

Does China Mix Business With Politics?

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Summary

In an apparently conscious decision, the Government of India blanked out the media from the deliberations, border meetings, diplomatic parleys and formal talks that brought an end to the Chinese intrusion in Ladakh. This led to intense speculation in the media with some quarters terming the Indian response to be soft and weak. Amongst the theories doing the rounds, one that some analysts seemed to endorse was that 'upping the ante' against China would jeopardise our bilateral trade, already under strain due to a yawning deficit of \$29 billion in favour of China. The question that begged response is - does China feel like wise? Does China go soft when trade is threatened? Does China mix business with politics? The answers to these questions drew some interesting conclusions while researching China's trade figures with those countries with which it has strained political relations.



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In a revealing piece on CNN blogs, "Does Upsetting China Matter?", Kerry Brown argues that in the recent past China has had diplomatic rows with Britain and Norway, the former over David Cameron's meeting with the Dalai Lama in May 2012 and the latter over the award of the Nobel Peace prize to Chinese dissident Liu Xiaobo in 2010. Both nations have been politically ignored by China. Yet in 2012, China's exports to Britain rose 4.9 per cent to \$46.3 billion and imports from Britain rose 15.5 percent year-on-year to \$16.8 billion. Similarly trade with Norway has risen by 19 per cent between 2011 and 2012.² Kerry Brown's argument is compelling- "China may be upset, but it has still been willing to engage - just not with the prime minister"! I decided to test this argument in the Asian context by looking at China's trade with some of the countries in Asia where China's ties have been strained, viz, Japan, Vietnam and Philippines.

Japan

China and Japan have been involved in a territorial dispute over the Diaoyu/Senkaku islands in the East China Sea for decades. The issue took an ugly turn in 2012 when Tokyo Governor Ishihara announced plans to purchase the Senkaku islands from its private owners sparking a protest from China. The issue flared up in August when Chinese and Japanese citizens tried to land on the islands. By September Japan announced that it had purchased

¹ KK Sreejith, 'Trade Will Suffer If No Border Peace: Manmohan Singh To Li Keqiang', *The Economic Times*, 20 May 2013. Also see Srikanth Kondapalli, 'The fallout of China's Depsang plains transgression', *rediff.com blogs*, 06 May 2013 and Inder Malhotra, 'Mending India-China Relations', *Kashmir Times*, 29 May 2013. He says, "India has been able to drive home to China the message that the border issue remains vital and that if peace along the border areas is disturbed, the entire relationship would be impacted."

² Kerry Brown, 'Does Upsetting China Matter?' , CNN, available at <http://globalpublicsquare.blogs.cnn.com/2013/05/14/does-upsetting-china-matter/> accessed on 21 May 2013.

the islands and they were national property. This triggered a wave of violent protests across China hurting Japanese businesses and forcing closure of some factories. Tensions continue to remain over the sensitive issue raising nationalistic fervor amongst Japanese and Chinese alike. Ships of the PLA Navy and Japan Maritime Self Defence Force (JMSDF) are on alert while the coast guards of both countries have fired water cannons at each other. Even fighter aircrafts have been scrambled as air space violations have led to ugly exchange of words between the leadership of both nations.

But how much has this issue of China's territorial integrity and sovereignty impacted trade?

China's exports/imports to Japan 2005-2012³

YEAR	EXPORTS	IMPORTS	BALANCE	TOTAL TRADE
2005	80,340,099	109,104,815	-28,764,716	\$190 billion
2006	92,851,689	118,516,332	-25,664,643	\$210 billion
2007	109,060,309	127,643,646	-18,583,337	\$237 billion
2008	124,035,383	142,337,115	-18,301,732	\$ 266 billion
2009	109,630,428	122,545,120	-12,914,692	\$ 231 billion
2010	149,086,369	152,800,714	(3,714,344)	\$300 billion
2011	161,467,319	183,487,439	- 22,020,120	\$344 billion
2012	144,686,177	189,018,794	- 44,332,617	\$333 billion

In a poll carried out by *The Asahi Shimbun* in September 2012, 63 percent of Chinese disliked Japan and just 10 percent liked Japan, whereas, only 3 percent Japanese liked China. Interestingly, in terms of the respective weight of their economies, 78 percent of respondents in Japan said the Chinese economy exerts a major influence on Japan. In a comparatively similar response in China, 44 percent of respondents said the Japanese economy exerts a major influence on China. Clearly, despite their obvious dislike for another, both realise that economic considerations weigh heavier on their relationship.⁴ The data of trade between the two countries over the last seven years shows a steady rise in bilateral trade despite their often turbulent international relations.

