AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

110TH CONGRESS
2d Session

COMMITTEE PRINT

S. PRT.
110–46

CHINA'S FOREIGN POLICY AND "SOFT POWER" IN SOUTH AMERICA, ASIA, AND AFRICA

A STUDY

PREPARED FOR THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

BY THE

CONGRESSIONAL RESEARCH SERVICE
LIBRARY OF CONGRESS

APRIL 2008

Printed for the use of the Committee on Foreign Relations

Available via World Wide Web: http://www.gpoaccess.gov/congress/index.html

U.S. GOVERNMENT PRINTING OFFICE

41–927 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON FOREIGN RELATIONS

JOSEPH R. BIDEN, JR., Delaware, *Chairman*

CHRISTOPHER J. DODD, Connecticut
JOHN F. KERRY, Massachusetts
RUSSELL D. FEINGOLD, Wisconsin
BARBARA BOXER, California
BILL NELSON, Florida
BARACK OBAMA, Illinois
ROBERT MENENDEZ, New Jersey
BENJAMIN L. CARDIN, Maryland
ROBERT P. CASEY, JR., Pennsylvania
JIM WEBB, Virginia

RICHARD G. LUGAR, Indiana
CHUCK HAGEL, Nebraska
NORM COLEMAN, Minnesota
BOB CORKER, Tennessee
GEORGE V. VOINOVICH, Ohio
LISA MURKOWSKI, Alaska
JIM DEMINT, South Carolina
JOHNNY ISAKSON, Georgia
DAVID VITTER, Louisiana
JOHN BARRASSO, Wyoming

ANTONY J. BLINKEN, *Staff Director*
KENNETH A. MYERS, JR., *Republican Staff Director*

CONTENTS

Page

CHINA'S FOREIGN POLICY AND "SOFT POWER" IN SOUTH AMERICA, ASIA, AND AFRICA

Letter of Submittal v
Letter of Transmittal vii
China's "Soft Power:" Overview and U.S. Policy Challenges 1
- Definitions of Soft Power 2
- Presumed PRC Foreign Policy Goals 4
- Competitive Advantages of PRC "Soft Power" 9
- Limitations on PRC "Soft Power" 10
- Implications for U.S. Interests 12
- Options 13

Latin America and the Caribbean 16
- Overview 16
- Diplomacy 16
- Economic Ties 20
- Foreign Assistance 26
- Implications for U.S. Policy in Latin America and the Caribbean 28

The Southwest Pacific 32
- Overview 32
- Diplomacy 33
- Trade and Investment 36
- Foreign Aid 37
- Pacific Views Toward China 38
- Implications for U.S. Policy in the Region 40

Japan and South Korea 42
- Overview 42
- International Trade Flows 42
- Investment, Financial, Aid, and Cultural Flows 45
- China's Relations With Japan 51
- China's Relations With South Korea 54
- Regional Trade Arrangements 58
- Implications for U.S. Policy in the Region 63

Central Asia 65
- Overview 65
- Bilateral and Multilateral Diplomacy 66
- Economic Ties 71
- Foreign Assistance 78
- Implications for Central Asia 79
- Implications for U.S. Interests 83

Southeast Asia 88
- Overview 88
- Diplomacy 89

Page

Southeast Asia —Continued
A Comparison of U.S. and Chinese Economic Relations With ASEAN 91
Foreign Aid 97
U.S. Policy Implications 101

Sub-Saharan Africa 105
Overview 105
China's Current Africa Policy 107
PRC "Aid" and Trade Finance in Africa 113
China-Africa Trade and Investment 119
Sino-African Engagement: Implications 125

LETTER OF SUBMITTAL

April 15, 2008.

Hon. JOSEPH R. BIDEN, JR., *Chairman,*
Committee on Foreign Relations,
United States Senate, Washington, DC 20510.

DEAR MR. CHAIRMAN: In response to your request, I am submitting a comprehensive memorandum examining the People's Republic of China's (PRC's) activities and "soft power" projection in Asia, Africa, and Latin America. The work was prepared by members of CRS's Foreign Affairs, Defense, and Trade Division. My understanding is that you may distribute the memorandum as a committee print.

The study addresses the questions you posed when you first asked us to prepare a lengthy study of the topic: How much is China really doing in these regions, and how much do we know about its motivations? What do these widespread PRC activities mean for the United States and for U.S. global influence: are the implications necessarily bad and therefore a demonstrable threat to U.S. interests across the board, or might the implications be benign or in some instances even positive for U.S. interests? How has this increasing engagement affected China's own policies? Finally, what are the economic and political costs and benefits to China of such international engagement, and are they likely to be influences for greater pragmatism and nuance in PRC policies or serve instead to reinforce more hardline and nationalistic sentiments?

The study opens with an overview section discussing China's presumed foreign policy goals, the attractions and limitations of China's "soft power," and the implications and options for the United States. The memorandum proceeds to an analysis of China's relations with countries in Latin America and the Caribbean, the Southwest Pacific, Japan and South Korea, Central Asia, Southeast Asia, and Sub-Saharan Africa.

