

CHAPTER 2

CHINA'S GLOBAL AND REGIONAL ACTIVITIES AND OTHER GEOSTRATEGIC DEVELOPMENTS

SECTION 1: CHINA'S REGIONAL ACTIVITIES

The Commission shall investigate and report on “REGIONAL ECONOMIC AND SECURITY IMPACTS—The triangular economic and security relationship among the United States, [Taiwan] and the People’s Republic of China (including the military modernization and force deployments of the People’s Republic of China aimed at [Taiwan]), the national budget of the People’s Republic of China, and the fiscal strength of the People’s Republic of China in relation to internal instability in the People’s Republic of China and the likelihood of the externalization of problems arising from such internal instability.”

Key Findings

- China’s stated diplomacy promotes friendly relations with other countries, regional peace and stability, and development of complementary economic cooperation.¹ However, some of China’s international relationships, namely those with totalitarian, repressive governments, conflict with U.S. values.
- China’s regional activities in Latin America, Africa, and the Middle East and around East Asia are beginning to assume the character of a counterbalancing strategy vis-à-vis the United States. That is, China’s support for rogue regimes and anti-American governments and groups in vital regions serves an international purpose: to balance American power, create an alternative model of governance, and frustrate the ability of the international community to uphold its norms.
- China’s economic development policies can exacerbate instability in volatile regions. Beijing’s export-led growth has magnified trade imbalances, and complicated and inhibited local economic development strategies, in some instances undermining the ability of governments in those regions to prevent or respond to the rise of terrorist groups.
- China’s strategy to isolate Taiwan is manifest in its foreign policy actions around the world, including encouraging other nations to switch their recognition to the People’s Republic of China, and preventing Taiwan from participating in international organizations.

Overview

During the past decade, China has energetically expanded its outreach to the world. Dr. Ariel Cohen, Senior Research Fellow at The Heritage Foundation, testified to the Commission that “China has departed from its traditional isolationist philosophy and is seeking to project its influence abroad. China is, at present, a regional power with global aspirations, and if it continues on the path of economic growth and projection of influence, its aspirations may be realized.”²

China’s foreign policy goals include creating opportunities for continued domestic growth, isolating Taiwan internationally and encouraging other nations that recognize Taiwan to change their recognition, and ensuring continued rule by the Chinese Communist Party. China views peace and stability at home as necessary ingredients for economic growth.³ Economic growth, in turn, legitimizes and perpetuates Communist Party control. The result of this focus is China’s increased integration in world markets, the development of global economic interests, and the emergence of mechanisms designed to protect these interests. Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen expressed to the Commission the hope that as China’s involvement around the globe increases, China will join the United States “in actions that will strengthen and support the global system that has provided peace, security, and prosperity to America, China, and the rest of the world.”⁴ Today, however, China’s international activities fall far short of this measure.

China’s Global Activities

Africa

China’s strategy for African relations is in great part driven by its need to obtain resources for its economy, strengthen its own influence and leadership in developing countries, and create a market for Chinese goods. Its presence in Africa is expanding, but China is still learning how to translate that presence into influence from which it can reliably benefit. Dr. Ernest Wilson, professor at the University of Maryland, told the Commission that “China is on a new glide path, and [a] new strategic direction, in experimenting with a variety of ways to use the tools of statecraft to open the doors to get privileged access to energy and resources in Africa and elsewhere.”⁵ China relies upon a combination of trade, military assistance, development assistance, corruption, and diplomacy to foster long-term partnerships with rulers and governments in African countries that possess resources it wants to obtain, especially petroleum.

African countries, namely Angola, Nigeria, the Republic of Congo, and Sudan, provide China with 20 to 30 percent of its current petroleum needs.⁶ One facet of China’s strategy is to diversify its sources of energy. For example, it will take risks in countries such as Sudan that are bypassed by Western oil companies. Dr. Wilson observed, “We should expect . . . that as Chinese companies strive to become more globally competitive they will engage in more aggressive sales and marketing in Africa . . . within but also beyond the natural resources sectors.”⁷

While in theory this trade could complement the activities in Africa of the United States and other Western nations, in practice it often contradicts multilateral efforts to improve democracy, human rights, and governmental accountability and transparency. China professes a policy of non-interference “with the internal political, institutional, and policy arrangements of its partners.”⁸ When President Hu Jintao visited Africa in April 2006, he “reiterated China’s policy of making business deals without any expectation that governments will improve democracy, respect human rights, or fight corruption.”⁹ However, in reality China facilitates situations that other countries will not accept. For example, in September 2006 in Zambia, after opposition candidate Michal Chilufya Sata threatened to break off diplomatic relations with China in the run-up to Zambia’s presidential elections, China actively supported the incumbent Levy Mwanawasa and offered new foreign aid programs to the country.¹⁰ Also, in 2005, China obstructed efforts by the United Nations to investigate President Robert Mugabe of Zimbabwe for his “clean-up campaign” that entailed police destroying slums and markets and depriving 700,000 Zimbabwean citizens of their homes or jobs.¹¹ In addition, China donated blue-glazed roof tiles for the President’s \$13 million presidential palace. It appears that Chinese contracts for providing hydroelectric generators to Zimbabwe correlate to these actions.¹² Such actions make the prospect of a relationship with China more appealing to the recipients than a relationship with the United States. Senator James Inhofe told the Commission that “the saying in Africa is, ‘the United States tells us what we need and China gives us what we want.’”¹³