³ Source: www.jetro.go.jp/en/reports/statistics

⁴ 'ASAHI POLL: Bilateral ties are no good, say most Japanese and Chinese', *The Asahi Shimbun*, 24 September 2012, available at http://ajw.asahi.com/article/behind_news/politics/AJ201209240058 accessed on 27 May 2013.

Let us analyze the trade figures in the run up to the Diaoyu/Senkaku islands dispute which resulted in open hostility in 2012. According to a report released in February 2011 by the Japan External Trade Organization (JETRO), Japan's total trade with China (imports and exports combined) rose 30 per cent year-on-year to US\$301.9 billion in 2010, exceeding US\$300 billion and setting a new (year-on-year) record. In 2011 the total trade rose 14.3 per cent to US\$344.9 billion. Both imports and exports made record highs; imports from China rose 20 per cent to US\$183.4 billion, while exports to China rose 8.3 per cent to US\$161.5 billion. In 2012, the year that saw so much animosity, near war situations with both navies putting each other in their crosshairs and aircrafts violating airspace, overall bilateral trade dropped just 3.3 per cent to US\$333 billion the first drop since 2009. In fact imports from Japan rose 3 per cent to US\$188 billion, setting a record high with single-digit growth, while exports to Japan fell 10.4 per cent to US\$144 billion.⁵ Despite all the war hysteria, China actually made a record of imports from Japan in 2012! Even the 3.3 per cent drop in bilateral trade is barely \$11 billion, an amount that pales considering the huge bilateral trade between the two countries. In comparison, China's bilateral trade with India dropped 9 percent in 2012 alone without any such tensions or strain in relations.

Vietnam

China's relations with Vietnam have not exactly been cordial. In 1988, China and Vietnam clashed in the South China Sea after the Vietnamese forces sought to disrupt Chinese construction on the Spratly Islands. The Chinese navy sank three Vietnamese vessels, resulting in the deaths of 74 Vietnamese sailors in one of the most serious military confrontations between the two countries after China got a bloody nose from the Vietnamese in 1979. Now China has laid claim to large stretches of Vietnam's EEZ purported to be within the 'nine dash' line. Vietnam has been showing resistance to China's territorial claims over Paracels and Spratlys in the South China Sea. Vietnam has also been actively wooing other nations in the region particularly ASEAN countries for support. It is spearheading the Code of Conduct agreement on South China Sea (SCS) to rein in China. It has been involved in a spat with China over oil exploration contracts to foreign companies like OVL, India and in March this year Chinese naval vessels reportedly fired on a Vietnamese fishing boat sparking protests and claims for compensation.

⁵ 'Japan-China Trade in 2010 Exceeds US\$300 Billion to Set New Record', Japan External Trade Organization, available at <http://www.jetro.go.jp/en/news/releases/20110512035-news>. Also see <http://www.jetro.go.jp/en/news/releases/20130219452-news> for exact figures released by JETRO.

Has that affected trade between the two countries?

China's export and import to Vietnam 2005-2010 (in thousand USD)⁶

Year	2005	2006	2007	2008	2009	2010
Imports	2,899	3,228.1	3,242.8	3,646.1	4,850.1	7,742.9
Exports	5,899.7	7,391.3	12,710.0	15,973.6	15,411.3	20,203.1
Total Trade	8,798	10,519	15,925	19,619	20,261	27,945

Over the last seven years, trade between China and Vietnam has been increasing rapidly. According to the Vietnam Chambers of Commerce (VCCI) trade between China and Vietnam during the period 2000-2010 grew at a whopping 32 per cent per annum! Bilateral trade between Vietnam and China was \$25.4 billion in 2010. By 2012 it had reached \$41 billion making China the biggest trade partner of Vietnam while the country is one of China's most important partners among ASEAN countries. In fact according to Vietnam's Ministry of Planning and Investment, as the end of September, China invested in 869 projects in Vietnam, worth over 4.52 billion U.S. dollars, ranking 14 out of 96 foreign investors in Vietnam.⁷ Both sides have now set an ambitious target of reaching \$60 billion by 2015.

