

CHAPTER 4

CHINA'S FOREIGN ACTIVITIES AND RELATIONSHIPS

SECTION 1: CHINA'S EXPANDING GLOBAL INFLUENCE AND ITS FOREIGN POLICY GOALS AND TOOLS

“The Commission shall investigate and report exclusively 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. ...”

Introduction

China, as other nations, uses economic, military, and political tools to advance its interests on the world stage. China's growing activism is an attempt to demonstrate that it has recaptured great power status. In 2008, more than ever before, with the Olympic Games taking place in Beijing, China has promoted its economic strength and potential for growth and has courted international partnerships to support its policies. At times, it also has exerted pressure to change others' behavior—with some frequency in directions not favored by the United States—or to quell criticism of the Chinese government's actions. However, then-Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen testified to the Commission that China's behavior abroad is generally moving in a positive direction.¹

This section does not document China's activities around the world; the Commission has done that in its Annual Reports in previous years. The objective of this section is to examine the motivations behind China's foreign policy and to identify the tools the Chinese government uses to accomplish its foreign policy goals. With a better understanding of why, how, and when China seeks

to exercise its influence, this Report will analyze the impacts of China's growing global power and how this change may affect U.S. economic opportunities and security in the Asia Pacific region and around the globe.

China's Foreign Policy Principles and Strategies

In the late 1970s, Deng Xiaoping initiated a series of economic reforms intended to revitalize the Chinese economy that had stalled under Mao Zedong's leadership. Prior to these reforms, China's foreign policy and public diplomacy were guided primarily by the "Five Principles of Peaceful Coexistence." Developed during negotiations with India in the early 1950s and then promulgated at the Asian-African Bandung Conference in 1955,² the five principles are "mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence."³ These principles still apply to China's foreign policy and often are repeated in Chinese diplomatic statements.

China's foreign policy was revamped at the turn of the century, and the central stated objective became that of a "peaceful rise." This concept was articulated in a report by Zheng Bijian, believed to be a confidant of President Hu Jintao, after Zheng returned from a visit to the United States in 2002.⁴ In the phrase "peaceful rise," both words are key, and each denotes a vital aspect of China's foreign policy. Those aspects are sometimes contradictory; at the very least they are in creative tension.

The Peaceful Rise

Chinese policymakers have hoped that emphasizing the "peaceful" nature of China's foreign relations would dispel concerns about a growing "China threat." Bonnie Glaser and Evan Medeiros, China experts from the Center for Strategic and International Studies and RAND Corporation, respectively, describe this theory in a 2007 article in *The China Quarterly*, stating, "The essence of peaceful rise is strategic reassurance to China's neighbors and major powers that China's ascension will not threaten their economic or security interest."⁵ However, the international community focused on the "rise" as opposed to the "peaceful" aspect of that policy, especially given China's military modernization program and its heavy investment in expanding and strengthening its military capabilities. Analysts began to regard China's growing economic and military power as a potential challenge to the existing world order and to question how an aggressive, powerful, rising China would act to obtain its objectives. Upon seeing this reaction, China quickly altered its description of the policy to "peaceful development," hoping this new rhetoric would promote more benign notions of China's growing economic power. However, the world has not fully accepted the message that China intended to convey and has continuing concerns about China's "rise"; indeed, some claim that China has already "risen."⁶ This has led to increased discussion about the effects of China's advancement, notably that it will bring new challenges to the international community and that

China will seek to displace the world's leading powers, namely the United States.⁷

Chinese leaders struggle with how best to counter the image that China's growth threatens other nations. Chinese leaders attempted to manage this challenge in 2005, when President Hu Jintao announced a new slogan for China's foreign policy, the idea of "building a harmonious world together." This phrase builds upon Hu's policy of building a "harmonious society," first proposed in 2005. According to Hu's vision, a harmonious society is one that is developed economically but in a balanced way that maintains stability in the country and ensures continued leadership by the Chinese Communist Party (CCP). Building a harmonious world is intended to "achieve a new international political and economic order of peace, tranquility, justice, mutual respect and common prosperity. . . . [I]t is the objective of China's peaceful development road; what it wants to achieve is harmonious coexistence between men, between nations, between states, and between man and nature."⁸

China's new foreign policy did not originate from external threats facing China; rather, it emerged as a result of the party's insecurity about domestic unrest and instability.⁹ Andrew Scobell, associate professor at the Bush School of Government at Texas A&M University, explained, "In the post-Cold War era, Beijing realized that internal stability is increasingly vulnerable to international events, and China's domestic affairs and foreign policies were greatly impacted by the actions of other countries, notably the United States."¹⁰ The impact that external factors, such as the "color revolutions" in the former Soviet republics and the resulting spread of democratic governance, have on China's internal stability can affect the control exerted by the CCP apparatus. Furthermore, China must balance growing geopolitical tensions that result from its changing influence and power with maintaining a positive reputation that promotes trade and domestic development.¹¹

Edward A. Friedman, professor of Political Science at the University of Wisconsin, testified that while the "harmonious world" policy seeks a nonconfrontational political system that promotes both global economic development and regional and global stability, it does so at the cost of political and civil rights. The Chinese government regards economic and social rights as above individual rights and freedoms, so that the basic economic and social needs of the public can be met without a political system that allows for criticism of the government's policies.¹² Above all, Dr. Friedman contends, the Chinese Communist Party desires to live in a world that is comfortable and supportive of the party's survival.¹³ The party will support the promotion of rights and freedoms that do not challenge its primacy in the Chinese political system; this practice usually shapes concepts of human rights and political freedoms to conform with the party's interpretation of how these can be used to further its own interests.

