

# CRS Report for Congress

## China's Foreign Policy: What Does It Mean for U.S. Global Interests?

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## Summary

Since the late 1990s, China's robust international engagement has caught many by surprise and prompted growing American debate over the PRC's motivations and objectives. This international engagement has expanded while the United States has been preoccupied with its military involvement in Iraq and Afghanistan. Congress and other U.S. policymakers are becoming increasingly concerned that China's expanded international engagement could have its "soft power" projection and affect U.S. economic and strategic interests.

Experience suggests that abrupt, unexplained shifts in policy occur with some regularity in the PRC system. Still, it is possible to point to some fundamental objectives that appear to be motivating Beijing's foreign policy. These include an imperative to promote and enhance China's economic development, particularly its voracious need for energy resources and raw materials to sustain its double-digit annual growth; an effort to separate the island of Taiwan, over which the PRC claims sovereignty, from its 23 remaining official relationships; and a desire to increase China's international stature and compete more successfully with perceived U.S. supremacy. To achieve these ends, China in recent years has crafted a multitude of bilateral agreements and partnerships, joined and become more active in existing multilateral organizations, and become a founding member of new multilateral institutions in which the United States is not a member.

Of alarm to some, China's policy approach has several competitive "soft power" advantages over the United States. The "unrestricted" nature of Beijing's overseas loans and investments is attractive to foreign governments wanting swifter, more efficient, and less intrusive solutions to their development problems than western lenders will offer. And Beijing's large state-owned companies, with deep pockets and no shareholders to answer to, can afford short-term losses in pursuit of longer-term, more strategic gains.

But China's approach also has structural limitations in areas where the United States is strong. Beijing's foreign development policy operates from a much narrower base, with China's "win-win" approach tackling easy issues first and postponing difficult issues, perhaps indefinitely. Acquiring and maintaining an international presence also brings certain complications that are new to the PRC, including multiple opportunities for international misunderstanding, resentment, and cultural backlash. Finally, unlike the United States, China lacks the advantage of a substantial private-sector investment presence overseas.

Whatever policy options the United States adopts, China's growing international political and economic clout poses demanding challenges and questions for U.S. policymakers. This report will be updated periodically as events warrant.

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# China's Foreign Policy: What Does It Mean for U.S. Global Interests?

## Background and Analysis

Having progressed on a steady path since the late 1970s on multiple global economic and political endeavors, the robust international engagement of the People's Republic of China (PRC) since 2000 caught many by surprise and prompted spirited American disagreement and debate over the PRC's foreign policy motivations and objectives. The fact that much of this international engagement has expanded while the United States has been preoccupied with its military involvement in Iraq and Afghanistan also has brought about a period of American introspection. Various referred to as China's "charm offensive" or its "soft power" approach, Beijing's growing international economic engagement, many fear, is going hand-in-hand with expanding political influence. Although some believe that PRC officials appear more comfortable working with undemocratic or authoritarian governments, PRC outreach also has extended to key U.S. allies or to regions where U.S. dominance to date has been unparalleled and unquestioned, leading some to conclude that Beijing ultimately intends a direct challenge to U.S. global power. As a result, Congress and other U.S. policymakers are focusing attention on the critical implications China's increasing international engagement could have for U.S. economic and strategic interests.

**PRC Diplomacy.** This report emphasizes the PRC's foreign policy and diplomatic activities around the world rather than its security policy. China's foreign policy today has changed fundamentally since the nation's founding in 1949. Through the 1950s and 1960s, Chairman Mao Zedong's policy of "self-reliance" greatly constrained the nation's foreign contacts. Beijing's foreign policy goals then centered on promoting Maoist revolutionary parties around the world. A lingering dispute over the Chinese Communist government's legitimacy in the international community facilitated its international isolation. Although Mao's forces had won the civil war conflict on mainland China, many countries, including the United States, continued to recognize the previous Republic of China (ROC) government that had fled to Taiwan as the country's rightful government. While the PRC went unrepresented in much of the international community in its early decades, Taiwan continued to control China's Embassies around the world, to be China's signatory to international agreements, and to hold the Chinese seat in the United Nations and other multilateral organizations.

All this began to change in the early 1970s when President Nixon initiated an opening to China and the United Nations voted to recognize the PRC as China's legitimate U.N. representative. Under economic and diplomatic reform policies initiated by Deng Xiaoping in 1978, two years after Mao's death, China began openly

to seek and receive substantial foreign investment, technology, and expertise. In the intervening years, the PRC has become an international export powerhouse; has expanded its membership and participation in international organizations; and increasingly has appeared willing to embrace many norms and rules of the global economic system of which the United States is the chief architect and dominant player. Since 2000 in particular, there has been a steady increase in the quantity and sophistication of PRC diplomacy. Beijing has courted foreign governments with high-level diplomatic exchanges, trade initiatives, investment agreements, and tourism and cultural understandings.

**China’s “New Security Concept”.** Although this report focuses on non-military aspects of China’s foreign policy, no discussion of China’s international rise would be complete without acknowledgment of equally important changes in China’s security policy.<sup>1</sup> Paralleling its foreign policy developments, changes in PRC security policy are thought to be based on Beijing’s perceptions since the mid-1990’s that the country was facing new security challenges. Among these new perceived challenges were the demise of the Soviet Union and international communism, the post-Cold War surge in U.S. global dominance — in particular the decisive demonstration of U.S. military supremacy in the Persian Gulf War — the increasing pro-independence activism on Taiwan, and the benefits and complications accompanying China’s own rapid economic growth.

As defined in a series of White Papers published by the State Council Information Office since 1995, China’s new security concept states that the post-Cold War order requires a more pragmatic security policy based on “mutual trust, mutual equality, and cooperation.”<sup>2</sup> The new security concept seeks to assure that China’s economic development and military growth is not a threat to its neighbors or the world. In keeping with its new international diplomacy, China’s new security approach serves the multiple goals of trying to defuse international instabilities that could adversely affect China’s own development; trying to expand China’s own wealth and influence in ways seen as non-threatening to its neighbors; and trying to balance U.S. global power in a manner that serves China’s interests. Unlike past security challenges to the United States, China’s new security approach is difficult to categorize or define: it focuses neither on spreading a political ideology, nor establishing a global network of client states, nor aggressively seeking territorial gains. In tandem with its foreign policy diplomacy, China’s new security concept presents a unique and subtle challenge to U.S. policymakers.

## **Framing the Debate on China’s Growing Global Reach**

A discussion of China’s international engagement must begin with several caveats about the limits of what is known. First, there is little consensus within the U.S. and global China-watching communities on China’s ultimate foreign policy

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<sup>1</sup> For more on the subject of China’s security policy and growing military power, see Gill, Bates, *Rising Star: China’s New Security Diplomacy*, Brookings Institution Press, Washington, DC, 2007.

<sup>2</sup> State Council Information Office White Paper, *China’s National Defense*, July 1998. See full text at [<http://english.peopledaily.com.cn/whitepaper/2.html>].

goals or on what motivates and informs China's decisions — either decisions made in general terms or with regard to specific regions or countries. Does China's international engagement have a pragmatic, overarching strategy, or is it a series of marginally related tactical moves to seek normal economic and political advantages? Is Beijing interested in supplanting the United States as a global power or focused mainly on fostering its own national development? Does the PRC feel strong and confident internationally or weak and uncertain? These questions remain unanswered.

**Lack of Transparency in Foreign Policy Decision Making.** Many have written on China's foreign policy decision making. Although China's foreign policymaking has become more regularized in recent years, few claim to be certain about how China's decisions are made, about who makes them, or about what long-term goals Chinese policies seek to attain. Some profess certainty; but they have not been able to demonstrate that their convictions lead to any sort of consistency in analyzing or predicting China's foreign policy decisions. In the aftermath of incidents of Sino-U.S. tension or confrontation — such as the case in 2001 when a Chinese fighter jet collided with a U.S. EP-3 reconnaissance plane, or the case in 2007 when the PRC suddenly denied Hong Kong port visits to a series of U.S. ships — U.S. officials have remained largely in the dark about the PRC's crisis management processes and about why and how PRC leaders reached their decisions.

The number of unknown variables that still animate China's foreign policy decision-making processes is simply too great. These variables include uncertainties about the clashes and respective strengths of internationalists and hardliners in Chinese politics, about whether and how the interests of various PRC bureaucracies compete and conflict on a given issue, and about the extent to which bureaucratic actors seek to undermine policies that they see as disadvantageous to them. Given these uncertainties, there appears to be no “magic bullet” then — no individual or group with proven answers — that definitively can inform U.S. views or prepare U.S. government and congressional actors on how best to address the challenges China poses to U.S. and global interests.