China’s trade and investment activities are often linked with delivery of humanitarian and economic aid packages. According to Dr. Wilson, China is “getting creative” in places like Nigeria with agriculture, health care, water, and education/training projects.¹⁴ In addition to providing aid there, China has forgiven roughly \$1 billion in bilateral debt of African nations.¹⁵

China’s aid packages and projects typically focus on infrastructure development, such as constructing (or paying for the construction of) highways, railroads, and improved power supply systems; these efforts not only serve the interests of the recipient nation, but have a secondary purpose of supporting Chinese business investments in the area.¹⁶ Further, China’s foreign aid promotes China’s reputation as an international power and significant actor. China is seeking, and not infrequently obtains, diplomatic support as a result of its international activities—as illustrated in early August 2006 when Chad switched its diplomatic recognition from Taiwan to the People’s Republic of China.¹⁷

To further expand the appeal of China as an international partner, China has been willing to sell military equipment and arms (primarily small arms) to both African governments and, in some cases, rebel groups seeking to overthrow governments—for example, in Liberia.¹⁸ Between 2004 and 2005, Zimbabwe negotiated with China to acquire 12 jet fighters, six other jet aircraft, 100 military vehicles, and a radar intruder-detection system for President Mugabe’s home.¹⁹ Prior to Zimbabwe’s 2005 election, Chinese businesses provided radio wave jamming devices to be used against

anti-Mugabe radio stations.²⁰ China provided this support despite the fact that the United States and the European Union have sanctioned Zimbabwe for its abysmal human rights record.

Equally troubling is China's sales of small arms and equipment to the Sudanese government, and the role those arms play in the continuing conflict in the Darfur region. (See the case study on China's relationship with Sudan for more information—below.)

China's investments in Africa primarily support capital-intensive resource production industries including mining and oil refining, but typically do not foster the development of nascent African industries such as manufacturing. In essence, China is displacing industries considered a foundation for long-term economic growth. The South African Textiles Union estimates a loss of 60,000 jobs from a "tsunami" of imports from China,²¹ which has prompted South African leaders to negotiate with China in an attempt to reduce the negative effects on South Africa's labor force.²²

Moreover, China often imports Chinese workers to carry out its investment projects rather than hiring local African labor.²³ The failure to employ African workers means the nations where China's investment projects are being pursued will not benefit from transfer of skills, widely considered to be an important element of investing in developing countries. The Chinese approach means that there will be little if any increase in the personal income of the host nations' workers.

In sum, Dr. Wilson maintained, "To the degree that ... African industry is undercut, then the U.S. and other nations need to be concerned about the higher risk of economic stagnation, further political instability, humanitarian crises, and providing fertile ground for the growth of terrorist groups."²⁴

CASE STUDY: SUDAN

"There is in all of Africa no more destructive bilateral relationship than that between China and Sudan ... Beijing's relentless military, commercial, and diplomatic support of Khartoum's National Islamic Front regime has done much to ensure that Sudan remains controlled by a vicious cabal of unelected genocidaires,"²⁵ Dr. Eric Reeves, a professor at Smith College, told the Commission. The motivation behind this relationship is China's overwhelming desire to tap Sudan's oil reserves. Unlike many other nations, China is willing to work in such a risky and objectionable environment.

The China National Petroleum Company (CNPC) has been the primary actor in developing Sudanese oil production and its partnership with the government extends as far back as the mid-1990s. Because of the safety risks of operating in such an unstable area, China has hired militias to protect its oil operations and reserves and has cooperated with the Sudanese army to improve Sudan's infrastructure to extract and transport oil.²⁶ According to Dr. Reeves, highways and airstrips built jointly by the Chinese and Sudanese serve a dual purpose: they facilitate petroleum operations and also movement of Sudanese military forces around the country.²⁷

CASE STUDY: SUDAN—Continued

In addition, China continues to sell arms and military equipment to Khartoum, including “helicopter gunships, tanks, armored personnel carriers, heavy artillery, mortars, combat aircraft, and light weapons.”²⁸ U.N. investigators in the Darfur region have found that most of the small arms used in the conflict are of Chinese origin, stating “China has been, and continues to be, a major supplier of light weapons to the government of Sudan and many of the neighboring states.”²⁹ Moreover, an Amnesty International report on Chinese arms sales noted that China had shipped more than 200 military trucks to Sudan, which could be used to transport the Sudanese army and its allied militia, the Janjaweed.³⁰ China has also assisted Sudan in developing its own arms manufacturing capacity, including the facilities to build Chinese-model tanks.³¹

Of greatest international consequence is the impact of China’s non-interference policy on the genocide occurring in the Darfur region of Sudan. China has refused to allow progress on a U.N. Security Council resolution aimed at stopping the conflict in Darfur with the deployment of international peacekeeping forces or imposition of sanctions on the Khartoum government.³² Dr. Reeves stated in testimony, “The National Islamic Front [National People’s Congress], which controls all oil concession and operating contracts, counts on Chinese protection at the Security Council.” China abstained from the latest resolution considered in August 2006 to create a U.N. peacekeeping force and has played no role in encouraging the Sudanese government to accept U.N. peacekeepers.³³ According to Dr. Reeves, China has a “clear interest in sustained conflict in Sudan, at least at levels that do not threaten operations,”³⁴ and at levels that prevent Western countries from entering Sudan’s oil market.

