

SECTION 1: CHINA'S REGIONAL ACTIVITIES AND THEIR ECONOMIC AND SECURITY IMPACTS

Key Findings

- China has increased its presence in many geographic regions during the past decade.
- China's decisions to become involved in specific countries and regions, the nature of its involvements, and its regional and multi-

lateral goals appear to be frequently influenced by its need for resources, particularly energy-related resources, the search for export markets, and a desire to increase its geopolitical leverage and influence and advance national objectives. Diplomatic aims include marginalizing Taiwan and increasing China's leverage in multilateral institutions by strengthening relations with other countries.

- China's regional strategies generally appear to be complementary and consistent and to reflect a larger global foreign policy strategy.
- China's regional approaches appear to be value-neutral; they are not influenced by ideology or human rights concerns and focus only on achieving China's practical objectives. China approaches countries that have histories and reputations of behavior and activities objectionable to the world community—such as proliferation, human rights abuses, aggression against other nations or less direct efforts to undermine their interests, support of terrorism, etc.—without requiring or even exerting pressure for changes in policy or behavior.

Overview

China has increased its diplomatic and economic activity around the world to secure markets for its exports, to obtain minerals, raw materials, and oil for its fast-growing economy, and to strengthen its international stature while isolating Taiwan and reducing the influence and power of the United States, especially in the Asia-Pacific region. China's foreign policy has changed dramatically in the post-Cold War environment, driven by an expanding economy and new geopolitical realities. In an attempt to enlarge its profile vis-à-vis the United States, and to secure new energy sources, China is increasing its use of investments, development packages, and diplomatic gestures to win favor and contracts in places like Africa and Latin America. At the same time, China will overlook the problems associated with despotic regimes and countries of concern and proceed to engage with such countries as long as its practical economic, energy, and strategic interests can be served by the engagement.

Factors Driving China's Global Strategy

Economic Growth

Sustaining economic growth is a major concern that is reflected in both China's domestic and international policy. This leads to a general desire for international stability, which facilitates trade and minimizes the diversion of resources to military ends.¹ More specifically, China's prioritization of economic growth leads to regional strategies that pursue export markets for Chinese goods and foreign direct investment (FDI) from other countries. China's booming manufacturing capacity often outstrips domestic consumption, to a considerable extent by design, leading to dependence on export markets to fuel its growth rate. China actively seeks FDI, which increased again in 2004 to \$60.6 billion, contributing to a cumulative total that has reached \$562 billion.²

China's global involvement is often driven by the need to secure resources. Energy-related resources are a particularly high priority, as discussed in Section 4 of this chapter. China's growing economy also leads China's government to incorporate the quest for minerals, lumber, and other raw materials in its diplomatic approaches.

Taiwan

China and Taiwan continually vie for international recognition. China has been far more successful in its efforts, and Taiwan currently is accorded national recognition by only 25 countries, many of which are in Africa, Latin America, and Oceania. China often uses its influence in multilateral organizations to deny or place extra burdens on Taiwan's membership. China's characterization of Taiwan's status as a strictly internal matter also leads it to favor countries with a similar aversion to foreign intrusion into what China describes as sovereignty rights. In fact, China often informs its diplomatic partners "that 'non-interference' in Chinese affairs is the price of admission for a quality relationship with China."³

Multilateral Institutions

China seeks support for its stances in the United Nations, the World Trade Organization, and other organizations in which each state has a vote or other formal powers. China spent the latter half of the Cold War positioning itself as a counterpoint to both the United States and the Soviet Union, and has transitioned its message into a play for contemporary economic and political leadership in the developing world.⁴

Nationalism and Legitimacy

China as a polity and a society enjoys international recognition for its own sake. For example, China and many of its citizens are extremely proud that Beijing will host the 2008 Olympics. Moreover, the Chinese press routinely overplays mundane meetings between Chinese officials and other countries, even when the country or meeting is strategically unimportant.⁵

China's government also uses the appearance or reality of international respect and cooperation to buttress the legitimacy of its domestic actions and circumstances. One of the original and continuing bases for supporting the Chinese Communist Party is the expectation that its governance can command international respect. This concept was and remains particularly important given China's view of its history as one of exploitation at the hands of Western powers, and later Japan. As a result, the Party prominently displays the ceremonies surrounding diplomatic interactions to convince the populace that strong leadership results in national strength and prestige while protecting the country from exploitation by foreign powers.