**Lack of Aid and Investment Data.** Relatedly, study of PRC international influence is hampered by a lack of reliable data on Chinese foreign aid and by lack of transparency on whether and how the PRC makes and implements large, high-profile investment agreements. According to one 2007 study directed by the International Monetary Fund (IMF), China's outward foreign direct investment (FDI) in 2005 was 5 percent that of the United States, with 80 percent apparently going to the tax havens of Hong Kong, Cayman Islands, and the British Virgin Islands, its final destinations impossible to trace.<sup>3</sup>

The PRC does provide assistance to other countries, aid which comes from multiple government agencies with little or no apparent oversight. Moreover, this aid

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<sup>3</sup> Morck, Randall; Yeung, Bernard; and Zhao Minyuan, *Perspectives on China's Outward Foreign Direct Investment*, August 2007.

does not appear to be tracked or monitored by one single government entity.<sup>4</sup> Many forms of PRC foreign assistance — loans, debt forgiveness, the building of large public facilities, and trade and investment agreements — do not meet the traditional definition of “overseas development assistance,” or ODA, which is how most of the world’s donor countries provide aid. Furthermore, PRC assistance is not provided in regularized annual allotments, but appears to follow a funding schedule determined by Beijing’s diplomatic priorities. Beijing reportedly also is reluctant officially to reveal the totals of its foreign assistance for a variety of reasons, including out of fear of domestic objection that Beijing is not spending its money at home rather than abroad, or because much of what appears to be the PRC’s investment and assistance may be “round-tripped” — or returned back to China as foreign investment.<sup>5</sup> In sum, the extent of PRC foreign assistance to other countries cannot be determined accurately.

At the same time that the PRC is providing global aid and investment, it is also on the receiving end of substantial aid and investment. Eligible for World Bank lending as one of 24 Bank-classified developing countries in East Asia and the Pacific (along with the Philippines, Mongolia, Fiji, and Palau), China not only is the largest recipient of World Bank lending in Asia but one of the largest in the Bank’s global activities. The Bank’s lending to China in FY2008 (June 30, 2007 to June 30, 2008) reached \$1.51 billion.<sup>6</sup> Cumulative Bank lending to China since 1981 as of June 30, 2007 was approximately \$42.2 billion.<sup>7</sup> The PRC also is the largest recipient of foreign direct investment (FDI) among developing countries.

**Questions About U.S. Policy.** Finally, although U.S. Administrations for decades have pursued consistent engagement with China, periodic questions arise about whether the U.S. approach is based on a well-articulated and coherent strategy or is simply an approach of convenience that should be reassessed in the face of China’s rise. Outside the Administration, the U.S. policy debate continues to be characterized by the divisive dynamics that arose in the mid-1990s, in which American hard-liners (self-described as the “Blue Team”) are pitted against those advising cooperation and engagement with China (labeled as the “Red Team” by the opposing group). Thus, there is little agreement about the degree of threat or challenge China poses to the United States.

In the vocal minority are those who view China as a growing military menace with malign intent. Many advocates of this view have been perceived by others as agitators whose counsel to treat China as a major threat to U.S. interests has implications for U.S. military budgets and, in the opinion of some, is more likely to

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<sup>4</sup> Ministries involved in the PRC’s foreign aid structure include the Ministry of Commerce, Export-Import Bank, Ministry of Finance, and Ministry of Foreign Affairs.

<sup>5</sup> See CRS Report RL34310, *China’s ‘Soft Power’ in Southeast Asia*, by Thomas Lum, Wayne Morrison, and Bruce Vaughn.

<sup>6</sup> “World Bank’s loans to China total \$1.51 billion in 2008 fiscal year,” *Xinhua*, Beijing, June 25, 2008.

<sup>7</sup> The World Bank Group, “Overview of China’s Projects & Programs,” according to the World Bank’s website.

bring about conflict with China than to deter it. The view that has been pursued more openly by U.S. Administrations is one that counsels cooperation and engagement with China as the best way to integrate China into the prevailing global system as a “responsible stakeholder” — a nation that has “a responsibility to strengthen the international system that has enabled its success.”<sup>8</sup> Many opponents of this approach argue that these observers have been seduced by the potential of the China market, are oblivious to PRC hostile intent, accede to PRC wishes and demands unnecessarily, and thereby squander U.S. strategic leverage and compromise U.S. interests.

Another contentious part of this debate involves an argument over which theme should predominate in U.S. policy decisions: enterprising economic endeavor or lofty political standards? The confrontational and highly-charged dynamic between these two polar views continues to make it difficult to achieve greater American consensus on how the United States should position itself to meet the challenges China poses. Within these caveats, then, this report seeks to lay a basic framework for congressional policymakers to understand China’s international engagement and address what it may mean for U.S. interests.

## The Concept of “Soft Power”

The term “soft power” originally was conceived in 1990 by Harvard Professor Joseph S. Nye, Jr.. Nye argued that the United States had reserves of power and influence that were separate from “hard power,” or military force projection. He expanded greatly on this concept in his book *Soft Power: The Means to Success in World Politics* — partly, he said, from the frustration of watching “some policy makers ignore the importance of our soft power and make us all pay the price by unnecessarily squandering it.”<sup>9</sup> According to Nye, soft power is crucially important in today’s world politics and is significantly more than just the trappings of a national culture:

Soft power rests on the ability to shape the preferences of others.... [It] is the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country’s culture, political ideals, and policies. When our policies are seen as legitimate in the eyes of others, our soft power is enhanced. America has long had a great deal of soft power...<sup>10</sup>

By Nye’s definition emphasizing the “attractiveness” of a country’s culture and values, American soft power remains formidable. Some define the components of soft power more broadly than Nye, to include not only the “attractiveness” of a country’s policies but also its international trade practices, overseas investments, development assistance, diplomatic initiatives, cultural influence, humanitarian aid

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<sup>8</sup> “Whither China: From Membership to Responsibility?” Speech by Deputy Secretary of State Robert B. Zoellick to the National Committee on U.S.-China Relations, September 21, 2005.

<sup>9</sup> Nye, Jr., Joseph S., *Soft Power: The Means to Success in World Politics*, Public Affairs, NY, 2004, p. XI.

<sup>10</sup> Nye, Jr., Joseph S., p. 5, p. X.



and disaster relief, education, and travel and tourism. Even according to this broader definition, American global power remains massive.

But according to another view, American soft power has declined in the 21<sup>st</sup> century. In absolute terms, some believe this perceived decline is the result of the United States' own policies and actions. One former U.S. government official has speculated that although America has huge remaining reserves of soft power, these reserves have become a "non-renewable resource" given current U.S. policies.<sup>11</sup> Others point to multiple global survey results on international views of the United States, saying "the downward trend is unmistakable."<sup>12</sup> As Nye himself puts it:

Anti-Americanism has increased in recent years and the United States' soft power... is in decline as a result....A Eurobarometer poll found that a majority of Europeans believes that Washington has hindered efforts to fight global poverty, protect the environment, and maintain peace. Such attitudes undercut soft power, reducing the ability of the United States to achieve its goals....<sup>13</sup>

Others have attributed the perceived decline in American soft power as relative — largely a comparative decline based on the rise of other powers — in particular the rapid emergence of China as a U.S. "peer competitor" and a growing source of international influence, investment, and political and economic clout. China is seen to be trying to project soft power by portraying its own system as an alternative model for economic development that does not require compliance with western standards. Economic development without the restrictions and demands that come with political liberalization proves attractive to some authoritarian governments ruled by elites. Furthermore, according to this view, soft power is ephemeral; the United States has recovered from loss of prestige and influence before (such as occurred with the Vietnam War), and it will again. For this reason, they say, China's apparent soft power gains should not be blown out of proportion.

## **Presumed PRC Foreign Policy Goals**

Within the ongoing international debate about what China's ultimate intentions may be, there is broader consensus on some of the fundamental objectives that appear to be at least partial motivations for Beijing's current international outreach. However, adding to the uncertainty about PRC policies, these objectives at times are in contradiction. China's policy direction is that much harder to predict when some of these key policy objectives are seen to clash, and experience suggests that abrupt shifts in policy, shifts which remain unexplained in many cases, still occur with a fair degree of regularity in the PRC system. This may be the result of a fundamental incoherence in PRC policy goals. More likely, it reflects the internal disagreements and varying priorities of the various political and bureaucratic players in the PRC

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<sup>11</sup> Conversation with former Ambassador Charles W. Freeman, Jr., 2007.