Kerry Dumbaugh, CRS Specialist in Asian Affairs, coordinated the study, developing its framework, overseeing the work of the eight other contributors, and writing the overview section. Specialist in Asian Affairs Thomas Lum assisted in overseeing the project. Other authors were CRS analysts Nicolas Cook, Wayne Morrison, Dick Nanto, Jim Nichol, Mark Sullivan, and Bruce Vaughn. Information research specialist Susan Chesser provided assistance obtaining data. Asian affairs analysts Shirley Kan and Michael Martin provided in-depth peer review. Jared Nagel, of CRS's support staff, provided invaluable administrative assistance.

Sincerely,

DANIEL P. MULHOLLAN, *Director.*

LETTER OF TRANSMITTAL

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC, April 29, 2008.

DEAR COLLEAGUE: China's emergence as a global power has profound implications for the security and economic interests of the United States. The pace and scale of China's development is unprecedented, and poses a host of issues that have made China the image of globalization in the minds of the American public. Yet for all of the attention being paid to China's rise and its attendant economic, environmental, security, and political consequences, the United States still has a very imperfect understanding of China's power and motivations or how the rest of the world is responding to China's integration. The debate in our country over how best to respond to China can quickly become polarized between those who view China principally as a threat and those who see China's rise as essentially benign. The truth is that China's rise presents both challenges and opportunities for the United States.

Last year I asked the Congressional Research Service to prepare a comprehensive report examining China's growing "soft power" in Asia, Africa, and Latin America. Harvard professor Joseph S. Nye, Jr. first argued in 1990 that the United States must wisely deploy its soft power—the non-military tools of our foreign and national security policies—to complement its "hard power," or military force, if it is to advance its interests in the era of globalization. He and others have since refined this original concept and have testified before the Committee on Foreign Relations on the application of "smart power" to address the challenges confronting the United States in the 21st Century. My objective in requesting this study was to provide the Congress with a better factual understanding of China's use of soft power, including: international trade and investment, development assistance, cultural influence, humanitarian aid, travel and tourism. CRS has produced an analysis that not only takes stock of China's soft power, but also illuminates the options open to the United States to respond to China's "invigorated activities around the world."

Pulling together a distinguished group of China specialists and other regional and functional analysts, CRS delved deeply into China's foreign policy and soft power, examining both the strengths and weaknesses of China's approach to the world, and the benefits and drawbacks for those countries most closely integrated with China's growing economy. On the plus side, CRS reports that China's involvement in Africa is spurring investment, " . . . in infrastructure and the financial services, manufacturing . . . and mar-

ket niches that non-Chinese foreign investors have generally long ignored." China provides the developing world access to cheap credit and inexpensive consumer goods, and many countries are enjoying rapidly rising revenues due to Chinese demand for their exports. On the other hand, China's manufacturing strength makes it difficult for industries in the developing world to gain a competitive advantage, putting some out of business. And China's investment in developing economies, particularly in natural resource extraction, sometimes undermines international efforts to link aid and investment to measurable progress by recipient countries in combating corruption, improving transparency, and respecting human rights. In Uzbekistan, for example, CRS reports that U.S. criticism of human rights conditions may have spurred Uzbekistan to re-evaluate its ties with the United States and to improve its ties with China.

China has attempted to exploit its "no strings attached" foreign aid stance and its ability to deploy state-owned assets to reap soft-power advantages. But CRS finds that China's success has been mixed and its influence remains modest. Contrary to some projections of China's ability to displace American influence through the use of soft power, the CRS report indicates that China must grapple with many limitations on its influence. As China has become more engaged in world affairs, it has also discovered that its foreign entanglements may not always be popular at home or abroad. In some cases, Chinese economic engagement has become the subject of intense, xenophobic political debate, as in the Zambian election of 2006, when the main opposition candidate incited his followers with vitriolic anti-Chinese rhetoric. And CRS found that China's cumulative stock of foreign direct investment (FDI) worldwide amounted to just $73.3 billion at the end of 2006—0.58% of global FDI. Moreover, CRS found that China's soft power achievements are built on a very narrow base, confined to non-controversial issues where all sides are most likely to agree. And even in those areas—such as disaster relief—China's level of effort and its accomplishments pale beside those of the United States. Finally, while China's state-owned assets may be obedient to state authority, CRS found that America's private sector leaves a "substantial global footprint," sometimes overlooked by those comparing only government directed overseas initiatives.

It is my hope that this study will inform debate about China and help point the way toward policies that will not only respond to those Chinese actions that are at odds with U.S. interests, but will also build on the many common interests created by China's enhanced integration with the international community. In the weeks ahead, the committee will conduct hearings examining U.S.-China relations, China's use of soft power, and the opportunities for the United States to reinvigorate its own "smart power" by engaging China to work with us to advance our common interests.

Sincerely,

JOSEPH R. BIDEN, JR., *Chairman.*

China's Foreign Policy and "Soft Power" in South America, Asia, and Africa

CHINA'S "SOFT POWER:" OVERVIEW AND U.S. POLICY CHALLENGES[1]

We begin this memo with several caveats about the limits on a decisive analysis of the extent and implications of China's international "reach"—its soft power, a phrase we define below. First, there is little consensus within the U.S. and global China-watching communities on China's foreign policy goals or on what motivates and informs China's decisions—either decisions made in general terms or with regard to specific regions or countries. Does China's international engagement have a pragmatic, overarching strategy, or is it a series of marginally related tactical moves to seek normal economic and political advantages? Is Beijing interested in supplanting the United States as a global power or focused mainly on its own national development? Does the PRC feel strong and confident internationally or weak and uncertain? No one is sure.