Both Dr. Reeves and Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen emphasized the importance of active U.S.-China cooperation on this issue and the necessity of public encouragement for China to act as a “responsible stakeholder” in this respect. Dr. Christensen said, “. . . China should participate with the United States in trying to create more transparent, accountable and ultimately stable governments in the areas where it gets its resources, both oil and otherwise.”³⁵ Essentially, the cessation of genocide in the Darfur region should be an objective in creating a responsible relationship between China and Sudan rather than focusing on maintaining energy access.

Latin America

In her testimony to the Commission, Dr. Cynthia Watson, professor at the National Defense University, characterized China’s behavior in Latin America as that of a state that perceives itself as an emerging power and “seeks to portray itself as a benevolent, welcome ‘newcomer.’”³⁶ China’s strategy is “calibrated and measured” to engage the region in ways and in places where the United

States is not involved,³⁷ and its activities are intended to raise China's visibility in the region.³⁸ Dr. William Ratliff, a Research Fellow at the Hoover Institution, explained in his testimony that many Latin American leaders have welcomed China's involvement in the region primarily because they believe the United States has not followed through on its promises for expanded relations and investment. He noted that President Hu Jintao of China spent more time in Latin America in November 2004 than President Bush has spent during his entire presidency.³⁹

Although China's trade with Latin America is comparatively smaller than its trade with other regions, China's imports from Latin America have increased by 600 percent in the past five years.⁴⁰ China focuses on accessing resources, including iron, soybeans, copper, and oil.⁴¹ Moreover, China's trade in Latin America appears designed to secure the entire supply chain in various key industrial sectors such as mining, a strategy termed vertical integration.⁴²

Among China's relationships with nations in the region, its relationship with Brazil arguably is the most important. Brazil's exports of non-genetically modified soybeans meet a major need in China. Supplying another and quite different facet of the relationship, China's and Brazil's space programs are working cooperatively and sharing information.⁴³ China also is developing a relationship with Venezuela because it wishes to tap that nation's oil resources. There is concern in some Latin America countries, however, that China is merely buying up resources and is not investing in the development of indigenous industries.⁴⁴

In addition to trade, China has participated in military exchanges and high-level visits with several Latin American nations. Latin American military officers have traveled to China for education and training at the People's Liberation Army National Defense University.⁴⁵ Dr. Watson concludes, however, that these and other high-level exchanges "appear to have limited effect and are certainly not a guarantee of weapons transfers or intelligence cooperation."⁴⁶

The diplomatic battle with Taiwan for formal recognition is an important feature of China's relations in Latin America, where Chinese officials continue to press countries to recognize China and to revoke their recognition of Taiwan.⁴⁷ Of the 24 nations that still recognize the Republic of China, 12 lie in Central and South America and the Caribbean. According to Dr. Watson, these states "... retain their ... recognition of Taiwan because Beijing has not yet offered them a better deal. While there are some trade reasons for Taiwan's ties with these states ... these ties are not likely to appear compelling to these states' governments over the long term if Beijing offers significant assistance and trade incentives."⁴⁸ For the most part, China's activities focused on recognition have been restrained, but it has taken limited steps to use trade and aid packages as incentives.⁴⁹

Dr. Watson concluded that China's activities in Latin America do not currently pose a threat to U.S. strategic interests.⁵⁰ Yet its engagement with leaders such as President Hugo Chavez of Venezuela who openly denounces the American government has the potential to undermine U.S. interests in the region. In particular,

China's support of Venezuela, Cuba, and Bolivia undermines the progress of democratic reforms in Latin America and harms efforts designed to improve transparency in Latin American governments and businesses. Dr. Watson advised the Commission that the United States could achieve greater security by improving bilateral relations within the region.⁵¹

CASE STUDY: VENEZUELA

China's relationship with Venezuela serves as an opportunity for China both to access Venezuela's oil resources and to establish a presence in the Western Hemisphere—notably in a location of substantial interest to the United States. In turn, for Venezuela, as Dr. Ratliff told the Commission, “[President Hugo] Chavez sees China as a country that is both critical ... of the United States and a major market for Venezuelan oil, and that market seems an ideal way to both reduce or end Venezuela's dependence on the United States and at the same time ... to drive Washington crazy.”⁵²

Although Venezuela cannot supply the amounts of petroleum to China that China obtains from other countries, this relationship allows China to diversify its energy supply. In August 2006, President Chavez traveled to Beijing, where China agreed to embark upon oil exploration and production projects valued at \$5 billion. In addition, President Chavez announced plans to multiply by more than a factor of six Venezuela's oil sales to China—from 155,000 barrels a day to 1 million barrels per day by 2012.⁵³ This increase has been accompanied by a decrease in sales to the United States. From January to June 2006, Venezuela's exports to the United States fell by 18 percent, and in July, Citgo Petroleum Corporation, a distribution and marketing subsidiary of Venezuela's state-owned oil company *Petróleos de Venezuela S.A.*, announced that it would reduce its U.S. network of gas stations by 14 percent.⁵⁴