<sup>12</sup> Kurlantzick, Joshua, "The Decline of American Soft Power," in *Current History*, December 2005, p. 419.

<sup>13</sup> Nye, Joseph S., "The Decline of America's Soft Power: Why Washington Should Worry," in *Foreign Affairs*, May/June 2004, p. 16.

system. In this political struggle, some may win, some may lose, and often all may compromise.

**Enhancing Sustainable Economic Growth.** Strong economic development continues to be seen as the core primary objective for the PRC leadership for a host of reasons — not the least of which are to raise the living standards of its enormous population, to dampen social disaffection about economic and other inequities, and to sustain regime legitimacy after the erosion of Communist ideology as an acceptable organizing principle. China's annual economic growth rates routinely are in the double digits; in 2007, China reached an annual rate of 11.4 percent — the highest since 1994.<sup>14</sup> This rapid and sustained economic growth has created voracious domestic appetites for resources, capital, and technology, as well as for markets for Chinese goods, all of which have served as powerful drivers of China's international trade and investment agreements.

In energy sources alone, for example, China became a net importer in 1995 — it became a net importer of oil in 1993 — and its energy demands are expected to continue increasing at an annual rate of four to five percent through at least 2015, compared to an annual rate of about one percent in industrialized countries.<sup>15</sup> China steadily and successfully has sought trade agreements, oil and gas contracts, scientific and technological cooperation, and de-facto multilateral security arrangements with countries both around its periphery and around the world. In Africa, Asia, and Latin America, where China is most active, access to energy resources and raw commodities to fuel China's domestic growth plays a dominant role in Beijing's activities. China has oil and gas exploration contracts with Brazil, Ecuador, Bolivia, Colombia, Venezuela, and Cuba; oil contracts and pipeline deals are a major part of China's relations with Central Asian states such as Uzbekistan and Turkmenistan; and China's oil exploration interests extend to Burma, Vietnam, and Malaysia. Imports of crude oil constitute the bulk of China's imports from African states.

**Squeezing Taiwan's International Space.** In addition to economic and resource-related imperatives, China's outreach into Latin America and the Caribbean, Africa, and the Pacific incorporates the political dynamic of trying to separate Taiwan from its remaining diplomatic relationships. China claims that Taiwan is part of its sovereign territory, and for decades has tried to make acknowledgment of this "one China" policy a condition for receiving Chinese investment and assistance. All but one of Taiwan's remaining 23 official relationships are in Africa, Asia, and Latin America. With China's dynamic economic growth in recent decades, it effectively has been able to "outbid" Taiwan in courting a number of these governments. Taiwan lost four of its diplomatic relationships to this competition in the last three years, including the loss of official relations with Malawi on January 14, 2008.

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<sup>14</sup> Xie Fuzhan, Commissioner, National Bureau of Statistics of China, "The National Economy Maintained a Steady and Fast Growth in 2007," January 24, 2008.

<sup>15</sup> "China's Energy Production and Consumption," Energy Information Administration (EIA); Official Energy Statistics from the U.S. Government. [<http://www.eia.doe.gov/emeu/cabs/china/part2.html>].

The Taiwan factor is not uniformly significant in China's global relationships. While the Taiwan issue is important in China's African relationships, it is not important in China's relations with Central Asian countries, where Taiwan has no official diplomatic relations, nor of comparable importance in China's relationships with Southeast Asian countries, where Taiwan has significant economic interests but again no diplomatic ties. And Taiwan is a very important factor — even perhaps the only one — in China's courtship of the 6 tiny Pacific Island nations that still have official relations with Taiwan. Although the United States and Europe (save for the Vatican) do not have diplomatic relations with Taiwan, periodic tensions with China over U.S. and EU statements and actions with respect to Taiwan continue to affect bilateral relationships.

Taiwan-PRC competition looms largest in China's relationships in Latin America and the Caribbean. Not only is this where Taiwan maintains most of its remaining official diplomatic ties, but the region's proximity to the U.S. mainland allows Taiwan's president and senior leaders to ask for controversial but symbolically meaningful transit stops in the United States when making official visits to these western hemisphere countries. A significant reduction, or even the disappearance, of Taiwan's Latin America and Caribbean relationships *could* impair this convenient Taiwan-U.S. connection.

On an entirely different level, Taiwan also is a potentially important factor in China's activities with U.S. allies in Asia — Japan and Australia, especially, but also Korea and the Philippines. While all of these countries recognize the PRC and not Taiwan, as U.S. allies and hosts of U.S. military facilities they potentially could become a factor in any U.S.-China conflict over Taiwan. In 2005, for instance, the United States and Japan declared for the first time that Taiwan is a mutual security concern, implying a new Japanese willingness to confront China over Taiwan. It is in China's interests, then, to use its diplomatic and economic activities to exert quiet pressure on these U.S. allies to stay out of any possible conflict over Taiwan.

Maneuvering against Taiwan — and ultimately “recovering” it — provides one of the key contradictions in China's foreign policy objectives, as it is an issue that appears to trump other key policy goals. Chinese officials have said, for instance, that they will “pay any price” to prevent Taiwan independence, although this would jeopardize the otherwise key imperative of assuring strong economic growth, not to mention risking armed confrontation with the United States.<sup>16</sup> But — again perhaps reflecting internal disagreements among PRC political actors — PRC policies toward Taiwan also have evolved over time into as much carrot as stick. PRC leaders have toned down their rhetoric, holding out economic incentives and agreeing to resume cross-strait talks.

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<sup>16</sup> This particular statement was made by defense attache Sun Yifan on August 1, 2007, speaking in Cuba on the 80<sup>th</sup> anniversary of the founding of the PLA. *Xinhua*, August 2, 2007, but other PRC officials similarly have stressed China's resolve on the matter of Taiwan.

**Table 1. Taiwan's 23 Official Relationships**

(As of April 2008)

<b>Latin America and the Caribbean</b> (12)	Belize, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines
<b>Africa</b> (4)	Burkina Faso, Gambia, Sao Tome and Principe, and Swaziland
<b>The Pacific</b> (6)	Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu
<b>Europe</b> (1)	The Vatican

**Maintaining Regional and International Stability.** In pursuit of its goal of sustainable economic development, China also has placed a high priority on maintaining a “peaceful international environment” both regionally and internationally. A White Paper issued by the State Council in December 2005 emphasized the point: “China’s development needs a peaceful international environment.”<sup>17</sup> To this end, PRC leaders have sought to reassure other countries that China’s economic development is an opportunity for, rather than threat to, its neighbors. These reassurances have taken on many forms. Chinese leaders have characterized Chinese investments as a “win-win” situation, with benefits flowing to both China and to recipient countries. Beijing has sought to resolve outstanding border disputes, as with Russia and India, and to ease tensions with its neighbors over competing territorial claims in the South China Sea and elsewhere. The PRC also has more assertively cooperated on regional initiatives such as the Six Party Talks and joint anti-terror activities.

The United States, China’s primary export market, also has been a focus for PRC “peaceful environment” initiatives, with Beijing seen to be placing a high priority in keeping stable and relatively tension-free bilateral relations. Some analysts suggest that this priority is behind Beijing’s decision in 2003 to tone down its anti-U.S. rhetoric and criticism and instead to emphasize China’s “peaceful rise” on the world stage.<sup>18</sup> According to this view, Beijing calculates that even the appearance of a more overt pursuit of its regional and global interests could prompt the United States to strengthen its alliances and form other groupings to counterbalance and deter China’s international outreach. Such a development could fetter China’s economic growth.

**Increasing International Stature and Competing with U.S. Supremacy.** After decades of international isolation, PRC leaders are presumed

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<sup>17</sup> “China’s Peaceful Development Road,” White Paper, State Council Information Office, December 22, 2005.