Many have written on China's foreign policy decision-making. Although China's foreign policymaking has become more regularized in recent years, few claim to be certain about how China's foreign policy decisions are made, about who makes them, or about what long-term goals Chinese policies seek to attain. Some profess certainty: however, they have not been able to demonstrate that their convictions lead to any sort of consistency in analyzing or predicting China's foreign policy decisions. In the aftermath of incidents of Sino-U.S. tension or confrontation—such as the case in 2001 when a Chinese fighter jet collided with a U.S. EP-3 reconnaissance plane, or the case in 2007 when the PRC suddenly denied Hong Kong port visits to a series of U.S. ships—U.S. officials have remained largely in the dark about the PRC's crisis management processes and about why and how PRC leaders reached their decisions. The number of unknown variables that still animate China's foreign policy goals and decision-making processes is simply too great. There appears to be no "magic bullet" then—no individual or group with proven answers—that definitively can inform U.S. views or prepare U.S. government and congressional actors on how best to prepare for the challenge China could pose to U.S. global interests.

Relatedly, a study of PRC international influence is hampered by a lack of reliable data on Chinese foreign aid and by lack of transparency on whether and how the PRC makes and implements large, high-profile investment agreements. PRC assistance to other countries comes from multiple government agencies with little or

[1] Prepared by Kerry Dumbaugh, Specialist in Asian Affairs, Foreign Affairs, Defense, and Trade Division, Congressional Research Service.

no apparent oversight; it does not appear to be tracked or monitored by one single government entity. Many forms of PRC foreign assistance—loans, debt forgiveness, the building of large public facilities, and trade and investment agreements—do not meet the traditional definition of "development assistance," which is how most of the world's donor countries provide aid. Furthermore, PRC assistance is not provided in regularized annual allotments, but appears to follow a funding schedule determined by Beijing's diplomatic priorities. Beijing reportedly also is reluctant officially to reveal the totals of its foreign assistance for a variety of reasons—including out of fear of domestic objection that Beijing is not spending its money at home rather than abroad.[2] In sum, the extent of PRC foreign assistance to other countries cannot be determined accurately.

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

In the vocal minority are those who view China as a growing military menace with malign intent. These hardliners have been perceived sometimes by others as agitators whose counsel to treat China as a major threat to U.S. interests is designed to justify huge U.S. military budgets and is more likely to bring about conflict with China than to deter it. The view that has been pursued more openly by U.S. Administrations is one that counsels cooperation and engagement with China as the best way to integrate China into the prevailing global system as a "responsible stakeholder"—a nation that has "a responsibility to strengthen the international system that has enabled its success."[3] But opponents of this approach typically paint these as the views of "panda-huggers" who, seduced by the potential of the China market, are oblivious to PRC hostile intent, cave in to PRC wishes and demands unnecessarily, and thereby squander U.S. strategic leverage and compromise U.S. interests. The confrontational and highly-charged dynamic between these two polar views continues to make elusive the kind of pragmatic and reasoned policy discourse that could create greater American consensus on how the United States should position itself to meet the challenges China poses.

DEFINITIONS OF SOFT POWER

As requested, this study focuses on China's "soft power" projection in the specified regions. The term "soft power" originally was

[2] See CRS Report RL34310, *China's "Soft Power" in Southeast Asia,* by Thomas Lum, Wayne Morrison, and Bruce Vaughn.

[3] "Whither China: From Membership to Responsibility?" Speech by Deputy Secretary of State Robert B. Zoellick to the National Committee on U.S.-China Relations, September 21, 2005.

conceived in 1990 by Harvard Professor Joseph S. Nye, Jr.. Nye argued that the United States had reserves of power and influence that were separate from "hard power," or military force projection. He expanded greatly on this concept in his book, *Soft Power: The Means to Success in World Politics*—partly, he said, from the frustration of watching "some policy makers ignore the importance of our soft power and make us all pay the price by unnecessarily squandering it."[4] According to Nye, soft power is crucially important in today's world politics and is significantly more than just the trappings of American culture:

> Soft power rests on the ability to shape the preferences of others . . . . [It] is the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country's culture, political ideals, and policies. When our policies are seen as legitimate in the eyes of others, our soft power is enhanced. America has long had a great deal of soft power . . . .[5]

More broadly speaking, the components of soft power also are defined as including international trade, overseas investments, development assistance, diplomatic initiatives, cultural influence, humanitarian aid and disaster relief, education, and travel and tourism. Although American soft power remains formidable, by some of these measures it is seen to have declined in the 21 century. In absolute terms, some believe this perceived decline is the result of the United States' own policies and actions. One former U.S. Government official speculates that although America has massive remaining reserves of soft power, they have become a "non-renewable resource" given current U.S. policies.[6] Others point to multiple global survey results on international views of the United States, saying "the downward trend is unmistakable."[7] As Nye himself puts it:

> Anti-Americanism has increased in recent years and the United States' soft power . . . is in decline as a result . . . . A Eurobarometer poll found that a majority of Europeans believes that Washington has hindered efforts to fight global poverty, protect the environment, and maintain peace. Such attitudes undercut soft power, reducing the ability of the United States to achieve its goals . . . .[8]

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

---

[4] Nye, Jr., Joseph S., "Soft Power: The Means to Success in World Politics," *Public Affairs,* NY, 2004, p. XI.