China's inability to refine Venezuela's heavy oil and the costs of transporting this oil back to China create two economic obstacles. In response, China has pursued building a refinery as an alternative, but transportation costs are a significant impediment because Venezuela lacks a Pacific port and the Panama Canal cannot accommodate supertankers.⁵⁵ As a result, the time needed to ship the oil to China around either the Cape of Good Hope or Cape Horn is so great, and thus the cost becomes so high, that the exchange is unaffordable. Dr. Ratliff estimated in his testimony that transportation of Venezuelan oil to China could take up to five to ten times longer than it takes to ship the oil to the United States.⁵⁶ Moreover, in a time of crisis, China would have difficulties protecting the shipments.⁵⁷ Together these factors likely will prevent Venezuela from becoming a dominant supplier of oil to China.

Nonetheless, China has been investing in the relationship with Venezuela. It has supported Venezuela's military by selling mobile air defense systems to the armed forces. China also is

CASE STUDY: VENEZUELA—Continued

assisting with the design, production, and launching of Venezuela's VENESAT-1 telecommunications satellite; the China Great Wall Industry Corporation contracted to launch this satellite in 2008.⁵⁸ However, China has limited its interactions with Venezuela primarily to oil and related industries,⁵⁹ apparently as a hedge, because of the risks of Venezuelan political instability; its desire to avoid badly poisoning relations with the United States (with which China has far and away its most valuable Western Hemisphere relationship); and public image problems.⁶⁰

While China's activities and presence in Venezuela do not threaten Latin America or U.S. security interests yet, Chinese support of President Chavez and his anti-American rhetoric do not promote positive reform in Venezuela or elsewhere in the hemisphere. As is the case with so many of China's international relationships, its interactions with Venezuela cannot be characterized as the actions expected of a "responsible stakeholder" in the global community.

Middle East

China aspires to expand diplomatic influence in the Middle East, broaden its trade relationships there (primarily increasing markets for its exports), and gain access to a secure supply of petroleum. Dr. John Calabrese, Scholar-In-Residence at the Middle East Institute, noted in his testimony before the Commission that China's Middle Eastern diplomacy, largely based on commercial diplomacy, increasingly is more professionalized and institutionalized.⁶¹ Its relations are multifaceted and China employs a combination of high profile visits, long-term economic agreements, and cultural exchanges⁶² to solidify its position in the region as a strong economic partner. A number of Middle Eastern countries including Saudi Arabia, Iran, and Oman reciprocate China's desire to establish long-term partnerships in order to leverage China's presence in the region against the United States.⁶³

China's economic activities primarily focus on obtaining petroleum and opening the Middle Eastern market to exploration and production activities of Chinese oil companies.⁶⁴ Indeed, China's energy security is inextricably linked to the stability and prosperity of this region including the Persian Gulf. In 2005, approximately half its petroleum imports came from the Middle East.⁶⁵ It is projected that as much as 70 to 80 percent of China's future oil imports will have to come from the Middle East and North Africa.⁶⁶ China is well aware of this fact and is arranging its activities accordingly. As Dr. Calabrese told the Commission, "Chinese energy entities have shown a greater patience in overcoming the political and bureaucratic obstacles to doing business in the Middle East, as well as greater flexibility and higher tolerance for risk than many of their foreign competitors."⁶⁷ Saudi Arabia supplies China with the majority of its oil imports; Iran is China's second largest petroleum supplier.

Although petroleum considerations dominate China's relationships with the Middle East, those relationships do have other facets. Some analysts believe that China's approach is designed to prevent the spread of Islamic fundamentalism to China's predominantly Muslim Xinjiang province. The testimony of Dr. Ehsan Ahrari of the Strategic Paradigms Consultancy specifically mentioned that China's pursuit of a relationship with Iran intensified because of the willingness of both countries to ignore issues of domestic concern. For example, Iran did not interfere with the Uighur Muslim population in China, and China did not interfere with Iran's persecution of the communist-leaning Tudeh party in Iran.⁶⁸

In 2005, Chinese trade with the Middle East totaled approximately \$51.3 billion.⁶⁹ China is pursuing bilateral free trade agreements and sub-regional free trade agreements there, including an agreement with the Gulf Cooperation Council (GCC)⁷⁰ with which a third round of negotiations concluded in January 2006.⁷¹ Some of this trade, as well as other Chinese commercial and aid activity, is conceived as an incentive to facilitate China's access to the petroleum it so greatly desires. For example, Sinopec, one of China's national oil companies, has pledged to finance the modernization of an Iranian cement factory, as well as invest in electricity and telecommunications infrastructure.⁷² Dr. Calabrese noted that this and other similar pledges to Iran by China have not yet resulted in actual investment in that nation.⁷³ Dr. Calabrese noted that China's Middle Eastern partners have expressed frustration because investment projects have not been implemented as promised and that these projects are largely capital-intensive.⁷⁴ Middle Eastern oil producing countries need to create jobs for a growing youth population, and China's investments do not alleviate this problem. As in Africa and Latin America, Chinese consumer products have flooded Middle Eastern markets, especially in Iran, and have crowded out local producers, thus compounding labor problems.⁷⁵

