health benefit, beauty and body building; and for the quality of service, convenient location, affordable price, etc. The majority of the clients were satisfied with the quality of services relative to price, and many of them spend less than RMB50 for each session.

6. Reproduces Sex Stereotype and/or Fluid Sex Hierarchy!

It was an early summer evening. I was walking on a small road inside Tangjiawan market with two of my final year students. They were working as my interpreter and research assistant, respectively. The narrow road was without road light but full of red light signs. We suddenly stopped after seeing a big foot massage poster. A middle-aged lady in a black suit and enlarged breast costume came forward and said “hello” to me, with a smile. When my students introduced me to her and explained our goal to stop at her shop, she insisted we go inside. Perhaps, however, she had not understood our objectives: she informed us that many foreign teachers from surrounding areas

visited her shop. After getting inside we noticed that it was not as small as we had thought. There was a big room with a number of foot massage chairs, surrounded by several small rooms with beds for body massage. She described the quality of service and how foreigners were satisfied. We found a man and woman sitting side by side consuming a foot massage provided by two young women. We realized that our only option for staying inside longer was to have a foot massage, which might help to build a rapport with the owner. Mid-aged men were entering frequently and heading to those small, dimly-lit rooms, where well-dressed young women were readily available to entertain them. We couldn't see what exactly was happening inside the room but we got to know from our foot massage providers that most of the clients were regular customers. The owner was kind enough to allow my students to talk with some of the customers and service providers. She hoped that more foreign customers from the surrounding universities would visit her shop in future.

Although sex work and prostitution are officially illegal in China, it is an underground industry conducted under the guise of massage and related services. It has become increasingly clear that the "social construction of sex and gender are centrally important themes" in the development of massage and related services (LaPointe, 2000). China is not an exception to this social construction of sexuality functioning under the development of the massage industry. Of the services providers and clients surveyed in our study, the majority of the clients were above 30 years of age, while the service providers are below 30 years old. The majority of the clients are male but their service providers are female. For example, statistics from the Dragon Union Foot Massage Center reveal that nearly 95 per cent of their service providers are female. Apart from this, a majority of the clients are married, while the majority of the service providers are unmarried. It is thus undeniable that masculinity and femininity are central features in massage and related service industries, and that age, sex and marital status are important factors for the service providers. It is also evident that sex and gender variables, as well as outright discrimination, are involved, as young female service providers touch the bodies of older men, who consume the body work and touch of younger females.

However, a large group of the clients are female, although fewer than the males, and that most of their massage and related services are provided by young males. These statistics clearly illustrate that "importance of sexuality and interest in bodily appearance" (Gottschang, 2001: 89) is increasingly a concern for urban Chinese women, particularly for those who have face massage, hair wash with shampoo through head massage, and forms of beauty treatment that require massage-related body contact. Contemporary Chinese women's magazines play an important role in publishing articles on topics related to "(the cultivation of) beautiful pale skin, exercise to keep the body slim and supple, and massage to keep breasts in shape" (*ibid.*: 90).

During participant observation at Dragon Union Hair Salon, I sat on a sofa located next to the main entrance. A group of young female and male service providers were standing in order outside, in front of the main gate. Whenever, a female client entered, a male service provider came forward and approached her, or she approached him. They moved very quickly and came inside the room where service beds were available. While having a hair wash at the Dragon Union Hair Salon I asked my service providers why male service providers did not approach male clients. She smiled and did not answer my question. Today, a large group of urban professional Chinese women consume massage and related services as often as men do, with more or less similar objectives, and this helps to make the existing sex hierarchy fluidity hypothesis in China.

In July 19-25, 2010, I made observations for about 14 hours, at different times of the day, and saw 71 clients visit the Dragon Union Hair Salon, more than half of whom were male. The frequency of visits varied from time to time, with most of the clients visiting the hair salon in the early evening, particularly from 7:00–9:00 p.m. The majority of the male clients had a wash (hair wash with shampoo/*xǐ tóu fà*, which comes with a finger, hand, shoulder and back massage) and all of their service providers were female. Some of the male clients also consumed face washes, haircuts and body massage. At the same time, the majority of the female clients had hair washes with shampoo, and most of their service providers were male. The other services female clients consumed included haircuts, hair colourings, hair treatment, hair straightening and hair marcel, hair dressing and scalp massage, and facial treatments with massage. This trend of sex segregation, on the one hand, represents the mainstream perception and stereotype of sex involvement in the development of massage and related services, where male clients consume the touch of the female body and vice-versa. However, this also makes sex hierarchy fluid, simple because a large number of female clients are involved in this process of “body touch” consumption given the fact that nearly half of our randomly chosen surveyed clients were female.