[5] Nye, Jr., Joseph S., p. 5, p. X.

[6] Conversation with former Ambassador Charles W. Freeman, Jr., 2007.

[7] Kurlantzick, Joshua, "The Decline of American Soft Power," in *Current History,* December 2005, p. 419.

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

It is clear that China's foreign policy today has changed fundamentally in the years since Chairman Mao Zedong's policy of "self-reliance" greatly constrained the country's foreign contacts and when the country's foreign policy goals centered on promoting Maoist revolutionary parties around the world. Under reform policies begun in 1978, China in the past 30 years has openly sought and received substantial foreign investment, technology, and expertise; has become an international export powerhouse; has expanded its membership and participation in international organizations; and increasingly has appeared willing to embrace many norms and rules of the global economic system of which the United States is the chief architect and dominant player. Since 2000 in particular, there has been a steady increase in the PRC's courting of foreign governments, including high-level diplomatic exchanges, trade initiatives, investment agreements, and tourism and cultural understandings.

Having progressed on a steady path in the last three decades on multiple global economic and political endeavors, China's robust international engagement since 2000 has caught many by surprise and has prompted growing American disagreement and debate over PRC motivations and objectives. The fact that much of this international engagement has expanded while the United States has been preoccupied with its military involvement in Iraq and Afghanistan also is causing a growing degree of American introspection. Moreover, many fear that China's growing international economic engagement is going hand-in-hand with expanding political influence. Although some believe that PRC officials appear more comfortable working with undemocratic or authoritarian governments, PRC outreach also has extended to key U.S. allies or to regions where U.S. dominance to date has been unparalleled and unquestioned, leading some to conclude that Beijing ultimately intends a direct challenge to U.S. global power.

PRESUMED PRC FOREIGN POLICY GOALS

Within the ongoing international debate about what China's ultimate intentions may be for its growing global achievements, it is possible to point to some fundamental objectives that appear to be at least partial motivations for Beijing's current international outreach. Adding to the uncertainty about PRC policies, these presumed objectives at times are in contradiction, suggesting either a lack of coherence or that they reflect internal Chinese disagreements and compromise. China's policy direction is that much harder to predict when some of these key policy objectives are seen to clash, and experience tells us that abrupt shifts in policy, shifts which remain unexplained in many cases, still occur with a fair degree of regularity in the PRC system.

Enhancing Sustainable Economic Growth

Strong economic development continues to be seen as the core primary objective for the PRC leadership for a host of reasons—not the least of which are to raise the living standards of its enormous population, to dampen social disaffection about economic and other inequities, and to sustain regime legitimacy after the demise of communist ideology as an acceptable organizing principle. China's

annual economic growth rates routinely are in the double digits; in 2007, they reached an annual rate of 11.4 percent—the highest since 1994.[9] This rapid and sustained economic growth has created voracious domestic appetites for resources, capital, and technology, as well as for markets for Chinese goods, and these appetites have served as powerful drivers of China's international trade and investment agreements.

In energy sources alone, for example, China became a net importer in 1995—it became a net importer of oil in 1993—and its energy demands are expected to continue increasing at an annual rate of 4–5 percent through at least 2015, compared to an annual rate of about 1 percent in industrialized countries.[10] China steadily and successfully has sought trade agreements, oil and gas contracts, scientific and technological cooperation, and de-facto multilateral security arrangements with countries both around its periphery and around the world. In all three of the regions discussed in this memo where China is most active, access to energy resources and raw commodities to fuel China's domestic growth plays a dominant role in Beijing's activities. China has oil and gas exploration contracts with Brazil, Ecuador, Bolivia, Colombia, Venezuela, and Cuba; oil contracts and pipeline deals are a major part of China's activities in its relations with Central Asian states such as Uzbekistan and Turkmenistan, and China's oil exploration interests extend to Burma, Vietnam, and Malaysia. Imports of crude oil constitute the bulk of China's imports from African states.

In pursuit of sustainable economic development, China also is seen to have placed a priority in keeping stable and relatively tension-free relations with its primary export market, the United States. Some analysts suggest that this priority is behind Beijing's decision in 2003 to tone down its anti-U.S. rhetoric and criticism and instead to emphasize China's "peaceful rise" on the world stage.[11] According to this view, Beijing calculates that even the appearance of a more overt pursuit of its regional and global interests could prompt the United States to strengthen its alliances and form other groupings to counterbalance and deter China's international outreach. Such a development could fetter China's economic growth.

Squeezing Taiwan's International Space

In addition to economic and resource-related imperatives, China's outreach into Latin America and the Caribbean, Africa, and the Pacific incorporates the political dynamic of trying to separate Taiwan from its remaining diplomatic relationships. China claims that Taiwan is part of its sovereign territory, and for decades has tried to make acknowledgment of this "one China" policy a condition for receiving Chinese investment and assistance. All but one of Taiwan's remaining 23 official relationships are in the three regions that are the focus of this memo. With China's dynamic economic growth in

[9] Xie Fuzhan, Commissioner, National Bureau of Statistics of China, "The National Economy Maintained a Steady and Fast Growth in 2007," January 24, 2008.

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

[11] Sutter, Robert, *Chinese Foreign Relations,* Rowman & Littlefield Publishers Inc., 2008, p. 82.

recent decades, it effectively has been able to "outbid" Taiwan in courting a number of these governments. Taiwan lost four of its diplomatic relationships to this competition in the last three years, including the loss of official relations with Malawi on January 14, 2008.