China has a long history of selling arms, proliferating missiles, and providing militarily-useful technology to countries in the Middle East, including Saudi Arabia and Iran. Dr. Calabrese testified that not all these sales necessarily will destabilize the strategic balance in the region, but the transfer of dual-use items and technologies that enhance indigenous capabilities for missile proliferation could be more dangerous. He argued that "... the proliferation of missiles and missile-related technology—mainly to Iran—remains the most persistent and arguably the most dangerous aspect of Sino-Middle Eastern relations."⁷⁶

China's active diplomatic efforts to secure Middle Eastern energy supplies increase competition for American energy interests, and also weaken the impact of U.S. sanctions on Iran. However, the effects of China's activities in the Middle East on international peace and security go well beyond these two considerations. A major current example is that China has not supported U.S.-led efforts to implement U.N. sanctions against Iran in response to Iran's refusal to halt its nuclear weapons program and allow International Atomic Energy Agency (IAEA) inspections.

In addition, China's arms sales may affect regional stability through secondary proliferation. In July 2006, Hezbollah militants

launched anti-ship cruise missiles from the coast of Lebanon toward an Israeli anti-aircraft warfare ship. Reports identified the missile design by its electronic signature as a Chinese-designed C-802 “*Silkworm*” missile;⁷⁷ an estimated 150 such missiles were sold by China to Iran in the late 1990s.⁷⁸ China has not been accused of directly transferring missiles to Hezbollah, but this example illustrates that missile proliferation has consequences, especially when proliferating to countries that disregard international nonproliferation norms or that support terrorist organizations.

Central Asia

Internal and regional stability, access to petroleum, and competition with the United States for influence in the region constitute the focus of China’s diplomacy in Central Asia, and China approaches each issue with different strategic goals. Dr. Martha Brill Olcott, Senior Associate at the Carnegie Endowment for International Peace, stated in testimony before the Commission, “The Chinese leadership and its quasi-state business community have been very pragmatic in establishing and strengthening their relationship within Central Asia, making careful calculation of China’s short-, medium-, and long-term interests in the region.”⁷⁹

Internal security in part motivates China’s relationships with its Central Asian neighbors. In Xinjiang province, a very small element of China’s Muslim Uighur population has for some time expressed separatist sentiments. Observers generally do not believe these indicate an embrace of radical Islam but rather that they stem from a desire for sovereignty, land rights, and fair treatment by the Chinese government.⁸⁰ Given the similar ethnic and religious backgrounds of the populations of bordering Central Asian states, China fears the possibility that some of these states might decide to support Uighur aspirations for independence from China or greater autonomy. A major reason China engages the countries on its Western border—Kazakhstan, Kyrgyzstan, and Tajikistan—is to reduce the likelihood these countries will support the Uighur separatist movement⁸¹ and to obtain cooperation in ensuring border integrity and security.

China was instrumental in establishing the Shanghai Cooperation Organization (SCO), a regional agreement between China, Russia, Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan, as a vehicle for engaging Central Asia on issues of regional security and political and economic development. Four observer nations—Mongolia, India, Pakistan, and Iran—also attended its most recent meeting in June 2006. The SCO identifies “terrorism, separatism, and extremism” as principal security concerns. It also encourages cooperation on issues of border control and narcotics.⁸² Despite its appearance as a multilateral organization, Dr. Dru Gladney, professor at the University of Hawaii, argued to the Commission that the SCO “. . . has no other role than bringing the member countries together to discuss issues that are only and ever addressed bilaterally and resolved bilaterally.”⁸³ For example, although it was hailed as an example of SCO cooperation, the August 2005 Peace Mission military exercise involved only Russia and China.⁸⁴ The chief beneficiary of the SCO is China,⁸⁵ which uses it to promote its reputation as a leader in regional security affairs and a reliable

international partner. China also has used the SCO as an instrument for increasing its access to petroleum resources in the region.

China, indeed, has focused considerable attention on acquiring petroleum from Central Asia. In October 2005, one of China's national oil companies, China National Petroleum Corporation, purchased PetroKazakhstan, a Canadian-owned oil company in Kazakhstan, for approximately \$4.5 billion. In December 2005, China and Kazakhstan opened a 998-kilometer-long pipeline, expected to deliver 200,000 barrels per day to China by 2007.⁸⁶ China is also pursuing the development of a gas pipeline from Uzbekistan to connect with the Kazakhstan-China pipeline, and another pipeline linking it with Turkmenistan.⁸⁷

For the United States, China's involvement in Central Asia raises several questions. China and the United States have enunciated similar goals of opposing radical Islamic terrorism, and the two nations reportedly have cooperated on some anti-terror initiatives. Dr. Gladney, however, expressed doubts regarding China's sincerity in these efforts, primarily because the United States has not received cooperation from China in combating terrorism in Southeast Asia or in the Middle East, but also because he views Chinese anti-terror efforts as an excuse to expand control over Xinjiang Muslims in a political move serving the interests of China's government and the Chinese Communist Party that controls it.⁸⁸