Philippines

The most serious dispute on territorial and sovereignty issues that China has had recently is with the Philippines. China and the Philippines have competing claims on an island, known as Huangyan Island by the Chinese and Panatag or Scarborough Shoal by the Philippines. In early April 2012, one of the Philippine warships found eight Chinese fishing vessels near the disputed island. Philippine Navy personnel boarded the Chinese vessels claiming they were illegally fishing in their waters. Chinese surveillance ships prevented the arrest of the Chinese fishermen and forced the Philippine naval vessel to leave. Ever since, China has been regularly patrolling the Scarborough shoal area. The situation turned ugly when China used economic muscle by "quarantining" 1200 containers of bananas from Philippines endangering \$75 million exports from Philippines. China also issued a

⁶ Data extracted from Government of Vietnam, General Statistic Office, available at http://www.gso.gov.vn/default_en.aspx?tabid=472&idmid=3&ItemID=13210 and http://www.gso.gov.vn/default_en.aspx?tabid=472&idmid=3&ItemID=13214 on 26 May 2013.

⁷ Nguyen Thi Thuy Anh, 'China-Vietnam bilateral business cooperation expected to strengthen', *Xinhua*, available at http://news.xinhuanet.com/english/indepth/2012-10/20/c_131918874.htm accessed on 24 May 2013.

travel advisory to tourists visiting Philippines crippling the tourism industry. Meanwhile, Philippine military commenced maritime exercises with the US navy and Marines exacerbating the situation. In January this year, Philippines formally approached the International Tribunal for the Laws of the Sea (ITLOS) to resolve its disputed claims in the SCS. Incidentally, the Philippines renamed the SCS as West Philippine Sea.

What has been the impact on this dispute on trade between the two countries?

China trade relation with Philippines (FOB) (in thousand USD)⁸

Year	2007	2008	2009	2010
Imports	4,001,235	4,245,553	3,807,418	4,627,559
Exports	5,749,864	5,466,881	2,933,923	5,724,467
Total	9,751,099	9,712,434	6,741,341	10,352,026

While details of trade figures between China and Philippines was not forthcoming, a comparison of FOB(freight on board) figures for years 2007-2010 clearly indicate a positive trend , save the year 2008-9 which was impacted possibly by the financial crisis of 2008.

In 2011, the total bilateral trade between the two was \$32.254 billion up from \$27.764 in 2010. Both leaders Hu and Aquino declared 2012-13 as Year of 'China- Philippines Friendly Exchanges' pledges a trade target of \$60 billion by 2015. China is Philippines third largest trade partner. 55.6 percent of its export to China is electronics alone and trade with China accounts for 11.28 per cent of Philippines total trade.⁹ New project contracts signed by Chinese firms in the Philippines grew by 63.2 per cent to \$1.02 billion in 2012 and bilateral trade was \$36.37 billion, an increase of 12.8 per cent year-on-year despite the tensions and standoff in SCS!¹⁰

⁸ See Government of Philippines, National Statistical Coordination Board, data available at http://www.nscb.gov.ph/secstat/d_trade.asp accessed on 27 May 2013.

⁹ See Department of trade and Industry figures available at <http://www.dti.gov.ph/uploads/DownloadableForms/Jan%20to%20December%202012%20Total%20Trade.pdf> accessed on 24 May 2013.

¹⁰ Riza T. Olchondra, 'China seeks more open Philippine market' *Philippine Daily Inquirer*, 6 May 2013, available at <http://www.asianewsnet.net/China-seeks-more-open-Philippine-market-46304.html> accessed on 24 May 2013.

What is the takeaway from this argument?

From the analysis above it is evident that China maintains a twin track relationship with most countries. While its political differences are handled diplomatically it has continued to engage such nations economically. The strain in relations with Britain and Norway are purely of a political nature while those with Japan, Vietnam and Philippines are territorial and impact on its rights to sovereignty. Yet there has been minimal impact on trade. For Indian policy makers, dealing with China should be likewise – separate the political engagement from the economic. The argument that we need to show restraint because it may jeopardise a \$ 66 billion bilateral trade needs to be revisited. If we do so, we may be missing the wood for the trees.

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