7. Government Policy and Suggestions for Systematic Development

In China, therapeutic massage is regulated by the State Administration of Traditional Chinese Medicine under the Ministry of Health. At this moment there are several pioneer educational institutes such as Beijing University of Chinese Medicine and Guangzhou University of Chinese Medicine that offer education and training programs on Massage therapy and *Tuina*. However, the regulatory authority is aware that some institutions are conducting business through offering “Chinese massage”, “Chinese medicine massage”, “Chinese medicine health care”, “Chinese medicine foot massage”, “*Gua sha*

(scrapping)”, and “*Tuina*” in the name of therapeutic effect without following appropriate protocol which mislead consumers and damage the reputation of Chinese medicine. In order to strengthen the management of Chinese medicine massage, *gua sha* (scrapping), *Tuina*, etc. and safeguard the people’s health on the basis of the professional medical act, the authorities had noticed three major issues on September 2005: firstly, Chinese medicine massage, massage, *gua sha*, cupping method, belong to the medical activity that must be carried out in medical institutions; secondly, medical institutions have to carry out Chinese medicine massage, massage, *gua sha*, and other activities by their own health technicians and outside technicians should not be borrowed to carry out such activities; and thirdly, except for medical institutions, other institutions should not carry out Chinese massage, massage, *gua sha* and other activities through using medical terminology and titles such as “Chinese medicine”, “health”, “treatment”, “disease”, etc. (Liu, 2005).

As the findings from this research shows, massage services offered by the foot massage centres, hair salons, body massage shops are unregulated and an underground industry where the service centres and providers do not have any medical certification. This trend, however, could pose a serious challenge to people’s health. Perhaps, China could learn from some affluent countries experience of offering therapeutic massage services and run massage industries such as the US or Canada. In the US, massage services are regulated by the individual state law and those regulations are governed by the American Massage Therapy Association (AMTA). AMTA has clear regulation on credentials for the massage therapy profession which include four steps: licensing, national certification, education and training with an accredited school, and membership in a professional association. Most states in the US regulate the massage therapy profession in the form of a license, registration or certification. Some cities, counties or other local governments also may regulate massage. National certifications in massage therapy in the US are administered by the National Certification Board for Therapeutic Massage and Bodywork (NCBTMB). AMTA recommends a minimum of 500 hours of supervised, in-class initial massage therapy training, which must include the study of anatomy and physiology, the theory and practice of massage therapy, and elective subjects as education and training credentials for practice massage therapy in the US (AMTA, 2015). The duration of education and training, however, may vary from state to state. For example, New York requires minimum 1000 hours of training in an accredited school whereas Alabama requires 650 hours from board approved massage therapy school.⁶ Membership in a credible professional association is another important credential in the massage therapy industry in the US which indicates professional preparation and accountability.

In Canada, massage therapy is regulated by the provincial governments and each province has its own requirements to become a massage therapy

provider. The Massage Therapy Alliance of Canada (MTAC) is the nationwide body for the massage therapists and all the provincial associations are affiliated with the national body. Different provinces in Canada have different training requirements to become a registered massage practitioner. For example, British Columbia requires a massage therapist to undergo a minimum 3000 hours educational curriculum before getting a registration whereas Ontario requires 2200 hours regulatory health care curriculum (MTAC, 2015). China can learn from the experience of the US and Canada and decentralize the regulatory power and handover to provincial governments and/or city governments. Local governments including the provincial and city levels can also introduce a minimum hours of training program for the massage therapists who are offering services under the table and without any official license or registration.