The Taiwan factor is not uniformly significant in China's relationships with the regions under discussion. While the Taiwan issue is important in China's African relationships, it is not important in China's relations with Central Asian countries, where Taiwan has no official diplomatic relations. It is a negligible factor in China's relationships with Southeast Asian countries, where Taiwan has significant economic interests but again no diplomatic ties. And Taiwan is a very important factor—even perhaps the only one—in China's courtship of the 6 tiny Pacific Island nations that still have official relations with Taiwan. But Taiwan-PRC competition looms large in China's relationships in Latin America and the Caribbean. Not only is this where Taiwan maintains most of its remaining official diplomatic ties, but the region's proximity to the U.S. mainland allows Taiwan's president and senior leaders to ask for controversial but symbolically meaningful transit stops in the United States when making official visits to these western hemisphere countries. A significant reduction, or even the disappearance, of Taiwan's Latin America and Caribbean relationships greatly could impair this convenient Taiwan-U.S. connection.

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

Maneuvering against Taiwan—and ultimately "recovering" it—provides one of the key contradictions in China's foreign policy objectives as it is an issue that appears to be able to trump other key policy goals. Chinese officials have said, for instance, that they will "pay any price" to prevent Taiwan independence, although this would jeopardize the otherwise key imperative of assuring strong economic growth, not to mention risking armed confrontation with the United States.[12]

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

Table 1. Taiwan's 23 Official Relationships*

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

* As of February 2008

Increasing Its International Stature and Competing With U.S. Supremacy

After decades of international isolation, PRC leaders are presumed also to place a high priority now on expanding and improving China's global stature and influence and, where they can, on limiting or constraining the ability of the United States to interfere with or adversely affect PRC interests. Having come late to the global economic development party, China is seeking multiple international partnerships and groupings that make it, if not an indispensable player in the global system, then at least one whose interests must regularly be taken into account.[13] Having embraced the international system, Beijing is seen to be maneuvering deftly for space and opportunities not already taken up by the United States—opportunities where it can have greater freedom of action. Lacking a formal system of alliances like those of the United States, the PRC has devised numerous other frameworks. These include efforts to act:

Through Bilateral Initiatives. —On a bilateral basis throughout Latin America, Asia, and Africa, PRC leaders have established Strategic Partnership Agreements, Friendship and Cooperative Partnership Agreements, Friendship Associations, and Free Trade Agreements, among other vehicles, to reinforce the notion that special economic relationships exist between China and the recipient countries. "Chinese Friendship Associations" abound all over the world, including with individual U.S. states. In 2004, PRC leaders created the "Confucius Institute"—a non-profit program to teach Chinese language and promote Chinese culture around the world.[14] Beijing opened its first Confucius Institute in Seoul, Korea, in November 2004; by the end of 2007, the PRC had 203 Confucius Institutes around the world, including 40 in the United States.[15] China also has expanded the use of Approved Destination Status (ADS)—a bilateral tourism arrangement with other countries that facilitates Chinese tourism in groups.

Through Existing Multilateral Organizations.—In addition to bilateral initiatives, China increasingly has grown more active in international multilateral organizations that it formerly viewed with suspicion as U.S.-dominated institutions that would try to constrain and exploit PRC interests. China now participates more

[13] Goldstein, Avery, *Rising to the Challenge: China's Grand Strategy and International Security,* Stanford University Press, 2005.
[14] The program is under the auspices of The Office of Chinese Language Council International.
[15] This from the Chinese Embassy in Washington D.C., January 2008.

confidently in the United Nations, the World Bank, and other entities, even seeking to employ what one specialist calls a "Gulliver Strategy" that tries to tie down the United States giant in constraining international agreements.[16] China also has successfully sought entry in one form or another to existing regional groupings in Asia and Latin America and the Caribbean. These include:

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

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

- East Asia Summit (EAS). In 2005, for instance, China took part in the first East Asia Summit (EAS), a fledgling grouping of 16 Asian and Pacific powers including China, the ten members of the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, India, Australia, and New Zealand, but excluding the United States.[17] Russia's President Putin attended as an invited observer.[18]
- Shanghai Cooperation Organization (SCO). With the Central Asian countries of the former Soviet Union, including Russia, China has pursued both economic and security arrangements through the Shanghai Cooperation Organization another new organization founded in 2001 exclusive of U.S. participation.[19] Within the SCO context, China has cooperated on border enforcement, signed pipeline and rail link agreements, and conducted joint military maneuvers.
- Forum on China-Africa Cooperation Forum (FOCAC). In 2000, China and African countries formed the China-Africa Cooperation Forum proposing that the FOCAC meet every three years to seek mutual economic development and cooperation. Representatives from 45 of Africa's 55 countries attended the FOCAC's first Ministerial Conference in October of that same

[16] Sutter, p. 62.
[17] First established in 1967, ASEAN in 2005 includes Brunei-Darassalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam. The United States maintains military alliances with the Philippines and Thailand, and has significant naval and air base arrangements with Singapore.
[18] See CRS Report RL33242, East Asia Summit (EAS): Issues for Congress, by Bruce Vaughn.
[19] The SCO is a more recent expansion of the "Shanghai Five" formed in 1997. SCO members include China, Russia, Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan.

year; the third FOCAC meeting was in Beijing in early November 2006. The United States is not a member of the FOCAC.