In China's attempt to promote a benign view of its growing international power, Chinese leaders, in their diplomacy and policy, have emphasized one of the "Five Principles of Peaceful Coexistence"—the principle of "noninterference in each others' internal affairs." This principle is invoked when questions arise about how China acts abroad and how the Chinese government operates at

home. In addition, China repeatedly invokes this principle to ward off criticism of its foreign policies by other countries, including the United States, or actions by other countries that are at odds with China's internal policies or preferences. For example, when discussing this Commission's 2007 Annual Report, Foreign Ministry Spokesman Liu Jianchao stated, "... [T]he Commission clings to its biased position, grossly interferes in China's internal affairs, and vilifies China."¹⁴ China also protested the awarding of the U.S. Congressional Gold Medal to the Dalai Lama in October 2007 as interference in China's internal affairs.¹⁵

The "noninterference policy" has resulted in a "live and let live" approach to China's foreign relations, in which China ignores other nations' or governments' domestic or international actions as long as those are not directly inimical to China's current interests (presumably in the hope that the other governments will return the favor). This approach allows China's government to maintain relations with some of its trading partners despite criticism for some of the policies of those partners. In addition, this approach allows China to resist being pulled into multilateral efforts either to criticize or sanction a nation's behavior that the international community deems objectionable, or to encourage the nation to alter that behavior. For example, China has faced criticism regarding its relationships with Sudan and Burma because of the continuing genocide in Darfur and the political and human rights crisis in Burma but continues to invest in and trade with those countries.¹⁶

It appears that China's foreign policy has begun to evolve so that it no longer is as strictly adherent to the "non-interference policy" as it was. Instead, the policy is invoked selectively. Andrew Small, program associate for The German Marshall Fund of the United States, testified before the Commission that "... Beijing's attitude toward 'non-interference in internal affairs' has shifted: aside from cooperation on traditional threats to international security, China is now willing, albeit in limited circumstances, to treat internal repression and atrocities as legitimate grounds for international intervention." He cited as an example that China has provided peacekeeping forces to the United Nations (UN)-African Union hybrid force in Darfur.¹⁷

This evolution is connected to China's desire to be viewed publicly as a contributing member to international peace and security and to enhance its international standing.¹⁸ then-Deputy Assistant Secretary of State Thomas Christensen testified to the Commission that China has adopted a "... more pragmatic recognition of the merits and obligations of working with the international community on areas of concern."¹⁹ For example, China often cites its involvement in persuading President Bashir of Sudan to accept UN peacekeeping troops in Darfur.²⁰ Mr. Small explained that this change occurred because China does not want to have its public image damaged by the support it lends to regimes that perpetrate human rights abuses or threaten international security. China wants to operate in a global environment free from scrutiny and suspicion, and it has recognized that it stands to gain from the stabilization of situations around the world, especially in conflicts near China's borders.²¹ The challenge is how to use this awareness to contend more effectively with international crises and motivate

China to help resolve them.²² The Commission notes that while China has taken some bilateral action to encourage Sudan to quell the genocide in Darfur, it has not divested its state-owned energy company investments in Sudan's oil production.

The United States has been urging China to move in this direction for many years. In 2005, then-Deputy Secretary of State Robert Zoellick employed a new phrase to describe the type of foreign policy the United States would like to see from China, terming it "responsible stakeholder." He noted that a responsible stakeholder has the power to act and chooses to act in a way that effects positive change in the international community and contributes to its peace and prosperity. Thus, as China struggles with its international reputation, it is facing the choice of acting as a responsible stakeholder or being among the actors in the international community who are criticized for their actions or inactions. Yuan Peng, director of the Institute for American Studies at the China Institute for Contemporary International Relations, writes, "China is facing the difficult questions of how to balance its interests between the third world and the 'power club,' and how to balance its stance between sticking to the principle of noninterference in internal affairs and being a 'responsible stakeholder.'" ²³

China's strategy for conducting its foreign relations is tailored to the specific circumstances of countries or regions with which it wishes to do business or otherwise interact. Joshua Kurlantzick, a visiting scholar at the Carnegie Endowment for International Peace, stated that China's strategy relies upon a high degree of pragmatism: "[China] deals with any state or political actor it thinks necessary to achieving its aims, which is a sharp contrast from the past, and it also emphasizes the idea of a win-win set of values that China is growing into a preeminent power where it supports a world in which countries can benefit from China's rise. . . ." ²⁴ By stressing the gains that other countries may obtain through their relations with China, it seeks to position itself as a benefactor of developing nations and partner of developed countries.

The Peaceful Rise

As noted in the preceding segment, China's leadership has recognized the importance of operating a foreign policy that does not frighten neighboring nations or the world's great economic and military powers, most notably the United States, and that works to enhance China's reputation as a good and respectable world citizen. The leadership consequently has adjusted China's foreign policy goals and methods. But growth and development, and the inexorable challenge of keeping its massive population fed, clothed, housed, and under control—vital to the leadership—remain major determinants of China's foreign policies as well as its domestic policies. To stay on track economically, China must secure a steadily growing stream of raw materials and must have customers for its products. Both depend on foreign relationships, and China is not content to remain a second- or third-tier nation that can be either ignored or pushed around by more powerful nations or alliances. Thus, it has invested great effort in establishing inter-

national relationships that will enhance its influence in the world community and its control over world events.

A key aspect of China's diplomatic strategy is creating opportunities to acquire access to natural resources. The government and Chinese companies have been "going out" to acquire resources abroad so that these resources can fuel the domestic growth industries and the overall economy. A turning point in this strategy came when China became a net oil importer in 1993, and Beijing realized that in the future it would be dependent upon foreign sources of oil and sometimes coal to meet its energy needs. Dr. Friedman noted that among the most important developments in China's foreign policy priorities is the rise of energy security to the top of its national agenda;²⁵ a key objective of the "going out" strategy is to ensure access to energy supplies.