Experts differ regarding China's perception and acceptance of the United States in Central Asia. Dr. Cohen argues that China began to feel strategically threatened by the United States' increased presence in that region following the September 11 attacks and subsequent invasion of Afghanistan, evidenced by China's support of public statements opposing U.S. democracy initiatives⁸⁹ and U.S. bases in Uzbekistan and Kyrgyzstan.⁹⁰ Chinese pressure coincided with other factors in Uzbekistan, and the U.S. base was closed.⁹¹ Also, in Kyrgyzstan, the rent for U.S. military bases was raised significantly.⁹² China is trying to use the SCO to reduce U.S. influence in the region and even contacted Kyrgyz officials to initiate discussions of placing Chinese military bases in Kyrgyzstan.⁹³ Conversely, Dr. Olcott contends that China has no immediate interest in pushing the United States out of Central Asia because China views the U.S. presence as a stabilizer in the region; however, she believes China would not endorse an extended U.S. presence in the region over the long term. With regard to China's statements against U.S. bases, she pointed out that these statements did not suggest a deadline for the departure of U.S. troops and that the statements originated from Uzbekistan, although both China and Russia supported them.⁹⁴

In Central Asia, China is encouraging regional economic integration, political dialogue, security cooperation, and development of Central Asia's petroleum market as a driver of economic growth. However, China has little interest in some of America's goals, such as promoting human rights, freedom of the press, and development of post-Soviet democratic political systems. Dr. Cohen told the Commission this sends the wrong message to Central Asian leaders.⁹⁵ He also indicated that China's actions may be an effort to resurrect or create a modern form of the tributary system that ex-

isted during the era of Imperial China.⁹⁶ China's relationships with Central Asian states do not support governmental and economic reforms toward democracy, human rights, and free market economies.

Northeast and Southeast Asia

China is expanding trade with the nations of Northeast and Southeast Asia. As is the case with its relationships with Central Asia, one of its primary objectives in its relationships with Northeast and Southeast Asian states is to ensure stability and security, often at the expense of values the United States thinks are important, such as democracy and peace. China desires not to dissipate its attention and resources in contending with conflict or disorder at or near its borders. Rear Admiral Michael McDevitt (USN-Ret.), Director of the Center for Strategic Studies at the Center for Naval Analyses, told the Commission, "There is no question that China is the dominant economic and military power on the continent of Asia. Despite being dominant in terms of power, Beijing's relations with its neighbors are dictated by its grand strategic objective of preserving peace and stability in its "near abroad" so that economic development can proceed."⁹⁷ Additional objectives include gaining economic advantage, reassuring Asian countries of China's peaceful rise, isolating Taiwan, and increasing international influence.⁹⁸

RADM McDevitt characterized China's relations with Northeast Asian countries as promising, with the exception of Japan. China's diplomacy toward Japan has been marked by "latent tensions" concerning unresolved issues of history. More recently, China's government focused on former Japanese Prime Minister Junichiro Koizumi's visits to the Yasukuni shrine to highlight those historical issues.⁹⁹ In addition, both countries currently compete for energy supplies in the East China Sea and, fueled by growing nationalism, have not resolved territorial disputes.¹⁰⁰ With new Prime Minister Shinzo Abe's visit to China in October 2006, the two nations reportedly are trying to ease existing tensions and reestablish bilateral dialogue.¹⁰¹

China's bilateral relations with the Republic of Korea, or South Korea, are generally positive. China and South Korea share interests in stability on the Korean peninsula.¹⁰² China's soft power and cultural attraction have increased; Chinese has replaced English as the most popular language studied by liberal arts majors in South Korea.¹⁰³

Despite China's stated peaceful objectives, Asian nations have expressed concerns about China's intentions in the region.¹⁰⁴ A number of Asian countries are hedging against the dangers they perceive in a more powerful China by strengthening bilateral relationships, including with the United States, and multilateral relationships to "preserve their independence and freedom of action."¹⁰⁵ Japan, South Korea, Thailand, and Taiwan have maintained close relationships with the United States and each has involved itself in a number of economic, security-related, and political multilateral organizations.

The nations of Southeast Asia have achieved a notable degree of cooperation through the Association of Southeast Asian Nations (ASEAN). In his testimony to the Commission, Dr. Karl D. Jack-

son, professor at the School for Advanced International Studies at Johns Hopkins University, identified three specific emphases of the ASEAN organization related to the member nations' desire to hedge against China's rise: expanding its membership to include a total of ten nations; signing an ASEAN-China Treaty of Amity and Concord; and insisting that the United States remain engaged in the region.¹⁰⁶

China's commercial activities are the most evident conduit for China's influence in Asia, and they have benefited China's reputation.¹⁰⁷ In Southeast Asia, however, the United States remains the most important economic partner, primarily for two reasons. Southeast Asian economies have been affected by China's currency peg, making Southeast Asian exports less competitive with Chinese exports and shifting foreign direct investment toward China.¹⁰⁸ In addition, Chinese investment in the region remains small, so manufacturers are receiving little help in contending with the competition of low-priced goods from China's expanding processing industries.¹⁰⁹

Dr. Robert Sutter, professor at the Walsh School for Foreign Service at Georgetown University, argues that China's growth and diplomatic expansion reinforce the desire for U.S. leadership in the region as a "security guarantor and vital economic partner."¹¹⁰ His view was echoed by Rear Admiral McDevitt: Asian governments seek interaction with the United States to increase their confidence and comfort in engaging with China.¹¹¹ Without the U.S. presence, Asian countries would be more concerned about China.