<sup>18</sup> Sutter, Robert, *Chinese Foreign Relations*, Rowman & Littlefield Publishers Inc., 2008, p. 82.

to place a high priority on expanding and improving China's global stature and influence and, where they can, on limiting or constraining the ability of the United States to interfere with or adversely affect PRC interests. Having come late to the global economic development party, China is seeking multiple international partnerships and groupings that make it, if not an indispensable player in the global system, then at least one whose interests must regularly be taken into account.<sup>19</sup> Having embraced the international system, Beijing is seen to be maneuvering deftly for space and opportunities not already taken up by the United States — opportunities where it can have greater freedom of action. The PRC has not put into place a formal system of alliances like that of the United States. Some say this demonstrates Beijing's innate reluctance to assume the risks, costs, and commitments that come with world leadership.<sup>20</sup> Instead, the PRC has limited its risks by depending on a number of other less direct frameworks for its global interactions. These include efforts to act:

***Through Bilateral Initiatives.*** On a bilateral basis throughout Latin America, Asia, the United States, Europe, and Africa, PRC leaders have established Strategic Partnership Agreements, Friendship and Cooperative Partnership Agreements, Friendship Associations, and Free Trade Agreements, among other vehicles, to reinforce the notion that special economic relationships exist between China and the recipient countries. “Chinese Friendship Associations” abound all over the world, including with individual U.S. states. In 2004, PRC leaders created the “Confucius Institute” — a non-profit program to teach Chinese language and promote Chinese culture around the world.<sup>21</sup> Beijing opened its first Confucius Institute in Seoul, Korea, in November 2004; by the end of 2007, the PRC had 203 Confucius Institutes around the world, including 40 in the United States.<sup>22</sup> China also has expanded the use of Approved Destination Status (ADS) — a bilateral tourism arrangement it maintains with selected other countries that facilitates Chinese group tourism.<sup>23</sup>

***Through Existing Multilateral Organizations.*** In addition to bilateral initiatives, China increasingly has grown more active in international multilateral organizations that it formerly suspected to be U.S.-dominated institutions that would try to constrain and exploit PRC interests. China now participates more confidently in the United Nations, the World Bank, and other entities. Beijing is even seen to be seeking to employ what one specialist calls a “Gulliver Strategy” that tries to tie

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<sup>19</sup> Goldstein, Avery, *Rising to the Challenge: China's Grand Strategy and International Security*, Stanford University Press, 2005.

<sup>20</sup> This argument is made by Tang Shiping and Zhang Yunling, in “China's Regional Strategy,” *Power Shift*, David Shambaugh, ed., University of California Press, 2005.

<sup>21</sup> The program is under the auspices of The Office of Chinese Language Council International.

<sup>22</sup> This from the Chinese Embassy in Washington, DC, January 2008.

<sup>23</sup> An ADS status means that local Chinese “package” tour operators will be able to sell tours in the designated ADS country. Authorization of group tours tends to increase the number of tourists to ADS-designated countries.

down the U.S. giant in constraining international agreements.<sup>24</sup> China also has successfully sought entry in one form or another to existing regional groupings in Asia and Latin America and the Caribbean. These include

- **Asia Pacific Economic Cooperation (APEC)** forum, where China has been a full member since 1991 (the United States is also a member)
- **ASEAN Regional Forum (ARF)** — established in 1994, where China is increasing its participation (the United States has been criticized in recent years when Secretary of State Condoleezza Rice skipped some ARF meetings, instead sending lower-level officials)
- **Forum for East Asia and Latin American Cooperation (FOCALAE)** — established in 2001, where China is a full member (the United States is not a member)
- **Organization of American States (OAS)** — where China was invited to be a permanent observer in 2004 (the United States is a full member)

**Through New Multilateral Institutions.** Finally, China has sought to devise new multilateral organizations to support its own interests and expand its international influence. The United States has not been invited to join these new institutions.

- **East Asia Summit (EAS).** In 2005, China helped launch the first East Asia Summit (EAS), a fledgling grouping of 16 Asian and Pacific powers including China, the ten members of the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, India, Australia, and New Zealand. The United States is not a participant.<sup>25</sup> Russia's President Vladimir Putin attended as an invited observer.<sup>26</sup>
- **Shanghai Cooperation Organization (SCO).** With the Central Asian countries of the former Soviet Union, including Russia, China has pursued both economic and security arrangements through the SCO, another new organization founded in 2001 without U.S. participation.<sup>27</sup> Within the SCO context, China has cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers.

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<sup>24</sup> Sutter, p. 62.

<sup>25</sup> First established in 1967, ASEAN in 2008 includes Brunei-Darassalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam. The United States maintains military alliances with the Philippines and Thailand, and has significant naval and air base arrangements with Singapore.

<sup>26</sup> See CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by Bruce Vaughn.

<sup>27</sup> The SCO is a more recent expansion of the "Shanghai Five" formed in 1997. SCO members include China, Russia, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan.

- **Forum on China-Africa Cooperation Forum (FOCAC).** In 2000, China and African countries formed the China-Africa Cooperation Forum proposing that the FOCAC meet every three years to seek mutual economic development and cooperation. Representatives from 45 of Africa's 55 countries attended the FOCAC's first Ministerial Conference in October of that same year; the third FOCAC meeting was in Beijing in early November 2006. Membership is limited only to African countries and the PRC.

## **Competitive Advantages of PRC “Soft Power”**

Whether one is reading press accounts and scholarly treatises or traveling through the regions where Beijing is active, China seems to be everywhere. It is tempting for some to become alarmist, magnifying presumed PRC strengths as well as perceived U.S. weaknesses. Many concerned observers focus on the competitive strengths that PRC soft power has in relation to the United States, pointing out that the PRC international approach is particularly strong in areas where the U.S. political system and U.S. values make it less competitive. Some suggest that these PRC strengths have a brighter future in today's global economy, meaning that China will have increasing economic and political soft power clout internationally at the expense of the United States. Still, a closer look at some of the PRC's presumed assets suggests that they may have downsides as well.

**“No Strings”.** The recipient governments of PRC trade and investment are particularly attracted to the fact that Chinese money generally comes with none of the good governance requirements, human rights conditions, approved-project restrictions, and environmental quality regulations that characterize U.S. and other Western government investments. With an authoritarian government that has few if any democratic imperatives, China has capitalized on its willingness to make such “unrestricted” international investments part of its “win-win” international strategy. (PRC leaders do not appear to define their demand that a country adopt a “one-China” policy, nor their frequent insistence on use of Chinese companies, suppliers, and banks, as such restrictions.)

In response to the December 2006 military coup in Fiji, for instance, Beijing promised to continue its aid programs on the grounds that the coup was Fiji's “internal” affair. China markets this capacity internationally as a key competitive advantage to Western capital — one that is both more efficient and less intrusive for the recipients. And the unrestricted nature of PRC investments resonates with many foreign governments. According to one African leader, for instance:

... I have found that a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we have dealt with Chinese authorities. I am a firm believer in good governance and the rule of law. But when bureaucracy and senseless red tape impede our ability to act — and when

poverty persists while international functionaries drag their feet — African leaders have an obligation to opt for swifter solutions.<sup>28</sup>

The World Bank and Western governments may be able to increase the efficiency of their international investment processes and reduce attending red tape to compete with these PRC advantages. But Beijing's willingness to make unrestricted investments while holding the recipients to no standards can be seen as implicitly validating the policies of the often authoritarian recipient governments. Such a "hands-off" approach could have negative longer-term implications for how the PRC is viewed within the countries in which it is investing, particularly if the authoritarian leaders in question later fall to a more democratic government. On balance then, China's "no strings" approach may have potential negative consequences that could counterbalance any soft power advantages.

**The Benefits of State-Owned Assets.** The PRC is thought to reap soft-power advantages by having much of its foreign investment carried out by its strong state-owned sector, given monopoly status by the Chinese government. These state corporations lack transparency, have deep pockets backed by government assets, and operate without the constraints that come with having to issue a corporate annual report. Unlike U.S. corporations investing overseas, who lack this close government patronage and in addition must answer to their shareholders, PRC state-owned companies have the luxury of being able to take a longer-term, strategic view — one more closely integrated with national priorities — without having to demonstrate short-term profits. There may be potential negative consequences. Some hold that there is a certain discipline in having to adhere to the bottom line. PRC state-owned companies, lacking this built-in discipline, sometimes are seen to have paid above-market prices for their oil and gas contracts and to have entered into unprofitable initial arrangements in order to improve bilateral relations and facilitate future contracts. In addition, Chinese SOE's have a high retained earnings rate and a notable aversion to paying dividends to their largely government-controlled shareholders. Concerned about this trend, the Chinese Securities Regulatory Commission in 2004 and 2005 enacted regulations designed to force higher dividend payouts, targeting SOEs with positive profits but no dividend payouts over a three-year period.<sup>29</sup>

## Limitations on PRC Soft Power

Even if its international outreach is entirely benign and centered on economic growth, the PRC's potential to expand quickly to consumption and production levels comparable to those of the United States presents profound challenges to American and global interests. *Other* projections tend to minimize or overlook other limitations and complications that confront China's overseas activities. Recognition of these and other limitations of PRC influence may help shape a more effective U.S. response.