Filling Vacuums

China takes advantage of voids that result when other regional and global powers sanction, ostracize, or ignore nations or governments because of their objectionable activities, including states such as Iran, Myanmar (Burma), Sudan, and Zimbabwe. When the

United States, Europe, and others deny such countries the benefits of trade, investment, technology, development assistance, and political cooperation, China often becomes—and presents itself as—a passable alternative. China in many cases refuses to join international condemnation of a country that is repressing its population, abusing human rights, engaging in aggression or other unfriendly actions against other nations, or proliferating—even if that country is subject to international sanctions. China generally states that it does so on the grounds that the sovereignty of those nations should be respected. However, there often may be a more practical reason: Beijing’s desire to establish favorable relations to facilitate its efforts to obtain oil and other raw materials from such countries.⁶

Power and Multipolarity

China is “focused on further developing its comprehensive national power, and further promoting its position in the world to be a more influential and more powerful country.”⁷ The generic, latent power available through developing economic, diplomatic, and security ties with other countries can be pursued without a particular aim such as de-legitimizing Taiwan, securing economic interests and energy resources, or posturing for a domestic audience. Thus, China’s regional strategies are not always driven by narrow and immediate concerns, but the absence of specific goals should not be taken as an indication that China will refrain from an active strategy in a particular region.⁸

A specific manifestation of China’s desire to increase its power and prestige on the international stage is its explicit desire for a multipolar international order.⁹ In practice, China’s foreign policy is often tempered by the recognition that, whatever its preferences, the United States will be the dominant global power for some time.¹⁰ Nonetheless, “Chinese speeches and writings are steeped with language against hegemony, and for the promotion of a multipolar world,”¹¹ and there is evidence that China’s leadership believes that U.S. power and influence constitute a threat to its national interest.

China’s Regional Strategies

Africa

Africa is one of the focal points of China’s strategy to develop energy resources, export markets, and diplomatic support in the international community.¹² Beijing also sees African nations as valuable supporters of China’s claims to lead the developing world. Particularly in the United Nations and in the struggle against what China calls American hegemony, Sino-African cooperation can pay real dividends for China. China often champions the interests of developing countries in international fora, or repackages its own interests as identical or comparable to those of the developing world, in order to develop closer ties with those countries.¹³

China’s leaders face little scrutiny from the public, particularly in light of the government’s preponderant influence over domestic news media, leaving the government free to deal with African and other despots without facing significant domestic criticism or opposition.¹⁴ China’s leaders have increased the use of such tactics as

face-to-face diplomacy, government-subsidized loans, and active lobbying on behalf of state-run firms in order to advance a pragmatic strategy in African countries, some of which have severe human rights or other problems.

China is a source of diplomatic, economic, and/or military support to pariah governments in such countries as Sudan and Zimbabwe, which underscores the amoral nature of China's African strategy. Zhou Wenzhong, China's Deputy Foreign Minister, explained this characteristic by saying, "Business is business. We try to separate politics from business."¹⁵ China has acquired access to Zimbabwe's vast natural resources and has sold that country hundreds of millions of dollars worth of fighter jets, tanks, and small arms, according to a member of Zimbabwe's opposition party.¹⁶ China also has sold arms to Sudan¹⁷ as it worked to undermine efforts in the U.N. aimed at ending the genocide in Sudan's Darfur region.¹⁸

Africa factors heavily into China's energy procurement strategy and is likely to become even more important. China instituted stricter limits on the sulfur content of gasoline and gasoil in July 2005, but Chinese refineries are not sufficiently equipped to meet national demand at the stricter limits. Chinese refineries therefore will have to shift their oil purchases to regions such as West Africa that produce 'sweet' oil with lower natural sulfur levels.¹⁹ China obtains roughly one quarter of its oil from Africa, with Angola, Sudan, and Nigeria as major oil partners.²⁰ China also sees Africa as a vital source of other commodities such as copper, iron, and timber. For instance, Chinese investment has poured into the mines of Zambia and the Democratic Republic of Congo.²¹