COMPETITIVE ADVANTAGES OF PRC "SOFT POWER"

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

No Strings

The recipient governments of PRC trade and investment are particularly attracted to the fact that Chinese money generally comes with none of the pesky human rights conditions, good governance requirements, approved-project restrictions, and environmental quality regulations that characterize U.S. and other Western government investments. With an authoritarian government that has few if any democratic imperatives, China has capitalized on its willingness to make such "unrestricted" international investments as part of its "win-win" international strategy.

In response to the December 2006 military coup in Fiji, for instance, Beijing promised to continue its aid programs on the grounds that the coup was Fiji's "internal" affair. (PRC leaders do not appear to define the recipient country's adoption of the "one-China" policy as such a restriction.) China markets this capacity internationally as a key competitive advantage to Western capital—one that is both more efficient and less intrusive for the recipients. And the unrestricted nature of PRC investments resonates with many foreign governments. According to one African leader, for instance:

> . . . I have found that a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we have dealt with Chinese authorities. I am a firm believer in good governance and the rule of law. But when bureaucracy and senseless red tape impede our ability to act—and when poverty persists while international functionaries drag their feet—African leaders have an obligation to opt for swifter solutions.[20]

The World Bank and the U.S. and other Western governments may be able to increase the efficiency of their international investment processes and reduce attending red tape to compete with these PRC advantages. But Beijing's willingness to make unrestricted investments while holding the recipients to no standards implicitly validates the policies of the recipient (and often authori-

[20] Senegal President Abdoulaye Wade, in "Time for the west to practise what it preaches," *Financial Times,* Jan. 24, 2008, p. 6.

tarian) governments. Such a "hands-off" approach could have negative longer-term implications for how the PRC is viewed within the countries in which it is investing. Over the longer term, then, China's approach has potential negative consequences that could counterbalance any soft power advantages.

The Advantage of State-Owned Assets

The PRC also is thought to reap soft-power advantages by having much of its foreign investment carried out by its strong state-owned sector. These state corporations lack transparency, have deep pockets backed by government assets, and operate without the constraints that come with having to issue a corporate annual report. Unlike U.S. corporations investing overseas, who lack this close government patronage and in addition must answer to their shareholders, PRC state-owned companies have the luxury of being able to take a longer-term, strategic view—one more closely integrated with national priorities—without having to demonstrate immediate profits. But again, there are negative consequences; there is a certain discipline in having to adhere to the bottom line. PRC state-owned companies, lacking this built-in discipline, sometimes are seen to have paid above-market prices for their oil and gas contracts and to have entered into unprofitable initial arrangements in order to improve bilateral relations and facilitate future contracts.

LIMITATIONS ON PRC "SOFT POWER"

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

Lack of Success

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

its willingness to vote against PRC interests in the United Nations.[21]

The Narrow Base of PRC Achievements

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

To cite only one example, China initially reported that it pledged $63 million in assistance to Indonesia after the 2004 tsunami, a figure dwarfed by the $405 million pledged by the United States. A later article in a PRC publication, however, put the actual amount of PRC Indonesian assistance at $22.6 million.[22] PRC foreign policy achievements will be constrained if Beijing continues to shortchange its intended recipient governments in this way. U.S. observers need to be cautious, then, about the initial headlines of PRC involvement and more mindful of the degree of follow-through.

Moreover, a "win-win" strategy is a slender reed for maximizing comprehensive soft power. The soft power potential that the PRC can hope to gain from such a strategy pales next to the national capacity and willingness of the United States to take on costly and forlorn global tasks such as international disaster aid—to demonstrate a willingness, in the words of Tony Blair, "to be the recipient of every demand, to be called upon in every crisis, to be expected always and everywhere to do what needs to be done."[23] Nothing in Beijing's current soft power approach suggests it is willing to embrace such altruism.

Foreign entanglements also could raise political problems at home for PRC policymakers. The increasing availability of Internet and cell phone use assures that growing numbers of Chinese citizens have more access to information, including information about China's international activities. Confirmation that China is invest-

---

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

[22] Xing Zhigang, "China pledges to increase humanitarian aid," *China Daily,* January 19, 2006. Cited also in Sutter, p. 108.

[23] Prime Minister Tony Blair, "Doctrine of the International Community," in a speech before the Chicago Economic Club, April 22, 1999.The Complications of an International Presence. Even with a "win-win" strategy, acquiring and maintaining an enhanced international presence brings with it certain complications. Among other things, it provides almost innumerable opportunities for international misunderstanding, resentment, cultural backlash, kidnappings, hard feelings, murders, and other assorted repercussions. Cultural backlash and resentment may be heightened by the style that PRC overseas investments and construction projects have pursued to date—involving the import of Chinese workers instead of using the local population. Chinese overseas operations already have begun to experience fallout from their activities: PRC oil drilling sites and well-workers have been attacked, kidnapped, or killed in Sudan, Somalia, Nigeria, and elsewhere in Africa. Some Central Asia countries have grown concerned about the level of energy assets that China has been accruing within their borders and have moved to limit such acquisitions. In some Asian countries with high ethnic Chinese populations, there has been push-back against perceived "Chinese" businesses and other interests. As China's international activities expand, confrontations along these lines are likely to increase, possibly garnering unfavorable publicity for the PRC and putting stress on the "win-win" approach.

ing millions of dollars in overseas projects, while at home unemployment soars and infrastructure development lags, may prove objectionable to the hundreds of millions of PRC citizens still living below the poverty line—much the way many Americans sometimes react to U.S. overseas investment.