The "Going Out" Strategy

China's "going out" strategy was first enunciated in former President Jiang Zemin's report at the 16th National Party Congress in 2002 and was defined by Jiang as a strategy to help China open up to the world economically and diplomatically. Jiang stated, "We should encourage and help relatively competitive enterprises with various forms of ownership to invest abroad in order to increase export of goods and labor services and bring about a number of strong multinational enterprises and brand names. We should take an active part in regional economic exchanges and cooperation."²⁶ In a conference sponsored by the Shanghai municipal government in 2004, multinational corporations were encouraged to pursue four different types of projects in fulfilling the "going out" strategy: energy and resource projects, overseas contracting projects, purchasing and merging with overseas research centers, and purchasing and merging with overseas sales distribution networks.²⁷ Furthermore, the Chinese government has highlighted the importance of Chinese citizens and those of ethnic Chinese heritage who live overseas providing guidance and advice on how to conduct business abroad, according to various local circumstances, and using their connections to promote Chinese enterprise activities abroad.²⁸

Another objective of China's foreign relations is to promote China as an alternative to the United States as a global leader and strong national partner or ally. China invests in efforts to strengthen its relations with countries or regional organizations whose relations with the United States are faltering or weak and seeks to be viewed by them as a leader among developing nations.²⁹ For example, China has stepped up its engagement with the Association of Southeast Asian Nations (ASEAN) in recent years, perceiving that U.S. diplomacy in the region has been distracted by antiterrorism efforts. Thus, by agreeing in October 2003 to conclude a China-ASEAN free trade agreement within 10 years,³⁰ China created an array of opportunities to promote actions in the region that reinforce its development goals, integrate regional markets, and provide legitimacy for its authoritarian rule by the CCP. Moreover, by

presenting itself as an acceptable alternative to the United States, China has created a network of countries, such as Burma, that often are unwilling to criticize China's actions to repress domestic political dissent or violate international commitments. In exchange, China often supports their positions in international debates.

At the same time, China must maintain positive relations with the United States and, therefore, the People's Republic of China (PRC) government generally avoids confrontation on the issues of greatest sensitivity to the United States.³¹ Instead, Mohan Malik, a professor at the Asia-Pacific Center for Security Studies, testified that China gradually and in subtle ways uses its diplomacy to drive a wedge between the United States and its friends and allies.³² While China attempts to distinguish itself from the United States in the eyes of other nations and peoples with whom it is trying to establish mutually supportive relationships, China also seeks further cooperation with the United States so it can benefit from U.S. economic and military strength, knowledge, and expertise and close the gap between the two countries' relative national power.³³

A final aspect of China's foreign relations strategy is that it attempts to combine the full power of its economic, military, and diplomatic tools to advance its foreign policy goals. Colonel Philippe Rogers, U.S. Marine Corps, writes,

China is ... successful as a 'full on supplier' of 'package deals.' It not only seeks new markets and preferred trade, but offers a full range of aid to include military advisors and sales, infrastructure development, medical support and programs, debt relief, low or no interest loans, free trade agreements, education and technical assistance, industrial hardware and software, cultural exchanges, and preferred tourism. It offers these through a combination of private and public (state sponsored) ventures, with its state and provincial representatives armed to low bid contracts, even at a loss.³⁴

Such coordinated efforts take advantage of trade opportunities with, and opportunities to obtain needed natural resources from, individual countries, while at the same time they provide China with an opportunity to establish an active presence and influential partnerships in multiple regions.

China's Foreign Policy Tools

The use of economic, military, and diplomatic tools in the conduct of China's foreign relations allows China to develop influence by layering its interactions with foreign governments, militaries, business communities, and civil society. This section examines how China uses its diplomatic tools.

Economic and Trade Tools

Economic diplomacy is a vital component of China's economic development that creates openings for growth of Chinese businesses and, more importantly, for distribution of the "China brand." Shen Guofang, former PRC assistant foreign minister, stated, "Economic diplomacy with Chinese characteristics is the principal tool for pro-

moting global economic growth and China's peaceful development and for opening up global strategic space."³⁵ Thus, China uses these activities to facilitate pursuit of its broader international political goals.³⁶

In general, China employs three main tools in its economic diplomacy: trade, investment, and development aid. With regard to trade, China focuses its commercial transactions on areas vital to China's domestic development, including food security, natural resources, and energy resources. Additionally, China uses trade agreements to open new markets for exports of machinery, electronics, textiles, and other low-value manufactured goods.³⁷

State-owned or -controlled enterprises undertake the most strategic trade activities, such as those related to the purchase of oil supplies or other natural resources. These firms can rely on lines of credit from the PRC government and also receive political support in their efforts to seek favorable terms of trade.³⁸

China has devoted considerable effort to developing new markets and deeper political relationships in Africa, Latin America, and Southeast Asia. In this pursuit, it has promoted trade opportunities and investment—both by use of bilateral engagements such as signing free trade agreements and by promoting multilateral engagements such as seeking membership in regional trade organizations. In January 2008, China launched negotiations with Costa Rica for a free trade agreement, and it concluded a free trade agreement with Peru in October 2008.³⁹ China has even created its own multilateral groups for trade promotion. For example, in 2000, China convened the Forum on China-Africa Cooperation. At the forum's 2006 meeting, China announced a goal to double its existing trade with African nations to \$100 billion by 2010 and to provide \$3 billion in preferential loans and \$2 billion in export credits.⁴⁰ According to China's Ministry of Commerce, in 2007 trade between sub-Saharan Africa and China totaled \$59 billion, growing annually at a rate of 30 percent.⁴¹

The 2008 United Nations (UN) Conference on Trade and Development's *World Investment Report* indicates that China's outward foreign direct investment flows reached \$22.5 billion in 2007. As of 2007, the *World Investment Report* says China has invested a cumulative total of \$95.7 billion abroad.⁴² The growth of Chinese foreign direct investment indicates the rising importance of this tool for China's economic diplomacy. China's investments appear to focus on three main objectives: 1) to develop markets and improve infrastructure, 2) to seek access to natural resources, and 3) to gain technical expertise. China plans to expand its foreign direct investment activities and is in the process of establishing eight overseas economic and trade cooperation zones in Nigeria, Mauritius, Zambia, Mongolia, Pakistan, Thailand, Kazakhstan, and Russia to provide more opportunities for Chinese investment abroad.⁴³ These zones are areas designated in the host countries as locations where Chinese firms can locate and concentrate their investments in joint ventures and in which they can establish research and development facilities or industrial production.⁴⁴ After a bidding process, the Chinese government will select firms and support their ventures abroad through investment and the provision of infrastructure necessary for industrial development within the zones.⁴⁵