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<sup>28</sup> Senegal President Abdoulaye Wade, in "Time for the west to practise [sic] what it preaches," *Financial Times*, January 24, 2008, p. 6.

<sup>29</sup> Morck, et al., p. 19.



**Advantage, U.S.** Although China has expanded impressively the pace and scope of its international activities, its achievements pale in comparison to the long-standing and comprehensive global involvement of the United States. In many cases, where China is newly arriving, the United States is already entrenched. Beijing has been forced often to accommodate itself to the realities of a strong U.S. presence. This was the case, for instance, in the East Asian Summit (EAS), a forum Beijing originally hoped would lead to greater PRC dominance in East Asia at U.S. expense. But other EAS participants, wary Asia would become divided into Chinese and American blocs, opposed PRC attempts to craft a more exclusive group with itself as the dominant member. Southeast Asian participants in the EAS succeeded in including India, Australia, and New Zealand as counterweights to Chinese power.

In other cases, PRC actions in a given country do not always lead to Beijing's desired objective. For instance, the PRC tried in 2005 to condition its support for renewing the U.N. peacekeeping mission in Haiti on that country's severing of relations with Taiwan. This was unsuccessful, and Haiti in 2008 continues to have diplomatic relations with Taiwan. In another example, the PRC's efforts to extend its influence in Central Asia through formation of the Shanghai Cooperation Organization did not prevent individual SCO member countries from hosting U.S. military forces after the September 11 terrorist attacks in the United States. Moreover, PRC foreign policy success sometimes is constrained by the fact that the countries Beijing is courting have other, more complex foreign policy interests. According to one study of U.N. voting records, for example, a country's increased dependence on trade with China does not appear to affect its willingness to vote against PRC interests in the United Nations.<sup>30</sup>

**The Narrow Base of PRC Achievements.** In general, China's new "win-win" approach to international interactions is based on a self-interested approach that focuses only on those issues on which all sides supposedly can agree. Easy things are taken care of first, while inconvenient and difficult things are postponed, possibly indefinitely. Racking up trade and investment agreements in this way, while creating symbolically significant headlines, nevertheless leaves a lack of depth in China's overall relationships. Moreover, as already mentioned, China's lack of transparency raises consistent doubts about whether the levels of aid and investment triumphantly announced are the levels of aid and investment actually disbursed.

To cite one example, China initially reported that it pledged \$63 million in assistance to Indonesia and other countries affected by the 2004 tsunami, a figure dwarfed by the \$405 million pledged by the United States. A later article in a PRC publication, however, put the actual amount of PRC tsunami assistance at \$22.6 million.<sup>31</sup> PRC foreign policy achievements may be constrained if Beijing continues to short-change its intended recipient governments in this way. U.S. observers may

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<sup>30</sup> The study, an examination of U.N. voting records from 1991 — 2003, conducted in 2006 by the Inter-American Dialogue, is discussed more fully in the Latin America section of this memo.

<sup>31</sup> Xing Zhigang, "China pledges to increase humanitarian aid," *China Daily*, January 19, 2006. Cited also in Sutter, p. 108.

want to be cautious, then, about the initial headlines of PRC involvement and more mindful of the degree of follow-through.

A “win-win” strategy may prove a slender reed for maximizing comprehensive soft power. The soft power potential that the PRC can hope to gain from such a strategy pales next to the national capacity and willingness of the United States to take on costly and forlorn global tasks such as international disaster aid — to demonstrate a willingness, in the words of Tony Blair, “to be the recipient of every demand, to be called upon in every crisis, to be expected always and everywhere to do what needs to be done.”<sup>32</sup> Nothing in Beijing’s current international engagement to date suggests it is willing to embrace such altruism.

**The Complications of an International Presence.** Even with a “win-win” strategy, acquiring and maintaining an enhanced international presence brings with it certain complications. Among other things, it provides almost innumerable opportunities for international misunderstanding, resentment, cultural backlash, kidnappings, hard feelings, murders, and other assorted repercussions. Cultural backlash and resentment may be heightened by the style that PRC overseas investments and construction projects have pursued to date — involving the substantial import of Chinese workers and supplies and the use of Chinese companies instead of using local companies or the indigenous population. Chinese overseas operations already have begun to experience fallout from their activities: PRC oil drilling sites and well-workers have been attacked, kidnapped, or killed in Sudan, Somalia, Nigeria, and elsewhere in Africa. Some Central Asia countries have grown concerned about the level of energy assets that China has been accruing within their borders and have moved to limit such acquisitions. In some Asian countries with large ethnic Chinese populations, there has been push-back against perceived “Chinese” businesses and other interests. As China’s international activities expand, confrontations along these lines are likely to increase, possibly garnering unfavorable publicity for the PRC and putting stress on the “win-win” approach.

Foreign entanglements also could raise political problems at home for PRC policymakers. The increasing availability of Internet and cell phone use assures that growing numbers of Chinese citizens have more access to information, including information about China’s international activities. Confirmation that China is investing millions of dollars in overseas projects, while at home unemployment rises and infrastructure development lags, may prove objectionable to the hundreds of millions of PRC citizens still living below the poverty line — much the way many Americans sometimes react to U.S. overseas investment.

**The “Private Sector” Calculation.** As noted above, Beijing is seen to have advantages over the United States in that its overseas activities and investments are conducted by strong, well-funded state-owned companies. These large PRC government activities attract much international attention and give a “hard” edge to PRC soft power. The United States has little to match such centrally directed initiatives, particularly in the wake of years of U.S. budget cutbacks in high-profile

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<sup>32</sup> Prime Minister Tony Blair, “Doctrine of the International Community,” in a speech before the Chicago Economic Club, April 22, 1999.

U.S. international public diplomacy programs.<sup>33</sup> But comparing only government-directed and -funded activities overlooks the huge advantage the United States has in the extent of its substantial global private-sector presence. In addition to U.S. business interests, American products, schools, newspapers, journals, banks, movies, TV programs, novels, rock stars, medical institutions, politicians, Chambers of Commerce, state governments, religious groups, non-governmental organizations (NGOs), and other American institutions and values are liberally scattered over the global map. While this U.S. presence is diverse, uncoordinated, not centrally directed, and at times triggers anti-American feelings, it nevertheless leaves a substantial global footprint.

## China's Foreign Contacts

A brief survey of China's more assertive diplomacy in the international arena hints at the increasing Sino-U.S. competition for resources, power, and influence around the world.

**Asia.** China's improved relationships with its regional neighbors are particularly visible. In 2005, China took part in the first East Asia Summit (EAS) — a fledgling grouping of 16 Asian and Pacific powers including China, the ten members of the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, India, Australia, and New Zealand, but not including the United States. Russia's President Putin attended as an invited observer.<sup>34</sup> The second EAS meeting, hosted by the Philippines, began on January 15, 2007. The 16 nations reached new agreements to facilitate the eventual formation of a free-trade bloc and in addition signed the Cebu Declaration on East Asian Energy Security, pledging cooperation on developing renewable energy supplies and promoting cuts in greenhouse gas emissions.<sup>35</sup>

For decades prior to the mid-1990s, Sino-ASEAN relations were characterized by recurring clashes over territorial disputes, diplomatic deadlocks, and ASEAN concerns about China's military ambitions and regional economic competitiveness.<sup>36</sup> The 2005 EAS meeting is part of a trend in growing Sino-ASEAN regional cooperation. In addition to being included in an economic partnership in the ASEAN Plus Three (APT) grouping (including also Japan and South Korea, two U.S. military allies), China signed a free trade agreement with ASEAN in November 2004. Under the agreement, beginning July 1, 2005, the parties started lowering or cancelling tariffs on 7,000 items, with the goal of reaching full mutual free trade by 2010.

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<sup>33</sup> The U.S. Information Agency (USIA), for example, was zeroed out as an independent agency in 1999 and integrated into the U.S. Department of State under the Foreign Affairs Reform and Restructuring Act of 1998.

<sup>34</sup> See CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by Bruce Vaughn.

<sup>35</sup> *BBC News (international version)*, "East Asia stages inaugural summit," December 14, 2005.

<sup>36</sup> For background, see CRS Report RL31183, *China's Maritime Territorial Claims: Implications for U.S. Interests*, coordinated by Kerry Dumbaugh.