Trade between African states and China is growing rapidly, having doubled in 2004, albeit from a modest base.²² China increasingly uses the promise of development projects and generously termed loans to African countries as a means of assuring that its companies receive favorable consideration for trade partnerships with the governments and companies of those countries.²³

Six African countries maintain formal diplomatic relations with Taiwan—Burkina Faso, Chad, Gambia, Malawi, Swaziland, and São Tomé and Príncipe. China continues its strategy to undermine Taiwan internationally by offering financial and political incentives such as grants, loans, and diplomatic support and cooperation to these nations.²⁴

Latin America

China's interest in and ties to Latin America have grown as a result of China's desire to strengthen its trade, especially energy-related trade, with that region. As it does in Africa, China weaves the Taiwan issue into its regional diplomacy in order to marginalize Taiwan.²⁵ China is also poised to take advantage of anti-American sentiments present in some countries of the region.²⁶

China's quest for raw materials and commodities has led it to this region with its rich energy resources, minerals, and other commodities. China covets Venezuela's oil, Chile's copper, and Brazil's and Argentina's soybeans and, in return, appears willing to increase its financial investments in the region. In 2003, trade be-

tween China and Latin America doubled to almost \$27 billion; during a November 2004 trip by Chinese President Hu Jintao to the region, agreements were signed for tens of billions of dollars in Chinese investments.²⁷ Chinese investment in Latin America to date has been narrowly targeted at developing and acquiring resources or products necessary to China's economic growth that are not sufficiently available in China.²⁸

Argentina, Brazil, Chile, Peru, and Venezuela all granted China market economy status in 2004, fulfilling a major goal of President Hu's November 2004 tour of the region.²⁹ Brazil's Foreign Minister has since expressed regret for this decision, noting that China has not increased investment in Brazil in return. Brazil also failed to negotiate subsequent Chinese export restraints on textiles and footwear.³⁰ Venezuela signed deals in December 2004 and January 2005 that permit Chinese firms to gain access to and develop more than 15 of Venezuela's declining oil fields.³¹ Although China currently imports negligible quantities of oil from Venezuela, this development eventually may affect the U.S. oil market, which now absorbs two-thirds of Venezuela's oil exports.³² For China to import Venezuelan oil, it would have to absorb high transportation costs. China would also have to build refineries capable of processing Venezuela's heavy oil; such facilities are already available in the United States.

Europe

China's ties with Europe are growing stronger, especially in the economic realm. Significantly, European countries have fewer security concerns involving China, in contrast to the United States and its security interests, presence, and commitments in East Asia.³³ Thus security does not complicate the EU-China relationship to the extent that it does the U.S.-China relationship.³⁴ Europe also figures prominently in China's desire for a multipolar global geopolitical arrangement, as Europe would be a necessary component of any effort to band countries together as a counterbalance to U.S. power. However, China is unlikely to meet with success on this point, as European countries generally prefer rules-based multilateral institutions to the *realpolitik* that would be involved in creating a multipolar system.³⁵

China's trade with Europe has accelerated rapidly and is increasingly important to both China and the EU. China has become the EU's second largest trading partner,³⁶ and EU-China trade has grown more rapidly than China's trade with either Japan or the United States.³⁷ In 2004, the 25 countries of the EU imported 126.9 billion euros of merchandise from China and exported 48.1 billion euros.³⁸ European companies generally have been eager to invest in China and sell to its growing domestic market, which has led to large FDI flows from Europe. Not surprisingly, the level of economic diplomacy between Brussels and Beijing has increased as a result of these trends. However, there are concerns in Europe about Chinese human rights abuses, the rising presence of cheap Chinese goods in European markets, and intellectual property rights violations in China.³⁹

China has pressed a number of countries to grant it market economy status and has directed a strong effort at the EU. Some major

economic powers, including the United States and the EU, have declined to do this. The EU denied China's request in June 2004, noting that China lacked the ability or will to provide sufficiently strong corporate governance structures, intellectual property protection, and bankruptcy procedures.⁴⁰