China's infrastructure investments and natural resource extraction activities generally occur in the developing world.⁴⁶ Its infrastructure investments support the development of alternative energy, automobiles, banking, telecom, and electronics industries.⁴⁷ Infrastructure bottlenecks are a significant constraint to economic growth in developing countries, and China finances infrastructure projects for several reasons. Often the projects support the growth of Chinese investments in a particular country by reducing production and transportation costs. In some cases, China can utilize multilateral institutional financing for its own economic and trade goals. For example, China's involvement in the Asian Development Bank's Greater Mekong Subregion Economic Development Program facilitates the development of infrastructure that benefits China's southwestern provinces by opening up outlets for trade through mainland Southeast Asia.⁴⁸ In many cases, the terms of the infrastructure project contracts require the use of Chinese companies to construct the projects, and thus these companies benefit financially. In countries that do not require the use of local labor in their contracts, companies often bring in Chinese laborers to complete the projects.⁴⁹ In addition, most infrastructure projects are large and visible, thus providing free advertisement of China's service to the country involved.⁵⁰

Natural resources, such as oil, minerals, and timber, provide the inputs to maintain economic growth in China. As the demand for resources has grown, Beijing has opted for an approach that seeks to secure those resources at their source and has utilized its "going out" strategy to seek equity stakes in natural resource production. In the negotiations for these investments, China seeks to maximize profit.⁵¹ However, especially for investments viewed as strategic, such as energy, China is willing to accept a higher level of risk for a lower level of return because of the political importance it has placed on acquiring access to these commodities and the potential for windfall profits given rising commodity prices. China's energy investments in Sudan illustrate the level of risk that Chinese firms are willing to accept. Because of the priority placed on acquiring oil at its source, China National Petroleum Corporation (CNPC) continues to develop oil resources there, and the PRC government is willing to expend the political capital necessary to maintain the company's access to these resources.

Western countries may prohibit their oil companies from activities or ventures in nations ruled by rogue regimes, or companies decline to make such investments given the attendant risks, but China has not implemented comparable restrictions. It has been willing to make use of such situations and view them as opportunities to make inroads into energy resource development. In return, countries often rely upon China's investment for an economic lifeline, such as in the case of Iran.⁵² However, then-Deputy Assistant Secretary of State Christensen expressed the belief that the Chinese firms, and, more broadly, the PRC, will be hard pressed to obtain the rewards they seek, specifically the energy resource advantage that has animated China's involvement with a number of disreputable regimes in Africa, Latin America, the Middle East, and Southeast Asia. He testified that pursuing short-term, direct purchase agreements with "problematic regimes" will neither satisfy

China's energy demand nor guarantee long-term energy security; it also will hinder the development of efficient and transparent global resource markets.⁵³

Debt relief and development aid are important tools for China's economic diplomacy because they provide China with a means to foster goodwill among developing nations. For example, at the 2006 Forum on China-Africa Cooperation, China announced that it would waive repayments of 168 loans that were due at the end of 2005 from 33 countries.⁵⁴ In 2007, China forgave some of the reported \$8 billion to \$10 billion in debt it was owed by Iraq and announced a grant of 50 million RMB (approximately \$7 million at the current exchange rate) to Iraq for public health and education.⁵⁵ Of note, China also has interests in Iraqi oil production.⁵⁶ In August 2008, China and Iraq agreed to a \$3 billion oil services contract that provides for China National Petroleum Corporation to own 75 percent of a joint venture to pump oil from the Adhab oil field.⁵⁷

The use of development aid also enables China to counter successfully Taiwan's international influence. Those countries in receipt of China's aid packages are expected to support the one-China policy, to recognize the PRC and not Taiwan, and to refrain from criticizing China in the international arena. Through this and other means, China is attempting to persuade the 23 countries⁵⁸ that recognize Taiwan diplomatically to derecognize Taiwan and establish diplomatic relations with the PRC. In January 2008, Malawi became the most recent country to do so, reportedly after China offered \$6 billion to the Malawian government.⁵⁹ In Latin America in 2007, China agreed to purchase \$300 million of Costa Rican bonds using Chinese foreign exchange reserves and to provide an additional \$130 million in aid. Costa Rica's constitutional court released a Memorandum of Understanding in which Costa Rica agreed in exchange to close its embassy in Taiwan and expel Taiwan's diplomats.⁶⁰

China advertises its aid as having "no strings attached"—referring to the requirements for transparency, good governance, and respect for human rights that often accompany aid packages from Western nations or international organizations.⁶¹ For example, concessional loans from China's Export-Import (Ex-Im) Bank are not accompanied by conditions for political reforms or fiscal transparency⁶² (contrasted with loans from multilateral development organizations such as the World Bank and the International Monetary Fund (IMF), and from advanced, democratic nations including the United States, the European Union (EU), and Japan that usually require recipient governments to meet various standards). In a conference presentation, David Shinn, former U.S. ambassador to Burkino Faso and Ethiopia, used China's 2004 Ex-Im Bank loan to Angola as an illustration of China's frequent approach to lending:

The Chinese loan offer occurred when the International Monetary Fund was at a critical point in its negotiations with Angola for a new loan. Due to serious corruption associated with the oil industry, the IMF was determined to include transparency provisions to curb corruption and improve economic management. After China offered its loan without such measures, Angola ended negotiations with the

*IMF. The Angolan government explained that China's loan contained 'no humiliating conditions' and that it 'greatly surpasses the contractual framework imposed on the Angolan government by European and traditional markets.' An Angolan government statement added that China 'understands the difficulties faced by a country that has recently come out of more than three decades of war and that it trusts in Angola's development potential and its ability to recover.'*⁶³

The terms for this loan prompted concerns that China's lending policies would undermine governance in the country. At the end of 2007, nearly \$837 million of the first tranche of this loan had been used to finance 31 energy, water, health, education, communication, and public works contracts involving seven Chinese firms.⁶⁴ The second phase of this loan will support fisheries and telecommunications projects. China's Ex-Im Bank provided another \$2 billion loan to Angola in September 2007.