Largely as a result of this, Sino-ASEAN two-way trade increased to more than \$160 billion in 2006, up 23% from 2005. On January 14, 2007, China and ASEAN signed a new trade agreement on services, considered a major step toward eventual completion of a Sino-ASEAN free trade agreement.<sup>37</sup>

Within ASEAN, China's relations with Burma are unique, as Beijing has provided the Burmese government with substantial military, economic, and infrastructure development assistance. According to a reported internal Department of Defense (DOD) document, Beijing is building naval bases in Burma that will give China its only access to the Indian Ocean.<sup>38</sup> These close relations are one explanation for why the PRC vetoed a U.S.-sponsored U.N. Security Council resolution criticizing Burma's human rights record on January 12, 2007.<sup>39</sup>

China also has improved its bilateral relationship with India, with which it fought several border wars in the 1960s, and with Central Asia. On January 24, 2005, China and India began a "strategic dialogue," discussing terrorism, resource competition, and the U.S. role in Asia.<sup>40</sup> Cooperation was increased on May 29, 2006, when the two countries signed a "Memorandum of Understanding Between the Ministries of Defence of China and India Regarding Interaction and Cooperation in the Area of Defence."<sup>41</sup> Under the agreement, the two countries conducted a nine-day joint anti-terrorism exercise in Kunming in December 2007, dubbed "Hand in Hand 2007."

With the Central Asian countries of the former Soviet Union, China has pursued both economic and security arrangements through the Shanghai Cooperation Organization (SCO), founded in 2001. Within the SCO context, China has cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers. China also has negotiated energy deals with Australia, another U.S. regional ally, to supply liquid natural gas to southern China, and is continuing to explore a Sino-Australian free trade agreement. China's growing regional and global importance to Australia has generated a public backlash there against what is perceived as an increasingly hard-line U.S. policy stance toward China.<sup>42</sup>

**Japan.** For years, Japan, considered the most important American ally in Asia, was a notable exception to China's regional diplomatic achievements. China

<sup>37</sup> See CRS Report RL32688, *China-Southeast Asian Relations: Trends, Issues, and Implications for the United States*, by Bruce Vaughn and Wayne Morrison.

<sup>38</sup> The internal DOD report was cited by a *Washington Times* reporter. Gertz, Bill, "China Builds up Strategic Sea Lanes," *Washington Times*, January 18, 2005.

<sup>39</sup> The veto was only the fifth that Beijing has exercised in the U.N. Security Council.

<sup>40</sup> For more, see the "China" section of CRS Report RL33529, *India-U.S. Relations*, by Alan Kronstadt.

<sup>41</sup> *BBC Monitoring*, "Chinese agency on first ever joint antiterrorism exercise with India," December 23, 2007, originally reported by *Xinhua*, Li Jianmin and Liu Yonghua, "China and India Conduct First Joint Army Antiterrorism Training 'Hand in Hand.'"

<sup>42</sup> See CRS Report RL33010, *Australia: Background and U.S. Relations*, by Bruce Vaughn.

routinely protested former Japanese Prime Minister Junichiro Koizumi's annual visits to the Yasukuni Shrine, where war criminals are also enshrined. After Koizumi first visited the shrine in 2001, China used the issue to justify its refusal to engage in bilateral summitry, except as part of multilateral meetings. But improvements in Sino-Japanese relations began with the visit to China of Japan's then new Prime Minister, Shinzo Abe, on October 8, 2006. The trip to the PRC was Prime Minister Abe's first foreign visit as Prime Minister. In April 2007, PRC Premier Wen Jiabao visited Japan, and President Hu Jintao in May 2008 became only the second PRC President to visit Japan.<sup>43</sup> In what was seen as a very successful visit, President Hu made a five-point proposal to enhance mutual cooperation, expand cultural exchanges, and strengthen "mutual strategic trust."<sup>44</sup>

As with other Asian countries, China's trading relations with Japan have expanded. In 2004, China (including Hong Kong) surpassed the United States as Japan's largest trading partner.<sup>45</sup> But the political relationship remains hampered by the residual resentments of Japan's conquest and occupation of China during World War II. Many Chinese leaders remain suspicious of Japan's recent attempts to become a more "normal nation" by becoming more diplomatically assertive and by expanding its military capabilities. Some in Beijing have criticized the Bush Administration for supporting or even encouraging these trends in Japan.<sup>46</sup>

Furthermore, China's growing economic competitiveness and expanding regional presence at times have helped exacerbate its relations with Tokyo. China and Japan have competed ferociously for access to Siberian oil, for instance, with each vying to be the major winner in a pipeline contract with Russia. As a result of China's exploration activities in the Chunxiao Gas Field, in waters where Japan and Taiwan also have territorial claims, Tokyo has begun its own exploration activities in and around the Senkakus. Tensions also have affected China's oil explorations in areas of the East China Sea over which Japan also claims sovereignty. But these lingering tensions also seem to have abated in 2008. On June 18, 2008, China and Japan announced a "consensus" on joint exploration for oil in the East China Sea, as well as an "understanding" on Japanese participation in development of the Chunxiao field.

**Russia.** Energy resources and security issues also factor heavily into China's relations with Russia, where as noted above Beijing and Tokyo are in an ongoing competition for Siberian oil access. Russian President Vladimir Putin and PRC President Hu Jintao held multiple meetings in 2006 during "The Year of Russia in China," with President Putin in March of that year announcing plans to open a gas

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<sup>43</sup> See CRS Report RL33436, *Japan-U.S. Relations: Issues for Congress*, coordinated by Emma Chanlett-Avery.

<sup>44</sup> "Special Report: President Hu Visits Japan," *www.xinhuanet.com*, May 8, 2008.

<sup>45</sup> In 2004, China did \$213 billion in trade with Japan. Sato, Shigeru, "Cooperate with Japan, Don't Compete," *Dow Jones Chinese Financial Wire*, February 3, 2005.

<sup>46</sup> See CRS Report RL32466, *Rising Energy Competition and Energy Security in Northeast Asia: Issues for U.S. Policy*, by Emma Chanlett-Avery.

pipeline to China within five years.<sup>47</sup> Regular bilateral visits have continued, with President Dmitry Medvedev making his first official visit to China on May 26, 2008. Russian leaders also meet regularly with PRC leaders through the forum of the Shanghai Cooperation Organization, where Russia is one of the six members.

Prohibited from purchasing military weapons from the West since the 1989 Tiananmen Square crackdown, China has been heavily dependent on arms purchases from Russia in the intervening years to fuel its military build-up. But international arms sales experts say this may be changing. According to a well-known arms transfers database, China's arms imports from Russia have dropped 62 percent in 2007 — perhaps reflecting the growing sophistication of the PRC's own defense industry.<sup>48</sup> Still, security cooperation remains a part of Sino-Russia relations. On February 2, 2005, Russia's President Vladimir Putin and visiting PRC State Councillor Tang Jiaxuan announced that their two countries would begin holding regular security consultations.<sup>49</sup> According to Councillor Tang, China considers Russia its “main partner for strategic cooperation,” and he emphasized that this was the first time that China had ever established national security consultations with a foreign government. The two countries held eight days of joint military exercises, dubbed “Peace Mission 2005.” The exercises began August 18, 2005, and involved as many as 10,000 Chinese troops and 1,800 Russian troops.<sup>50</sup>

In 2007, Russia and China participated in “Peace Mission 2007,” a joint anti-terrorist military exercise conducted by the members of the Shanghai Cooperation Organization (SCO) — exercises that the SCO later announced would become a regular event.<sup>51</sup> Despite lingering historical tensions between the PRC and Russia, both countries are widely thought to be seeking mutual common ground as a counterweight to U.S. global power.

**European Union.** In recent years, China has courted the European Union (EU) intensively, and Sino-EU contacts have broadened significantly as a result. On October 24, 2006, the European Commission released a new paper to the European Parliament entitled “EU-China: Closer Partners, Growing Responsibilities.” The document reinforced the trends remarked upon several years ago by European Commission President Jose Manuel Barroso — that the EU considers China a “strategic partner” and has made developing Sino-EU ties “one of our top foreign

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<sup>47</sup> “Russia plans natural gas pipeline to China,” *Associated Press*, March 21, 2006.