The "Private Sector" Calculation

As noted above, Beijing is seen to have advantages over the United States in that its overseas activities and investments are conducted by strong, well-funded state-owned companies. These large PRC government activities attract much international attention and give a "hard" edge to PRC soft power. The United States has little to match such centrally directed initiatives, particularly in the wake of years of U.S. budget cutbacks in—and in the case of the U.S. Information Agency, the termination of—high-profile U.S. international public diplomacy programs. But comparing only government-directed and funded activities overlooks the huge advantage the United States has in the extent of its substantial global private-sector presence. In addition to U.S. business interests, American products, schools, newspapers, journals, banks, movies, TV programs, novels, rock stars, medical institutions, politicians, Chambers of Commerce, state governments, culture, religious groups, ideas, NGOs, and other American institutions and values are liberally scattered over the global map. While this U.S. presence is diverse, uncoordinated, not centrally directed, and at times triggers anti-American feelings, it nevertheless leaves a substantial global footprint.

IMPLICATIONS FOR U.S. INTERESTS

Certainly a case can be made for considering the motivations behind the PRC's international activities to be what Beijing claims them to be—a country's natural and legitimate pursuit of peaceful global opportunities for economic growth. Moreover, PRC interests appear to have benefited more substantially by operating within the current global system, of which the United States is the chief architect, than by challenging it. The United States would be served, then, by encouraging China's further integration into the global system. Even so, it is clear that China's growing international muscle, even if natural and benign, by definition increasingly must compete with and even limit U.S. freedom to pursue American global interests relatively unencumbered.

But it also is possible to support skepticism concerning the "benign rise" notion by pointing to historical examples in the 19th and 20th centuries of confrontation and outright warfare between reigning powers such as the United States and rising powers such as the PRC. Through this more skeptical lens, the PRC presence in Latin America and the Caribbean has particularly worrisome implications. It could help strengthen anti-democratic and anti-U.S. political leaders and actors in some countries; moreover, in the event of a possible U.S. military conflict with China, PRC human and commercial infrastructure in Latin America would be well placed to disrupt and distract the United States in the hemisphere and to

collect intelligence data against U.S. forces operating in the region.[24]

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

- How will the United States deal with increasing competition by China for leverage and influence, not only in terms of new economic and political international relationships, but for current U.S. relationships with allies and other countries where U.S. influence to date has been dominant?
- How can the United States hedge against possible PRC hegemonic ambitions in Asia without creating a self-fulfilling prophecy?
- How detrimental is PRC "unrestricted" investment and assistance for U.S. efforts to promote good governance around the world and to limit corruption? How detrimental are the PRC's perceived advantages to the ability of U.S. companies to compete for international business, and what policies and agreements should the United States put in place to mitigate these effects?
- What are the implications for U.S. global objectives and for institutions that are seen to espouse Western values, such as the IMF and the World Bank, if the PRC increasingly begins to compete directly as an international lender offering less encumbered assistance?
- As the PRC increasingly expands its "hard power" assets—naval and military power—to protect its growing international interests, how much greater are the prospects for Sino-U.S. military confrontation, either deliberate or accidental, and how should the U.S. prepare for and deal with these prospects?
- What policies should the United States adopt to prepare for increasingly robust U.S.-China competition for energy resources, international commodities, and space exploration?
- What will it mean for the United States and U.S. interests should Taiwan lose its remaining diplomatic relationships around the world? Should the United States seek to play a more active role in seeking to improve Taiwan's international position—perhaps by reassessing current U.S. policy toward Taiwan in light of China's rise?
- How should the United States respond, if at all, to any global perceptions of U.S. disengagement around the world?

OPTIONS

Should U.S. policymakers decide that the status quo is sufficient protection for U.S. interests, then little if any action need be taken. The status quo presumes that U.S. soft power, complex and multifaceted as it is, will be dominant globally far into the future and sufficiently resilient to weather temporary ups and downs; that the

[24] R. Evan Ellis, "The Military-Strategic Dimensions of Chinese Initiatives in Latin America," China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, February 16, 2007.

capacity for PRC global soft power will remain limited, both by Beijing's own policy predilections and by other countries' self-interests; and that the PRC will remain too pre-occupied with resolving its own significant domestic economic inequities, infrastructure problems, political transformation pressures, and social instabilities to focus significant effort on its global presence.