An institution located in Hong Kong, the China International Fund Ltd., extended a \$2.9 billion loan to Angola in 2005 that has been regarded with suspicion because the loan's terms and objectives are opaque, and the loan is managed by Angola's Reconstruction Office that reports solely to the president.⁶⁵ A study by Indira Campos and Alex Vines of Chatham House reported concern in Angola that the nation may not have the capacity to maintain these projects after they are completed. The study goes further to note that "The inflow of money and credit lines from China gives Angola's rulers the ability to resist pressure from Western financial institutions about transparency and accountability."⁶⁶

Military and Security Tools

China's military and security cooperation abroad has taken on new meaning with its global economic expansion. Under President Hu, the People's Liberation Army (PLA), in addition to improving force modernization and defending China's territory, has become the defender of China's economic development interests.⁶⁷ Major General Tian Bingren, political commissar of the Nanjing Army Command College, writes,

*Providing security protection during the period of important strategic opportunity is the new mission of the people's army and also a new development of the tasks and missions of the people's army. . . . Although China will not seek to increase its sphere of influence and be a regional [hegemon], the need to maintain stability in surrounding regions and world stability, to promote the prosperity and harmony of the international community, and to protect our legitimate rights and interests requires us to build a military force compatible with the position of our country and suitable for the interests of our development. We can talk about peace only when we have the capability to fight.*⁶⁸

Developing the capability to fight while taking on this new international role has spurred the PLA to adopt new practices and to engage outside its borders in new ways, including engaging in military diplomacy, arms sales, military exchanges, joint military exer-

cises, nuclear nonproliferation cooperation, UN peacekeeping operations, antiterrorism activities, and humanitarian relief.⁶⁹ PLA officers regularly make visits abroad and invite foreign officers to attend military schools in China.⁷⁰ Deputy Assistant Secretary of Defense for East Asian Affairs David Sedney testified that China has increased its Professional Military Education at the same time that U.S. funding for International Military Education and Training programs has declined for Asian students.⁷¹ The PLA also pursues confidence-building measures such as the new military hotline between the United States and China that is now operational.⁷² In 2007, China conducted eight joint military exercises and two joint training activities with forces from other nations.⁷³ In September 2008, China conducted the “Warrior 2008” exercise with 5,200 troops in Inner Mongolia, which included long-distance strategy planning and combat exercises with live ammunition. The PRC government invited 110 military delegates from 36 countries, including the United States.⁷⁴

PLA engagement abroad does not proceed without political guidance from Beijing. Cynthia Watson, a professor at the National War College, testified that “China will continue to employ its military as a vehicle for carrying out foreign policy plans. But that military is and almost certainly will remain under the close reins of the Chinese Communist Party and civilian leadership.”⁷⁵ In line with government strategies, the PLA often seeks strategic relationships in geographical areas where U.S. involvement has been lacking. For example, in Latin America, Dr. Watson noted that the PLA has broadened its involvement in the region primarily because regional leaders feel abandoned by the United States, as the U.S.’ attention has been focused elsewhere.⁷⁶

Chinese military assistance includes the development of technology. For example, China and Brazil have cooperated in the joint development of satellites, and China has signed a partnership agreement with Argentina to develop communication and surveillance satellites.⁷⁷ This engagement allows China to act as a benefactor to foreign militaries, which can bolster China’s reputation among other nations.⁷⁸ The PLA’s activities in other nations also provide opportunities for its leadership to observe at close range the military strategy and operations of those nations’ armed forces and to make consequent adjustments to its own.

China’s Conventional Arms Sales

Conventional arms sales are an important tool of China’s military diplomacy. China uses them to advance its strategic interests and also to provide revenue for the government.⁷⁹ In addition, China can send experts into the countries purchasing these arms to conduct training and provide technical expertise.⁸⁰ The Stockholm International Peace Research Institute Arms Transfers Database reports that in 2007 (the latest year for which data are available) China delivered weapons and military equipment to Bangladesh, Cambodia, Ghana, Iran, Namibia, Nepal, Nigeria, Pakistan, Sri Lanka, Sudan, Thailand, Turkey, Venezuela, and Zambia.⁸¹

China's Conventional Arms Sales—Continued

The United States remains concerned about the nature of China's arms sales, especially to trading partners that may be considered rogue regimes. For example, China continues to sell conventional weapons to Iran that Iran either deliberately provides to, or otherwise permits to reach, terrorists and anti-U.S. forces elsewhere in the Middle East. While sales of conventional weapons generally are not prohibited by international law or multilateral agreement, transfers to Iran of goods listed on the UN Register of Conventional Arms are prohibited by UN Security Council Resolution 1747 that sanctions Iran for its violations of International Atomic Energy Agency (IAEA) and UN resolutions requiring it to halt its nuclear activities—a resolution China voted to approve and is obligated to uphold and enforce regardless of end-use guarantees from Iran or the contrary desires of Chinese companies.⁸²

Principal Deputy Assistant Secretary of State for International Security and Nonproliferation Patricia McNerney testified,

*We are particularly concerned that Chinese firms have continued to supply Iran with a range of conventional military goods and services in contravention of the restrictions within ... UN Security Council Resolutions. Inevitably, some of this weaponry has found its way to insurgents and militants operating in Iraq, as well as Hizballah terrorists in the Levant.*⁸³

She described evidence that Iran has transferred Chinese-made weapons to Shia militants in Iraq, and that a Chinese-made QW-1 missile, believed to have been supplied by Iran, was recovered in Basra in April 2008.⁸⁴ These retransfers have placed American and Allied troops serving in Iraq in harm's way and could further complicate the task of establishing sufficient stability in Iraq to enable transfer of military and security responsibilities to the Iraqi government and significant withdrawals of U.S. forces.