<sup>48</sup> Dr. Paul Holtom, The Stockholm International Peace Research Institute (SIPRI) Arms Transfers Data for 2007. [[http://www.sipri.org/contents/armstrad/PR\\_AT\\_data\\_2007.html](http://www.sipri.org/contents/armstrad/PR_AT_data_2007.html)]

<sup>49</sup> “Russia, China Tighten Security Links,” *China Daily*, February 3, 2005.

<sup>50</sup> Lukin, Michael, “Peace Mission 2005: a 1970s Template for Sino-Russian ‘Peacekeeping,’” *Moscow Defense Brief*, Centre for Analysis of Strategies and Technologies.

<sup>51</sup> The announcement was made by SCO secretary General Bolat Nurgaliyev in February 2008. “The SCO exercise to become regular — secretary general,” *Russia & CIS Military Newswire*, 2008 Interfax Information Services, February 29, 2008.

policy objectives in the years to come.”<sup>52</sup> On January 18, 2007, the European Commissioner for External Relations, Benita Ferrero-Waldner, delivered a speech in Beijing entitled “The EU and China: Moving Forward.” In it, the Commissioner renewed a 2005 call for the post-Tiananmen Square EU arms embargo against China to be lifted — an embargo the United States continues to maintain.<sup>53</sup> The 2005 EU attempt to lift the embargo eventually was shelved after substantial U.S. and congressional opposition.<sup>54</sup>

In November 2007, the EU and China held the Tenth China-EU Summit in Beijing. At the summit, the EU reaffirmed its commitment to the “one-China” policy, expressing its hope for a peaceful resolution of Taiwan’s status. EU and PRC leaders also agreed, among other things, to continued cooperation on enhanced political dialogue, human rights, and non-proliferation and disarmament, and addressing climate change; and support for a strong multilateral system with a central role by the United Nations.<sup>55</sup>

**Middle East and Africa.** For years, China reportedly has sold missile technology and other sensitive materials to countries of security concern to the United States, such as Iran, Syria, Libya, and Iraq. More recently, China also is becoming a major energy player in the Middle East with some of these same countries. PRC negotiators, for instance, were able to sign significant oil deals with Iran in 2004, including a proposal that allows a Chinese company develop Iran’s Yadavaran oil field in exchange for China’s agreeing to buy Iranian liquefied natural gas.<sup>56</sup> In addition, China’s trade with the six Gulf Cooperation Council (GCC) countries has steadily increased in the last few years, going from \$20 billion in 2004 to \$58 billion in 2007; by comparison, U.S. total trade with the GCC in 2007 was \$72.1 billion.<sup>57</sup> The PRC also has placed a premium on its relations in Africa, with President Hu Jintao having embarked on his third trip to Africa in three years on January 30, 2007.<sup>58</sup> PRC relations with Sudan have been especially problematic for the United States and other western countries, which have placed increasing pressure

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<sup>52</sup> [[http://europa.eu.int/comm/external\\_relations/china/summit\\_1204/ip04\\_1440.htm](http://europa.eu.int/comm/external_relations/china/summit_1204/ip04_1440.htm)].

<sup>53</sup> The embargo was put in place in 1989 in response to the June 4, 1989 PRC crackdown against peaceful demonstrations in and around Tiananmen Square.

<sup>54</sup> In an interview with the *Financial Times* on February 21, 2005, for example, Senator Lugar, Chairman of the Senate Foreign Relations Committee, said he would support curbs on sales of advanced military technology to EU countries unless the EU could give strong assurances that advanced technologies would not be diverted to China should the embargo be lifted.

<sup>55</sup> See Joint Statement from the summit, dated November 28, 2008, at [[http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/er/97355.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/97355.pdf)].

<sup>56</sup> Lee, Don, “China Barrels Ahead in Oil Market...,” *Los Angeles Times*, November 14, 2004, p. C-1.

<sup>57</sup> The six GCC countries are the United Arab Emirates (UAE), Saudi Arabia, Bahrain, Kuwait, Qatar, and Oman. Statistics for two-way trade are from the World Trade Atlas online database.

<sup>58</sup> President Hu visited South Africa, Sudan, Cameroon, Liberia, Zambia, Namibia, Mozambique, and Seychelles.

on Beijing to influence the Sudanese government to do more to resolve the humanitarian crisis in Darfur. While Chinese leaders say they have raised the issue of Darfur (a statement made by President Hu again during his January-February 2007 trip), Beijing also has vowed to use its U.N. Security Council position to block stronger U.N. sanctions on Sudan.

In 2000, China and African countries formed the China-Africa Cooperation Forum (CACF), proposing meetings every three years to seek mutual economic development and cooperation. Representatives from 45 of Africa's 55 countries attended the CACF's first Ministerial Conference in October of that same year; the third CACF meeting was in Beijing in early November 2006. China has also targeted resource-rich African nations such as Sudan and Angola for energy-related development.<sup>59</sup> Senior Chinese leaders in 2004 visited oil-producing states, including Algeria and Gabon, and news reports early in 2005 alleged that a state-owned PRC energy company, China Shine, planned to drill exploratory wells in a Namibian concession that was once held by Occidental Petroleum.<sup>60</sup> China has also shown an interest in iron ore deposits in Liberia and Gabon. In addition to resource-related imperatives, some observers have suggested that there is a political dynamic to China's push into Africa, as four of the 23 countries that still maintain official diplomatic relations with Taiwan are on the African continent.<sup>61</sup>

**Western Hemisphere.**<sup>62</sup> Political dynamics are in play in China's expanding economic and trade relationships with Latin America and the Caribbean, where another 12 countries still maintain official diplomatic relations with Taiwan.<sup>63</sup> In addition, China's growing presence in the region may have political and economic consequences for the United States. In September 2004, China sent a "special police" contingent to Haiti — one of Taiwan's official relationships — marking Beijing's first deployment of forces ever in the Western Hemisphere. On November 18, 2005, Chile, after months of bilateral negotiations, signed the Sino-Chilean Free

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<sup>59</sup> China objected to the U.N. vote threatening oil sanctions against Sudan unless it ceased atrocities in the Darfur region. Ultimately, the PRC abstained on the September 19, 2004 vote, but promised to veto any future sanctions.

<sup>60</sup> Boxell, James, "Circle Oil in Dollars 50m Africa Drilling Deal with Chinese Group," *Financial Times* (London edition), January 28, 2005, p. 25.

<sup>61</sup> In April 2008, Taiwan maintained official relations with Burkina Faso, Gambia, Sao Tome and Principe, and Swaziland. Formerly, Senegal, Chad, and Malawi were three of Taiwan's official relationships; the first announced on October 25, 2005, that it was severing official relations with Taiwan; the second on August 6, 2006; and the third, Malawi, in a five-point memorandum with China on December 28, 2007.

<sup>62</sup> See CRS Report RS22119, *China's Growing Interest in Latin America*, by Kerry Dumbaugh and Mark Sullivan.

<sup>63</sup> Taiwan's official relations in the region include Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, St. Kitts and Nevis, and St. Vincent and the Grenadines. On January 20, 2005, Grenada formally ended its diplomatic relations with Taiwan and established diplomatic relations with the PRC.



Trade Agreement (FTA). Beijing officials have said they hope the Sino-Chilean FTA will become a model for similar agreements with other Latin American countries.<sup>64</sup>

Energy concerns also play a role in China's Latin-American diplomacy, particularly in Venezuela, which now accounts for almost 15% of U.S. oil imports, and in Brazil, with which China announced a \$10 billion energy deal in November 2004.<sup>65</sup> As a consequence of Venezuelan President Hugo Chavez's visit to Beijing in December 2004 and PRC Vice-President Zeng Qinghong's visit to Venezuela in January 2005, the two countries reportedly signed a series of agreements that committed the China National Petroleum Corporation to spend over \$400 million to develop Venezuelan oil and gas reserves.<sup>66</sup> Given the current poor state of U.S.-Venezuelan relations under the Chavez government, some American observers worry that Venezuelan energy agreements with China ultimately may serve to divert oil from the United States.