The consequences of more aggressive attitudes toward China by other Asian nations could fuel conflict, especially in the case of Japan. RADM McDevitt argued that the United States should promote trilateral cooperation among the United States, Japan, and China and to encourage both Japan and China to take on the responsibilities and role of a "responsible stakeholder" regionally and globally. Increased stability in the Japan-China relationship could lower regional concerns about China's military modernization, and Dr. Sutter asserts that U.S. involvement toward this end could provide both countries with a way to adjust their antagonistic policies and open the door to a more positive diplomacy.¹¹²

CASE STUDY: BURMA

China's relations with Burma bolster the capability of the military junta to rule the country by keeping the Burmese economy afloat in the face of international sanctions. China is the largest investor in Burma, and provides low-interest loans to the Burmese government—most recently a June 2006 pledge of a \$200 million loan to five unspecified government ministries. China also supplies 90 percent of Burma's military's armaments and has granted \$1.6 billion in military assistance and modernization funding.¹¹³ In return, China will receive access to Burma's natural resources—including timber, oil, and natural gas. Moreover, this relationship with Burma potentially could enhance China's power projection capability by extending its presence into the Bay of Bengal and the Andaman Sea, two areas vital to the transportation of China's oil imports from the Persian Gulf.¹¹⁴

Although they will not be able to compete with the volume of natural gas China imports from Iran, Burma's natural gas reserves are of importance to China's energy security because this natural gas can be transported overland by a proposed pipeline directly linking the two countries. This has prompted China to invest heavily in Burma's natural gas sector; in November 2005, PetroChina signed a 30-year contract with Burma for 6.5 trillion cubic feet of natural gas, and in February 2006 China loaned Burma \$85 million to purchase two new oil rigs.¹¹⁵ Jared Genser, a fellow for the National Endowment for Democracy and lead author of the Havel-Tutu Report calling for U.N. action in Burma, stated in testimony that he feared PetroChina's activities would benefit from Burmese forced labor and would be indirectly responsible for human rights violations.¹¹⁶

Despite the positive economic relations between China and Burma, this relationship has had negative consequences both domestically and internationally for China. Burma's trade in opium, heroin, and methamphetamine is responsible for increased drug addiction in southern China, and a significant number of HIV/AIDS cases can be traced to China's provinces that border Burma.¹¹⁷ These negative impacts have induced public statements from the Chinese government against Burma's illegal drug trade and its inability or unwillingness to control the situation. Internationally, China's support for Burma has drawn criticism. In December 2005 and May 2006, the U.N. Security Council held private briefings on the situation in Burma, to which China agreed in order to prevent a public discussion from reaching the formal agenda.¹¹⁸ Most recently, in September 2006 the U.N. Security Council placed Burma on its formal agenda, which will allow it to examine the situation there. China opposed this decision.¹¹⁹

Hong Kong and Taiwan

Both Hong Kong and Taiwan, as ingredients in the U.S.-China relationship, are of great importance. Each in its own way acts as a bellwether for determining whether China's rise will collide with fundamental U.S. interests or whether it will avoid conflict. Hong Kong and Taiwan, also, offer arguably the easiest and most convenient opportunities for China to demonstrate that it is ready, willing, and able to accept the role of responsible stakeholder in the community of nations and use its growing power, economic clout, and influence for global benefit in a "win-win" manner, rather than in a way that benefits China at the expense of other nations.

Hong Kong

Hong Kong's "one country—two systems" structure was originally codified in the agreement between China and the United Kingdom that resulted in the return of the former British territory to Chinese control in 1997. The conditions of the return purported to guarantee a continuation of the greater degree of autonomy, democracy, human rights, and a free market economic system that existed in Hong Kong than exist in China—and to offer the promise of further democratization. It is of great significance to the United States whether China honors its commitments.

Because of the importance of the status of Hong Kong, each time in the past several years that a delegation of Commissioners has visited China, a stop in Hong Kong has been included to enable Commissioners to talk with Hong Kong citizens and officials, as well as with American diplomats and businessmen, to assess whether the commitments are being honored, and whether Hong Kong is progressing, retreating, or just maintaining the status quo in these important respects.

Based on the observations of the Commissioners who visited Hong Kong in June 2006, it appears that many of the political and economic guarantees assured in the Sino-British agreement of 1997 have been retained, such as preservation of the legal system and economic autonomy. However, there are areas of concern.

Hong Kong's citizens are guaranteed a free press—which performs a crucial function in any democratic state as a "watchdog" of the political process and government on behalf of the people. Unfortunately, whether or not the effort is orchestrated by Beijing, the independent and outspoken news media in Hong Kong have been disappearing. The great majority of news organizations now belong to larger business organizations that seek a cooperative relationship with the Chinese government in order to enable and facilitate their commercial activities. They seek to ensure their media subsidiaries do not antagonize the government. There is widespread agreement that only one widely available newspaper remains independent and vocal in its assessment of the Hong Kong government's and Chinese government's actions and intentions, and there are fears that its owner may be unable to resist delivering it to the same fate as all the others. Moreover, China's arrest of journalists has prompted fears even among employees of foreign newspapers, especially as China's treatment of the arrested journalists and denial of basic legal rights during trial indicate political motivations for the government's actions.¹²⁰ If this vital means of criticism and

introspection is lost to Hong Kong, there are questions about whether or not Hong Kong's democratic features can be preserved and expanded.