Principal Deputy Assistant Secretary of State McNerney acknowledged that China is sensitive to this problem, fearing that retransfers of Chinese-made weapons could result in a public image and diplomatic crisis for the Chinese government. However, she stated, "China appears to accept at face value the end-use assurances and pledges against retransfers it receives from its customers, despite the fact that some of its customers have links to terrorists and have records as unreliable end-users, such as Iran."⁸⁵ She also noted that the response that is needed from China is a persistent, long-term campaign to prevent retransfers and not a limited effort primarily designed as a public relations device to disarm critics prior to the Olympic Games in August 2008.⁸⁶ Concrete action, as identified by Ms. McNerney, would include a refusal to transfer conventional arms to Iran and North Korea and implementation of internal compliance policies to prevent inadvertent transfers.⁸⁷

Among the component activities of military diplomacy, Lieutenant General Zhang Qinsheng, deputy chief of the General Staff Department of the PLA, views antiterrorism, humanitarian relief, and peacekeeping operations as areas of most likely mutual interest with other nations and therefore holding the greatest potential for bilateral and multilateral cooperation.⁸⁸ China contributes more personnel to UN peacekeeping operations than the United States, the United Kingdom, Russia, or France, although China's financial contributions to the UN budget are much less than those of each of the other four nations. As of September 2008, 2,164 Chinese police, troops, and military observers were participating in 11 UN peacekeeping missions.⁸⁹ China's largest contingent of peacekeeping officers currently is serving in Sudan (in two different missions); its second-largest force is in Liberia. The PRC military contributes UN military observers, engineer battalions, police units, medical teams, and transportation companies, often for repeated deployments.⁹⁰ In addition, China has its own academy for training officers selected for peacekeeping assignments.⁹¹

China's involvement in peacekeeping operations is a relatively recent development. However, this involvement has expanded rapidly. Dr. Friedman testified that one motivation is China's fear that the United States and its allies and friends may use such missions to foster the spread of democracy and other western political values and methods. While some other countries participate in peacekeeping operations to receive UN funding that supports their armed forces, China uses them to give its forces operational experience, and so China obtains added influence in the locations where the missions are conducted. Colonel Rogers testified that personnel deployed to these operations gain "corporate knowledge" of operating in unstable areas that may be underdeveloped.⁹² In addition, personnel receive exposure to the operational practices of other foreign militaries participating in the missions; real-life practice in conducting operational logistics, civil engineering, and civil-military interaction; and experience in deployments and redeployments, sometimes under combat conditions.⁹³ Furthermore, Colonel Rogers noted that the personnel returned from these assignments with valuable regional expertise and intelligence about how to operate and sustain forces abroad, particularly from missions in Africa.⁹⁴

Diplomatic and Political Tools

China's leaders use negotiation, persuasion, obstinacy, and compromise in bilateral and multilateral exchanges, among other diplomatic and political tools. However, these tools are sometimes difficult to identify clearly because China's government, or its state-owned or -controlled organizations often employ them in tandem with tools of economic or military diplomacy. For example, in the quest to limit Taiwan's international space and encourage countries to recognize China diplomatically, China routinely offers lucrative aid or trade incentives to countries that currently recognize the Republic of China (Taiwan) in an effort to switch or at least moderate their loyalty.

China has developed what Joshua Kurlantzick has termed a "charm offensive": its use of economic cooperation and security assistance in an effort to build its soft power influence. Mr.

Kurlantzick testified that China prefers an environment in which its influence is understated and in which it does not have to express its desires directly because its influence leads other countries to recognize and support its position.⁹⁵ An example of how this can work to China's benefit: Prior to the arrival of a Chinese official in Nepal in May 2008, the Nepalese government ordered a raid on a center for Tibetan refugees—very likely a gesture to China by the Nepalese government in recognition of China's displeasure with Nepal's position as a transit center for Tibetans fleeing to India.⁹⁶

China's leaders hope that its use of soft power will divert attention from the buildup of its hard power military capabilities and that lucrative trade and investment packages will shift the advantage from U.S. diplomacy. China fears that the United States is trying to contain the growth of its influence and control within the Asian region, and it sees its diplomatic relationships in Asia, especially its relationship with India, as important to preventing containment of its regional and global influence.⁹⁷ Therefore, as Dr. Malik testified, "China's 'charm offensive' is aimed at gathering as many friends and allies as possible in Asia and beyond to form a countervailing coalition under the rubric of strengthening economic interdependence and globalization—but without antagonizing Washington for fear of jeopardizing access to the U.S. market, capital, and technology."⁹⁸

Achieving this balance is the challenge. The "charm offensive" cannot be too assertive, raising alarms about China's rise and domination and a sense that China is or is becoming an unfair competitor as a result of its domestic economic policies.⁹⁹ Therefore, in every aspect of its diplomacy, the Chinese government must emphasize the "win-win" nature of its bilateral relationships and deemphasize the benefits to China.¹⁰⁰

Multilateral organizations provide a convenient mechanism for China to pursue some of its bilateral objectives and to manipulate the course of negotiations or discussions by developing and marshaling the force of multinational consensus on issues it considers to be significant. China uses its weight in these organizations primarily to counter the United States and promote the concept of multipolarity in global politics.¹⁰¹ Dr. Malik argues that this support for multilateralism could be a "smokescreen" for China's strategic expansion of influence.¹⁰²

When China's interests cannot be met in its multilateral initiatives, Beijing sometimes may cast off its charm offensive and more overtly display its increasing influence. For example, when it sees its interests threatened by western intervention, China's position as a permanent member of the UN Security Council allows it to prevent or stall the criticism and sanction of pariah states with which China has a strategic political relationship—for example, Burma and Sudan. The moderation of its "non-interference" policy implies that at times China will support international efforts when it sees its own interests at stake, but this support does not indicate a permanent change in China's diplomacy.