One recent target of China's diplomatic efforts in Europe is the EU arms embargo, imposed against China after the 1989 Tiananmen massacre. According to a senior European diplomat who spoke with the Commission during its November-December 2004 mission to Brussels, China has pressed the EU extremely hard to lift the ban. Although the EU appeared ready to do this in the first part of 2005, it postponed action on this matter in apparent response to U.S. pressure and China's adoption of its Anti-Secession Law that threatens Taiwan's and possibly U.S. security interests. Still, French President Jacques Chirac continues to support lifting the embargo, and EU High Representative for the Common Foreign and Security Policy Javier Solana expressed support for doing so as recently as September 2005.⁴¹ In opposition, the EU Parliament and several national parliaments have passed resolutions urging that the embargo be left in place, noting that the human rights conditions that led to its imposition have not fundamentally improved.⁴² Advocates for lifting the embargo argue that improved export control guidance, such as a strengthened code of conduct on arms exports, will prevent undesirable exports to China.⁴³ The Commission believes that the embargo must remain in place for human rights and strategic reasons, particularly considering the shortcomings of the code of conduct.⁴⁴

Northeast and Southeast Asia

China's strategy in Northeast and Southeast Asia is heavily influenced by a desire to incorporate Taiwan into China without raising tensions with other nations such as Japan and South Korea.⁴⁵ "[China] seeks to diminish Taiwan's positive reputation within the East Asian region, to make [Taiwan] appear the troublemaker," explained one Commission witness.⁴⁶

Japan's 2004 trade with China reached a total of \$168 billion, with China enjoying a modest surplus.⁴⁷ South Korea's trade with China was \$90 billion in 2004, with South Korean exports standing at double the value of imports.⁴⁸

China's Asian strategy appears to be aimed at binding the region to itself economically, politically, and militarily.⁴⁹ In this, its major regional rival is Japan. China continues to harbor hostile sentiments toward Japan, based in some part on antagonism that originated during the Japanese occupation preceding and throughout World War II and that continued throughout the Cold War. Anti-Japanese riots erupted in several Chinese cities in April 2005, apparently after initial prompting by the Chinese government.⁵⁰ Ironically, China's growing military power is having the effect of encouraging closer security ties between Japan and the United States.⁵¹

Given geographic proximity and China's current limited capability to project military power, the nations of Northeast and Southeast Asia are particularly concerned about the ultimate effects of China's expanding strategic power.⁵² This is especially the

case with Taiwan, as discussed in Chapter 3. China is certainly aware of the possibility that its growing stature will be construed as a threat to other countries in the region. To mollify fears of strategic dominance through economic or military power, China trumpets the concept and terminology of its “peaceful rise.”⁵³ This rhetorical strategy encourages other nations to view China’s rise as meteoric, inevitable, and beneficial to the international community.⁵⁴

China is not the only threat to regional stability and specifically to countries such as Japan and South Korea. For the past decade, a secretive and fractious North Korea has appeared committed to building a nuclear and ballistic arsenal. As discussed in Section 3 of this chapter, China has tremendous leverage over North Korea and must be exhorted to use this influence to lessen the threats posed by that country.

Hong Kong

The Commission visited Hong Kong in August 2005 and met with a number of Hong Kong legislators and other officials, the American Consul-General and his staff, and both U.S. and foreign media representatives. It was troubling to hear not only that there is a lack of progress toward democracy, but also that the Beijing authorities have established constraints on Hong Kong’s political development. The Commission heard serious concerns over whether Beijing’s actions are undermining the high degree of autonomy for Hong Kong envisioned under the Sino-British Joint Declaration of 1984, the Hong Kong Basic Law, and the principle of ‘one country, two systems.’ Pro-democracy Hong Kong legislators suggested to the Commission that Congress should urge Beijing to expand suffrage, end the imprisonment of journalists such as Ching Cheong, and cease its erosion of Hong Kong’s autonomy. This problem is highlighted by the response of Donald Tsang, the newly appointed Hong Kong Chief Executive, to criticisms about the glacial pace of democratization in Hong Kong: “[W]e are not masters of our fate.”⁵⁵ The Commission believes it is important for the Congress to remain cognizant of the situation in Hong Kong and to demonstrate to Beijing that whether China honors its commitments to Hong Kong is of special concern to the Congress.