8. Conclusion

Today, massage and related services have become popular, not only in the mega-cities but also in the small townships of China. They cater to various income groups. People are consuming massage and related services, as well as other consumption products. Historically, massage was developed in China for medical and therapeutic need and used to be a part of the Chinese mainstream healing process. However, contemporary massage and related services have changed direction and been transformed into popular culture for mass consumption. People are not considering massage as a healing process to cure disease or infirmity, but as a way of relaxation, rejuvenation and body consumption. Popular culture is a weighty “tool for understanding ourselves, our cultures, and our values and ideologies” (Bly, 2013: xiii), and massage and related services have become an integral part of the urban culture in China. People are consuming massage and related services without considering the medical or therapeutic background of the providers or the potential health benefits of the process.

As I have mentioned, massage and related services in small townships of China are an unregulated and underground industry, and people are consuming these services without consideration of their legality. It is a matter of demand and supply. As long as there is consumer demand, service providers are readily available. Professional qualification, accreditation or quality control is not very important in this development. Perhaps, China can learn from some developed countries such as the US and Canada to regulate the massage industry and ensure the quality of service and safeguard people’s health. At the same time, this development has reproduced the existing sex stereotypes, where the majority of the clients are male but service providers are female. The social construction of gender and the biological construction of sex play

an important role here. However, the development of massage culture has also challenged the existing sex hierarchy, as a large group of female clients are demanding services from male providers, making the sex hierarchy fluid.

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Notes

* Write-up for Md Nazrul Islam

1. Nine years of middle school education is compulsory in the People's Republic of China.
2. Some of this information was collected from a flyer published and distributed by the Dragon Union Foot Massage Center as part of their advertisement.
3. This information was collected from a billboard hang on the gate of the Dragon Union Foot Massage Center during our visit.
4. Original name has not been used.
5. Some clients consume several services during the same visit.
6. Accessed 6 March 2015 from <<http://www.amtamassage.org/regulation/detail/6>>.

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Book Review

Book Review

Jennifer Y.J. Hsu and Reza Hasmath (eds), *The Chinese Corporatist State: Adaption, Survival and Resistance*, New York: Routledge, 2013, 150pp + xix.

How comparable exactly is the Chinese political system? David Goodman, a senior China scholar, in his foreword to this book, warns against two methodological fallacies. One is to take China as completely *sui generis* that defies meaningful comparison, and the other is to take China as totally fungible that assumes China is just like all the other comparable countries. The book attempts to avoid both: to take a concept that has been developed elsewhere (corporatism, or more specifically, state corporatism) and apply it to the Chinese case. It attempts to see in what aspects the basic insights about state-society relations a state corporatist lens could generate, and on the other hand examines how the Chinese system differs from the state corporatist model.

Corporatism is known to comparative politics scholars as a system of organizing interests that is in contrast to pluralism. It puts a much stronger emphasis on the role of the state in organizing and channelling societal interests in the policy process. A hallmark of such a system is that in each societal sector that is only one non-competitive, compulsory and hierarchical organization. It is more likely to be organized top-down and it tends to have a monopoly representation in the government's policy process toward that particular sector. Two variants of the corporatist system are generally noted: a societal version which is much more accommodative toward liberal democratic systems, and a state version that is likely (but not necessarily) to be associated with authoritarian governance. State corporatism was also applied in examining the successful economic development of some of the East Asian states – its insights were somehow incorporated into the concept of the developmental state.

China's successful economic take-off since the late 1970s has been compared to the economic experiences of those East Asian developmental states. This also brought those scholars interested in the theory of corporatism to China. On the appearance, China does appear to be corporatist. As Jennifer Hsu and Reza Hasmath, the editors of the volume, note in their introduction, "(w)ith the state regulating social change through its control of social organizations from non-governmental organizations to entrepreneurial associations, we see the manifestation of corporatism in practice" (p. 3). However, beyond this impression, the conclusions drawn from the substantive

chapters in this volume, in my view, are mixed about the usefulness of the concept of state corporatism.