Chinese economic and energy concerns extend to Canada. On January 20, 2005, at the conclusion of Canadian Prime Minister Paul Martin's visit to China, the two governments signed a series of agreements to promote international cooperation on a range of issues and to make energy issues in particular — including gas, nuclear, clean energy, and oil sources, primarily massive “oil sands” in Alberta — into “priority areas” of mutual cooperation. Energy discussions are to be maintained through the Canada-China Joint Working Group on Energy Cooperation, formed under a 2001 memorandum of understanding. A large Canadian oil-pipeline company, Enbridge, is said to be planning a major (\$4 billion) pipeline project to transport oil from Alberta's oil-sands deposits to Canada's west coast for shipment to wider markets including China, although its PRC partner in the deal, PetroChina, pulled out in 2007, citing repeated delays in the project.<sup>67</sup>

## Implications for U.S. Interests

A case can be made for accepting that the PRC's international activities are what Beijing claims them to be — a country's natural and legitimate pursuit of peaceful global opportunities for economic growth. Moreover, PRC interests appear to have benefitted more substantially by operating within the current global system, of which the United States is the chief architect, than by challenging it. Therefore, many argue that China's rise is not very negative for U.S. interests, which would best be served by encouraging China's further integration into the global system. This is the position the George W. Bush Administration has come to embrace. Others disagree,

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<sup>64</sup> Jiang Wei, “China-Chile FTA Talks Smooth,” *China Daily*, January 31, 2005, online at [[http://www.bilaterals.org/article.php3?id\\_article=1237](http://www.bilaterals.org/article.php3?id_article=1237)].

<sup>65</sup> The PRC is also investing in energy deals in Ecuador and in offshore projects in Argentina, according to the *New York Times*, “China's Oil Diplomacy in Latin America,” March 1, 2005, p. 6.

<sup>66</sup> Bajpae, Chietigi “China's Quest for Energy Security,” *Power and Interest News Report*, February 25, 2005, online at [<http://www.pinr.com/>].

<sup>67</sup> “Enbridge shrugs off loss of Chinese partner,” *Canadian Press*, for *Business Edge*, July 27, 2007, Vol. 7, No. 15.

holding that China's growing international muscle, even if natural and benign in intent, increasingly will compete with and even limit U.S. freedom to pursue American global interests relatively unencumbered.

It also is possible to challenge the "benign rise" notion by pointing to historical examples in the 19<sup>th</sup> and 20<sup>th</sup> centuries of confrontation and outright warfare between reigning powers such as the United States and rising powers such as the PRC. Through this more skeptical lens, the PRC presence in Latin America and the Caribbean has particularly worrisome implications. It could help strengthen anti-U.S. political leaders and actors in some countries; in the event of a possible U.S. military conflict with China, PRC human and commercial infrastructure in Latin America would be well placed to disrupt and distract the United States in the hemisphere and to collect intelligence data against U.S. forces operating in the region.<sup>68</sup>

Whichever of the above policy directions the PRC is traveling and whatever its ultimate intentions, its international engagement and growing economic clout pose demanding challenges and questions for U.S. policymakers. Some of these include:

- How will the United States deal with increasing competition by China for leverage and influence, not only in terms of new economic and political international relationships, but for current U.S. relationships with allies and other countries where U.S. influence to date has been dominant? What role do U.S. alliances play in this debate, and what is the role of U.S. relations with non-alliance countries?
- How detrimental is PRC "unrestricted" investment and assistance for U.S. efforts to promote good governance around the world and to limit corruption? How detrimental are the PRC's perceived advantages to the ability of U.S. companies to compete for international business, and what policies and agreements should the United States put in place to mitigate these effects? Can China be persuaded to adhere closer to international norms and condition its assistance more closely with good behavior?
- What are the implications for U.S. global objectives and for institutions that promote Western values, such as the IMF and the World Bank, if the PRC increasingly begins to compete directly as an international lender offering less encumbered assistance?
- As the PRC increasingly expands its "hard power" assets — naval and military power — to protect its growing international interests, how much greater are the prospects for Sino-U.S. military confrontation, either deliberate or accidental, and how should the U.S. prepare for and deal with these prospects?

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<sup>68</sup> R. Evan Ellis, "The Military-Strategic Dimensions of Chinese Initiatives in Latin America," China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, February 16, 2007.

- What policies should the United States adopt to prepare for increasingly robust U.S.-China competition for energy resources, international commodities, and space exploration?
- What will it mean for the United States should Taiwan lose its remaining diplomatic relationships around the world? Should the United States seek to play a more active role in seeking to improve Taiwan's international position — perhaps by reassessing current U.S. policy toward Taiwan in light of China's rise?
- How should the United States respond, if at all, to any global perceptions of U.S. disengagement around the world?

## Options

Should U.S. policymakers decide that the status quo is sufficient protection for U.S. interests, then little if any action is needed. The status quo presumes that U.S. soft power, complex and multi-faceted as it is, will be dominant globally far into the future and sufficiently resilient to weather temporary ups and downs; that the capacity for PRC global soft power will remain limited, both by Beijing's own policy predilections and by other countries' self-interests; and that the PRC will remain too pre-occupied with resolving its own significant domestic economic inequities, infrastructure problems, political transformation pressures, and social instabilities to focus significant effort on its global presence.

Should U.S. policymakers decide that the PRC's invigorated activities around the world require a U.S. response to offset or better compete with China, there are innumerable policy options that might be considered, in both the "hardline" and "stakeholder" categories. Each of these possibilities involves policy trade-offs. These, discussed in more complete detail throughout this report, are briefly summarized below. They include:

**Reinvigorate U.S. Global Engagement.** The United States could seek to counter China's global activities by reinvigorating U.S. engagement around the world, including the expansion of U.S. public diplomacy.

- In Asia, this could include more active participation in building the emerging economic and political/security architectures of the region. This could include seeking observer status or outright membership in the SCO and the EAS, and more active participation in the ASEAN Regional Forum. The United States also could make concrete policy proposals to reinvigorate the Asia-Pacific Economic Cooperation Forum (APEC) as a vehicle for U.S. soft power influence in Asia.
- In Africa, it could include increased and more efficient U.S. bilateral cooperation, trade, and military relations, including the prospect of directly involving the PRC and African governments in bilateral and multilateral dialogue with the aim of defining goals, issues, and agendas of mutual interest. U.S. policymakers could urge China and

African countries to create an observational status within the Forum on China-Africa Cooperation, enabling the United States and other countries to learn about the policy priorities of these groups and to participate in consultations on time-sensitive, urgent challenges in these regions, including armed conflicts, humanitarian crises, and security threats to Chinese and U.S. businesses.

- The United States also could emphasize a more visible U.S. role in solving global problems, including health care to address HIV/AIDS, malaria and other diseases; providing drugs and building clinics; promoting alternative energy sources; improving agricultural development capacities and providing increased education and human resource training. It could adopt a more vigorous role in addressing other global issues such as climate change and the promotion of energy conservation measures.
- Washington could seek to enhance cooperation among Russia, China, the EU, and other outside powers to assist fragile states to develop their independence and security.

### **Encourage Greater Transparency and Good Governance in China.**

The United States could strengthen its programs to encourage development of rule-of-law and other boons to governance in China. This could include:

- Urging China to support an equitable, rule-based global legal and business environment and help to develop the rule of law in the regions in which the PRC is investing by signing on to public-private sector good governance initiative and agreements.
- Encouraging China to join in multilateral and country-level donor foreign assistance dialogues and related efforts to prioritize key development goals and coordinate aid efforts in order to create synergies, avoid duplication, and maximize each donor's strengths.
- Offering to work collaboratively with China to help it to design, coordinate, and increase the efficiency of its nascent institutional foreign aid structure, including more clearly differentiating its official grant-based aid from its subsidization of trade and commerce credit; monitoring the effectiveness of its aid strategies; harmonizing aid reporting with other donor governments; and developing best practices in support of transparency and accountability.
- Make greater use of the U.S.-China Strategic Economic Dialogue (SED) as a vehicle for addressing broader bilateral and multilateral issues.

**Leverage U.S. Strengths over China.** In the absence of sufficient transparency in China's international efforts, the United States could seek to improve its own knowledge base and do a more competitive job of pursuing its foreign interests. This could include:

- Maintaining and publicizing a more accurate calculus of actual PRC assistance and investment that is delivered, as opposed to that which is merely announced.
- Working harder to ensure that U.S. democratization and human rights values are viewed not as encumbrances and prohibitions, but instead as measures that ultimately will improve their economic progress.
- Re-thinking the current U.S. “gold standard” in regional and bilateral Free Trade Agreements, especially when such a standard requires substantial changes in domestic laws.
- Working to achieve greater efficiency and to cut red tape in U.S. and multilateral institution assistance and investment in developing countries.
- Seeking to counter PRC efforts to isolate Taiwan by conditioning U.S. assistance and economic interaction with other countries on Taiwan’s greater international participation.
- Leveraging U.S. innovation in communications, engineering, and other fields to more actively — and visibly — aid the developing world.