The Impact of China's Rising Influence

China's rising influence enhances the country's international standing and reinforces Chinese leaders' confidence in communicating the country's intentions and policies. In turn, the heightened standing and leadership confidence enable China to pursue more aggressively its interests and objectives while less frequently encountering strong resistance.

Some of China's global activities and its exercise of its various foreign policy tools have effects that produce benefits for itself, the Chinese people, and other areas of the world. For example, many observers believe China's promotion of trade and creation of new markets in the developing world have a net positive result for China and developing countries.¹⁰³ However, China's global influence, and the ways in which it has employed that influence, have real-world costs—some of which are detrimental to other nations, including the United States. (See chap. 1, sec. 1: "The U.S.-China Trade and Economic Relationship's Current Status and Significant Changes During 2008" for a discussion of China's role in the Doha Round of the World Trade Organization [WTO] negotiations.)

China's economic diplomacy successfully has drawn a line of distinction between developed, primarily western countries often categorized as "the North" and poorer, developing countries identified as "the South." While this distinction does not necessarily refer to geographical location, there is some correlation. Most developing countries are in Africa, Latin America, and Asia, the bulk of which lie in the Southern Hemisphere. China still champions itself as a leader of developing nations and has taken advantage of trade and investment opportunities found in the developing world. The attention Beijing has paid to countries in the "South" is not without problems, especially as China's economic power grows. In some cases, nascent industries in developing countries have suffered from the importation of China's cheaper products, and in the case of South Africa, the clothing and textile industries were forced to close factories and lay off workers after an "onslaught of Chinese imports."¹⁰⁴ The Chinese government has acknowledged the effects of cheap Chinese goods in Africa, with the Ministry of Commerce noting that China must "make more efforts to help African countries develop their textile industry in order to offset the effects of cheap Chinese imports."¹⁰⁵

As this example demonstrates, China's domestic economic policies promoting cheap exports present a diplomatic dilemma for the Chinese government with respect to its trade relations with developing countries. Yuan Peng writes, "... [T]he gap in development between China and the developing countries is widening all the time, and there is corresponding increased frequency of friction over development opportunities. Hence, handling well economic and diplomatic relations with the developing countries is more and more becoming a strategic issue that China must seriously deal with in the new stage of its economic development."¹⁰⁶

One of the most obvious and troublesome products of China's foreign policy actions results from China's natural resource investments in countries with autocratic regimes. The accumulation of resource rents by these governments allows them to flourish inde-

pendent of their legislatures and people, thereby fostering authoritarian tendencies, corruption, and a decline in democratic practices.¹⁰⁷

Furthermore, giving foreign aid without strings to irresponsible, autocratic regimes undermines democracy, transparency, accountability, and economic equity in the developing world. The United States and other nations are concerned that giving aid without conditions will enable countries to circumvent the requirements of multilateral aid donors that promote responsible government and impede corruption. As then-Deputy Assistant Secretary of State Christensen testified,

We are concerned that by giving aid without conditions and without coordination with the international community, China's programs could run counter to the efforts by these other actors to use targeted and sustainable aid to promote transparency and good governance. We believe that such conditional aid programs are the best way to guarantee long-term growth and stability in the developing world.

Mauro De Lorenzo, a scholar at the American Enterprise Institute, noted that large amounts of unaccountable aid could have long-term negative impacts on the growth and quality of African regional institutions.¹⁰⁸

In addition, some of China's trade and economic activities may result in detrimental environmental and social effects such as in the decline of forests in Southeast Asia due to Chinese logging contracts and forced relocation of more than 50,000 Sudanese people as a result of the Chinese-financed construction of the Merowe Dam on the Nile River.¹⁰⁹ China's reputation as a trade and aid partner may suffer as a result, and countries may be less willing to enter into agreements for Chinese investment projects if resulting widespread environmental or social problems challenge their stability. Chinese companies that are responsible for poor labor conditions and environmental abuses may face local resentment and even violence.

Some of China's military interactions raise concerns in the United States and elsewhere about its strategic intentions. For example, China is aiding Pakistan in the development of a deepwater naval base at the port of Gwadar on the Arabian Sea, a maritime area of strategic importance to the United States.¹¹⁰ In 2007, James Holmes, associate professor of strategy at the U.S. Naval War College, testified before the Commission about the utility of the port of Gwadar for China. He stated,

From a military standpoint, Gwadar already offers a useful installation for monitoring commercial and military traffic passing through the critical chokepoint at Hormuz. Over the longer term, should China develop a navy robust enough to project credible power into the Indian Ocean, then the port promises to allow Beijing—for the first time—to directly shape events in the Persian Gulf.¹¹¹

Regarding the August 2007 Sino-Russian military exercises conducted under the auspices of the Shanghai Cooperation Organization, Deputy Assistant Secretary of Defense Sedney testified,

“China invites limited numbers of countries to its joint exercises with Russia, but has not included the United States. This feeds our doubts and concerns.”¹¹² As the United States seeks to encourage and facilitate economic and political liberalization in Central Asia while at the same time achieving a military victory against terrorist forces in Afghanistan, China’s pursuit of alternative security arrangements may be counter to U.S. security objectives in the region.

In his testimony, Deputy Assistant Secretary of Defense Sedney noted the 2006 Latin American visit of the commander of the PLA’s 2nd Artillery, China’s strategic missile forces. The visit of a senior commander whose responsibilities include no apparent interests in Latin America was unexplained, and this raised concerns.¹¹³ Any introduction of missiles to Latin America or aid to nations in the region to produce or obtain their own would be profoundly destabilizing and unacceptable for the United States.