The Hong Kong Basic Law suggests that Hong Kong will move toward further democratization of its electoral process—in the form of “universal suffrage”—for its legislative body, the Legislative Council, and its Chief Executive.¹²¹ The current process has a strong “constituency-based” element. Many Hong Kong citizens—and the United States and other democratic nations—had hoped for early progress in this direction. However, late in 2005 Hong Kong Chief Executive Donald Tsang, recently appointed by the Chinese government, announced that movement toward universal suffrage would not occur in the immediate future.¹²² In his October 2006 annual policy address, he indicated that progress on this issue again would be delayed.¹²³

The Commission reiterates its belief that the Hong Kong system is a crucial one, and that it is very important for the United States and other democracies to maintain a close watch on developments there, and to sound the alarm should there be any significant erosion of those democratic, human rights, and economic differences that set it apart from China. To this end, the Commission expects to continue to visit Hong Kong as it visits mainland China to update its knowledge and understanding of occurrences there so that it can convey those to the Congress for its evaluation and action.

Taiwan

U.S. support for Taiwan has grown as the island has democratized, and as it has developed a free market economy that offers an important economic partnership to the United States and other trading nations. This support is underpinned by the Taiwan Relations Act and by other statutes and Executive Orders. Despite the fact that the United States switched its formal recognition from Taiwan to China during the late 1970s, the United States maintains close ties to Taiwan. It has made important defensive weapons systems available for Taiwan to purchase in order to deter Chinese aggression. And it has encouraged development of bilateral trade and commercial relationships. The Commission supports Taiwan's democratic system; it believes it is in the U.S. interest for Taiwan's democracy and free market system to flourish and for both sides of the Taiwan Strait to work out their differences in a peaceful manner free of threats and coercion.

A Commission delegation visited Taipei in the summer of 2006 for discussions with Taiwan government officials, policy analysts, academics, and business people, and with American diplomats and business people concerning Taiwan's relationship with the United States, Taiwan's relationship with China, and Taiwan's internal political situation.

Among the topics the delegation discussed was the increasingly complicated relationship that has developed between Taiwan and China, largely as a result of the heavy investments Taiwan businesses have made in China's economy, and establishment by many of those businesses of manufacturing plants and other activities and facilities there. Taiwan is the largest source of foreign investment in China today. Recognizing this situation poses some signifi-

cant risks to Taiwan, government officials told the Commission delegation that mechanisms are in place to limit investments in the mainland, but they acknowledge that many Taiwan businesses evade those restrictions by establishing companies in economically free-wheeling locations such as the Cayman Islands and Bermuda and using those companies as conduits for their investments.

Complicating this situation are China's persistent efforts to economically, militarily, and diplomatically isolate Taiwan and prevent it from integrating in the regional economy and from playing a role in the international community.¹²⁴ A number of those to whom the Commission delegation spoke, both in and outside government, during its visit to Taipei emphasized this concern. In August, Dr. Sutter testified to the Commission that Chinese officials have been effective in these efforts to isolate Taiwan, especially by preventing Taiwan's entrance into regional economic organizations.¹²⁵ Moreover, he stated, "Over time, Chinese pressure, backed by China's increasing importance to Southeast Asian countries, has made visits of Taiwan officials [to those Southeast Asian nations] at the ministerial level difficult while visits of top-level Taiwan officials are very rare."¹²⁶

Taiwan is particularly concerned about U.S. free-trade agreements with other Asian nations, notably including South Korea, fearing that these may result, even if inadvertently, in a deflection of some trade activity from Taiwan to the nations with which the special arrangements exist. Government officials, policy analysts, and business people all expressed a strong hope to the Commission's delegation that the United States would agree to vigorous negotiations intended to produce a Taiwan-United States free-trade agreement at the earliest possible date, and assured the delegation that Taiwan is prepared to make agricultural and other trade concessions that will be necessary in order to produce an agreement. Taiwan leaders believe that achieving a free-trade agreement with the United States is an economic necessity, but that it is, in fact, even more than that: it is a strategic necessity without which Taiwan fears its ability to survive and prosper in the Western Pacific/East Asian region, and the world at large, will begin to erode.

Another consistent topic of discussion with the Commission delegation to Taiwan was the concerted efforts by the Chinese to "divide and conquer" the Taiwan political system by pitting one Taiwan political party against another. Political struggles in Taiwan over the issue of independence and the relationship with the mainland, combined with rising domestic political tensions and allegations of corruption, have distracted Taiwan's democracy from further development and from making policy choices important for its own security—including, for example, the long-stalled purchase of items in the U.S.-approved defensive arms package.

[NOTE: Issues related to the defense of Taiwan and the military balance between China and Taiwan are addressed in Section 3—"The Military Balance Across the Taiwan Strait"—of Chapter 3.]