South Asia

South Asia continues to be important to China. China’s current trade volume with South Asia totals nearly \$20 billion a year, including \$13 billion with India alone.⁵⁶ In an apparent attempt to deepen its strategic influence in the region, China has offered economic incentives to the other countries in the region. It also backs the region’s governments against internal dissent, most tellingly favoring the government of Nepal over its Maoist insurgency.⁵⁷ Currying favor with these states gives China some leverage in any future tensions that could arise with India, which is one of China’s traditional strategic rivals.⁵⁸ The policy also gives Beijing access to outposts close to its sea lanes to the Middle East and Africa. Addressing the same considerations, China is heavily involved in building the Pakistani naval port at Gwadar, and it is anticipated

that this base will give China a very important strategic naval presence in the Indian Ocean.⁵⁹

Despite its historical problems with India, China is attempting to nurture improved ties with that country. Chinese trade with India shows promise and China likely seeks access to Indian technology, especially in the computer software field.⁶⁰ The two countries are engaged in settling their long-standing border dispute, which contributed to a military confrontation in 1962.⁶¹ However, some speculate that China may draw out the resolution process so as to maintain an uneasy balance of power between Pakistan and India, thereby occupying the strategic attention and resources of both. "It is possible that one reason why Beijing is not in a hurry about resolving the boundary dispute with India is that it would fundamentally ease India's two-front problem, intensifying Indian pressure on Pakistan."⁶²

The Former Soviet States

With China having settled most long-standing border disputes with Russia, and with both nations opposed to U.S. global dominance, closer ties between Beijing and Moscow on some levels are likely.⁶³ But there are also areas in which regional competition could chill relations between the two. One example is Moscow's fear of undue Chinese economic and political influence in Russia's border areas with China.⁶⁴

China's military is heavily reliant on ongoing or past Russian arms sales, especially sophisticated weapons systems that China has lacked the capability to produce indigenously. Russia's armament industry, in turn, is dependent on the Chinese transactions that account for 45 percent of its total sales.⁶⁵ Further acquisition from Russia has the advantage that China already is familiar with the Russian weapons systems it now uses although, over the longer term, China certainly does not want to be permanently dependent on arms sales from another country and will likely pursue policies to wean its military from Russian imports.⁶⁶ In contrast to former President Jiang Zemin, current President Hu Jintao is described as pro-Russia by some because of his reported reliance on Russian political support and Russian military hardware.⁶⁷ The two countries are expanding military exchanges and cooperation and conducted the first China-Russia joint military exercise in the summer of 2005.⁶⁸

Both countries harbor concerns about the presence of U.S. armed forces in Central Asia, which increased substantially in 2001. On July 5, 2005, both China and Russia called on the United States and its coalition partners with troop presence in several Central Asian states to set a deadline for regional withdrawal.⁶⁹

Energy is another major driver in China's approach to Central Asia. Last summer, after years of negotiations, China and Kazakhstan agreed to build a pipeline into China's northwestern Xinjiang region. According to one source, the "pipeline will be a key link in a 3,000-kilometer project that aims to join China to the Caspian Sea."⁷⁰

China's influence is fanning across the former Soviet Central Asian states of Kazakhstan, Kyrgyzstan, Turkmenistan, Uzbekistan, and Tajikistan. Because of its heightened interest in Central

Asia, China has taken a leading role in the Shanghai Cooperation Organization (SCO). The SCO, initially formed in 1996, is a political alliance composed of the Central Asian states named above minus Turkmenistan, plus China and Russia. Iran, India, and Pakistan recently joined as observers. The original impetus for the alliance was to cooperate against radical extremism and separatism, but the group's focus has grown to encompass promoting cooperation in trade and other areas. Some see China and Russia attempting to use the bloc to counter U.S. influence in the region.⁷¹