In Barbara Schulte's chapter on the educational organizations in Republican China, she argues that the consistently weak regime in the early years of the Republican era rendered corporatism "more imaginary than real", despite the willingness of societal actors (in this case, Chinese Association of Vocational Education, or CAVE) to associate with the state. Somehow CAVE was able to have some kind of semi-corporatist arrangements with the government of Jiangsu. But once a much stronger state emerged (first the Nationalists in 1928 and then the communists in 1949), the semi-corporatist arrangement was immediately replaced by a more Leninist fashion of state-society relations. Gerry Groot, in the next chapter, examines the limitations and failures of the kind of corporatism associated with the United Front work of the Chinese Communist Party. The United Front system has several parts but the most important are the minority parties (the so-called eight democratic parties) and groups and the Chinese People's Political Consultative Conference (CPPCC). Each of the party is designated to represent and articulate the interests of certain sectors of the society (professionals, intellectuals, overseas Chinese, etc.), while CPPCC is a platform for societal elite to provide policy input to the ruling elite. In each case, corporatist features can be detected. Yet Groot finds that these corporatist features are mostly overshadowed by the monistic conception of state-society relations animated by Marxist-Leninist ideology. For example, the leaders of those democratic parties basically have to first accept the party's views, thus creating a gap between the leadership and the sectorial interests they are supposed to articulate to the party. In short, the corporatist structures are a highly dysfunctional one.

Similarly, Keming Yang's chapter on the relationship between the state and association of business associations finds that while certainly there are some corporatist elements inside these relationships, the organizational control and penetration of the party, together with the very limited role voluntarily played by the business associations in public policy process, suggest that the traditional concept of state corporatism only captures a partial picture in this arena. Another chapter that also looks at relationship between the state and entrepreneurs, by Lei Wang, examines more specifically the role of the local state in economic development. In short, this chapter discusses how the local state, in order to boost economic development, has used methods such as generating housing demands and the conversion of farmlands to commercial and residential lands. However, what is missing in this discussion is what role does corporatism play? In fact, the author acknowledges that "corporatism may not be an accurate portrayal of the contemporary Chinese entrepreneurial local state" (p. 99). In the religious sector, which is examined

in Carsten Vala's chapter, corporatism also turns out to have a relatively weak explanatory power over state-religion relations. State corporatism does not deny that that societal associations have associational legitimacy, that there are clear boundaries between the state and the associations, and there is mutual respect that sustains this "system of interest representation" and does not turn it into a "system of interest subordination". Along these three dimensions, what Vala finds is that the party's hegemonic agenda overshadows any corporatist structure that could be found.

Two chapters in this book are more agreeable to the utility of the concept of corporatism. Xian Huang examines collective wage bargaining – a policy area that corporatism has been applied often (and developed from). It is perhaps in this policy area that one finds the clearest manifestation of Chinese state corporatism: it has a tripartite bargaining structure (state, capital, labour), the bodies in the structure are hierarchical and enjoy jurisdictional monopoly, and they play important roles in policy formulation and implementation. Huang finds that while economic conditions, ownership types of the enterprises, and the relationship between the local state and enterprises are variables that account for different phases or patterns of collective wage bargaining, overall the three sectors have worked together finely under the state corporatist framework. Finally, Hsu and Hasmath contribute a substantive chapter by looking at the state's relations with migrant NGOs. They first postulate a useful distinction between "overt sanctioning" and "tacit sanctioning" in terms of how the Chinese party-state regulates societal actors. The latter behaviour is said to have corporatist institutional features such as state's creation of social organizations, granting of such organizations certain privileges in mediating interests to the state on behalf of their societal constituents, and the strict adherence to the state-created rules and regulations by these organizations (pp. 121-122). China has since the reform era largely adopted "tacit sanctioning." They proceed to discuss local migrant NGOs in Beijing and Shanghai, and conclude that the picture confirm their contention. They suggest that local states also have a stake in promoting this kind of corporatist arrangements with NGOs as they contribute to efforts to promote harmonious relations.

Finally, the concluding chapter by the editors revisits the question of the utility of the state corporatism as a framework to understand China's state-society relations. Overall they answer affirmatively, but with qualifications and acknowledgment of limitations of the model. Some readers may still find the corporatist lens not very satisfying. Indeed, in several chapters it is clear that features of Leninism may have more explanatory power than corporatism in understanding state-society relations in China.

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