In some cases, such as Sudan, China’s arms transfers have had a destabilizing effect. Deputy Assistant Secretary Sedney stated that these transfers are impeding achievement of political stability in that country.¹¹⁴

China’s officials appear to be increasingly aware that arms sales to nations suffering from humanitarian and governance crises may have undesirable political repercussions. The refusal of South African dock workers in June 2008 to unload Chinese-made assault rifle ammunition, mortar rounds, and rocket-propelled grenades bound for Zimbabwe during a time of elections-related violence demonstrated growing concern about the effects of Chinese arms sales.¹¹⁵ Levi Tillemann, in an article published by the *China Brief*, writes, “The incident cast China’s indiscriminate ‘weapons for resources’ development policies in hard relief, and put the PRC at odds with the U.S., EU [European Union], and many of the African nations it had sought to publicly cultivate.”¹¹⁶

Then-Deputy Assistant Secretary Sedney concluded that China must now face the geopolitical consequences for transfers that once were regarded simply as commercial transactions.¹¹⁷ The Chinese government confronted this situation with its co-production with Pakistan of the FC-1 multirole fighter plane. Deputy Assistant Secretary Sedney explained that this partnership placed pressure on China’s relations with India, and the use of Russian engines in the plane also resulted in pressure on the Russian-Indian relationship. Another example is Venezuela’s pursuit of military items from China. China recognizes the sensitivity of selling arms to Latin America, given that it is located in the U.S.’ “backyard” and therefore will be hypersensitive to Americans. For this reason, Dr. Watson testified that China is cautious in its interactions with Venezuela, and she noted “It appears perfectly plausible that Beijing has actually been notifying Washington of its interactions with Caracas.”¹¹⁸

The Impact on the United States, and U.S. Efforts to Affect China’s Foreign Policy

Then-Deputy Assistant Secretary Christensen welcomed China’s growing international activism, saying, “... [The United States is] actively encouraging China to play a greater role in international

diplomacy and in the international economic architecture, albeit for purposes that buttress international development and stability and, therefore, coincide with the overall interests of both the United States and, we believe, China itself.”¹¹⁹ However, China’s growing influence has both positive and negative effects for the United States. Deputy Assistant Secretary Sedney explained, “... China’s increased global influence can at times complicate, and at other times facilitate, the U.S.’ ability to protect our security and promote our interests, as well as those of our allies and partners.”¹²⁰ Thus, in U.S. diplomacy toward China, Deputy Assistant Secretary Sedney testified, “What we seek is for China to translate its larger economic and military and diplomatic power into being a responsible stakeholder. ... [A]nd by that, we mean a China that behaves responsibly, that enhances stability, resilience, and growth of an international system from which no country has benefited more than China.”¹²¹

According to then-Deputy Assistant Secretary of State Christensen, because of its concerns about the effects of China’s provision of unconditional aid in Africa, the United States will begin a new bilateral dialogue with China to discuss development assistance.¹²² The objective is to coordinate better the use of aid and to promote best practices. As of the date this Report was completed, formal discussions had not taken place. In addition, the strength of the bilateral relationship raises China to a higher profile in the international community, and Deputy Assistant Secretary of Defense Sedney stated that this helps to shed light on China’s behavior abroad.¹²³

The challenge for the United States in coping with China’s “charm offensive” is making sure that U.S. influence, U.S. security, and U.S. relationships around the world do not suffer as a result. Deputy Assistant Secretary Sedney stated that the United States, above all, must maintain a position of strength when moving forward in cooperation with China.

However, strength does not come only from firepower. Witnesses emphasized to the Commission the importance of enriching the content of U.S. relationships abroad, especially with developing countries, in addition to maintaining military superiority. Key to accomplishing this objective is enhancing the U.S. government’s foreign policy bureaucracy—notably including the Foreign Service and aid and development programs. Mr. Kurlantzick identified the need for developing expertise on China among the diplomatic corps—not just among those officers assigned to the Beijing embassy. He noted that this education would provide the capability to assess the impact of China’s global influence on U.S. economic and security interests.¹²⁴ Mr. De Lorenzo concluded that successful implementation of the Millennium Challenge Corporation development programs will be essential to building new alliances and broadening support for U.S. policies.¹²⁵

Also important to balancing China’s growing influence is maintaining an active presence in Asia. Then-Deputy Assistant Secretary of State Christensen stated that a strong U.S. presence in Asia promotes an “accommodating, engaging, diplomatic strategy” and helps to persuade China to make the right choices in pursuing its goals of economic growth and domestic stability.¹²⁶

One of the most important issues facing the United States is the need to learn how and when to leverage China's influence, especially its relationships with rogue states. The United States also must set clear limits and communicate clear expectations for responsible behavior, especially with regard to China's international commitments.

Conclusions

- China's growing diplomatic activism is an attempt to demonstrate that China has attained great power status. China is relying upon its "charm offensive"¹²⁷ to win friends around the world, and it is using its influence to push back potential adversaries.
- China has been able to use its economic weight to create financial dependencies that can constrain or censure the actions of other countries that rely on China's trade. This has allowed China to expand its influence among developed nations, namely the United States and the European Union, and to be more assertive of its own economic interests, as was most recently observed in its behavior at the World Trade Organization's July 2008 Doha negotiating round.
- China's use of aid and investment may have detrimental consequences for the U.S.' and international financial institutions' desire to promote transparency, accountable governance, environmental protection, and human development in the developing world.
- China has continued to transfer weapons and military technology to nations that may use or retransfer them in ways that violate international norms and values and harm U.S. interests.
- China's engagement in United Nations (UN) peacekeeping operations is a positive contribution to global security. However, Beijing's continuing arms sales and military support to rogue regimes, namely Sudan, Burma, and Iran, threaten the stability of fragile regions and hinder U.S. and international efforts to address international crises, such as the genocide in Darfur.
- The U.S.' ability to promote its foreign policies around the world and to protect its interests may be challenged by rising Chinese influence.
- Holding China accountable for fulfilling its international commitments and encouraging it to adopt a constructive global role will strengthen the international system.