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

- Reinvigorate U.S. engagement around the world to counter PRC soft power, including the expansion of U.S. public diplomacy. In Asia, this could include active participation in building the emerging economic and political/security architecture of the region. In Africa, it could include increased and more efficient U.S. bilateral cooperation, trade, and military relations, including the prospect of directly involving the PRC and African governments in bilateral and multilateral dialogue with the aim of defining goals, issues, and agendas of mutual interest. U.S. policymakers also could work to achieve greater efficiency and to cut red tape in U.S. and multilateral institution assistance and investment in the regions.
- Seek to counter PRC efforts to isolate Taiwan by making support for Taiwan's greater international participation a condition of U.S. assistance and economic interaction with other countries.
- Seek observer status within the SCO and the EAS, and urge China and African countries to create an observational status within the Forum on China-Africa Cooperation, enabling the United States and other countries to learn about the policy priorities of these groups and to participate in consultations on time-sensitive, urgent challenges in these regions, including armed conflicts, humanitarian crises, and security threats to Chinese and U.S. businesses.
- Urge China to support an equitable, rule-based global legal and business environment and help to develop the rule of law in the regions in which it is investing by signing up to public-private sector good governance initiative and agreements.
- Maintain and publicize an accurate calculus of actual PRC assistance and investment that is delivered, as opposed to that which is merely announced.
- Encourage China to join in multilateral and country-level donor foreign assistance dialogues and related efforts to prioritize key goals related to African development and coordinate aid efforts in order to create synergies, avoid duplication, and maximize each donor's strengths—including infrastructure construction in the case of China.
- Offer to work collaboratively with China to help it to design, coordinate, and increase the efficiency of its nascent institu-

tional foreign aid structure, including with respect to more clearly differentiating its official grant-based aid from its subsidization of trade and commerce credit; monitoring the effectiveness of its aid strategies; harmonizing aid reporting with other donor governments; and developing best practices in support of transparency and accountability.

- Focus on an assertive U.S. role in solving regional problems, including health care to address HIV/AIDS, malaria and other diseases; providing drugs, and building clinics; alternative energy sources; improvements in agricultural development capacities and providing increased education and human resource training.
- Emphasize cooperation among Russia, China, the EU, and other outside powers in assisting fragile states to develop their independence and security.
- Work harder to ensure that U.S. democratization and human rights values are not seen by other countries as encumbrances and prohibitions placed in the way of, but instead as things that ultimately will improve, their economic progress.
- Re-think the current U.S. "gold standard" in regional and bilateral Free Trade Agreements, especially when such a standard requires substantial changes in domestic laws.
- Reinvigorate the Asia-Pacific Economic Cooperation Forum (APEC) as a vehicle for U.S. soft power influence in Asia.

LATIN AMERICA AND THE CARIBBEAN[25]

OVERVIEW

China's growing interest in Latin America and the Caribbean is a fairly new phenomenon that has developed over the past several years. Beginning in April 2001 with President Jiang Zemin's 13-day tour of Latin America, a succession of senior Chinese officials have visited Latin American countries to court regional governments, while Latin American leaders also have been frequent visitors in Beijing. China's primary interest in the region appears to be to gain greater access to needed resources—such as various ores, soybeans, copper, iron and steel, and oil—through increased trade and investment. It is also likely that Beijing's additional goal is to isolate Taiwan by luring the 12 Latin American and Caribbean nations still maintaining diplomatic relations with Taiwan to shift their diplomatic recognition to China. While China's economic linkages with Latin America have grown, the U.S. advantage of geographical proximity means that the PRC presence is likely to remain dwarfed by U.S. trade with and investment in the region. Moreover, although many Latin American countries welcome Chinese investment, some have viewed China as an economic threat, and are concerned that both their domestic industries and their U.S. export markets will be overwhelmed by Chinese competition. Nevertheless, some analysts maintain that Beijing's growing role in the region may have longer-term implications for U.S. regional interests and influence.

DIPLOMACY

Bilateral Relations and Competition With Taiwan

Of the 33 independent countries in the Latin America and Caribbean region, China currently has official diplomatic relations with 21, while the remaining 12 nations maintain relations with Taiwan (see Table 1). For ideological reasons, Communist Cuba was the first nation in the region to recognize China back in 1960, while Chile under Socialist President Salvador Allende was the second in 1970. Mexico established relations with China in 1972, and most South America nations did so in the 1970s and 1980s, including Argentina and Brazil, which were run by military dictatorships at the time. In addition to Cuba, nine other Caribbean nations have diplomatic relations with the PRC, five of which have had relations since the 1970s.

Over the years, China has signed a variety of bilateral partnership agreements with several countries in the region in order to strengthen relations. The most politically significant of these are known as "strategic partnership agreements." To date, China has signed such agreements with Brazil (1993), Venezuela (2001), Mexico (2003), and Argentina (2004). Additional "cooperative partnership" or "friendly and cooperative partnership" agreements have been signed with Bolivia, Chile, Colombia, Cuba, Ecuador, Ja-

[25] Prepared by Mark P. Sullivan, Specialist in Latin American Affairs. This memo draws from CRS Report RS22119, China's Growing Interest in Latin America, April 20, 2005, by Kerry Dumbaugh and Mark P. Sullivan.

maica, and Peru.[26] In the 1980s, China began to augment its expertise on Latin America through agreements for Chinese officials to travel to the region to study Spanish, and through the development of think tanks such as the Institute of Latin American Studies of the Chinese Academy of Social Sciences (CASS) and the Department of Studies about Latin America of the Chinese Communist Party.[27]

For many of the region's nations, particularly in the Caribbean and Central America, there has been a political dynamic in China's expanding economic linkages and foreign assistance. China, with some success, has been trying to woo countries away from recognizing Taiwan. Taiwan's official relations in the region now include five Central American countries, six in the Caribbean, and one in South America.

For decades, Taiwan was a consistent provider of financial assistance and investment in Latin America and the Caribbean in order to nurture its remaining official relationships, a policy often referred to as checkbook or dollar diplomacy. But Taipei now is hard-pressed to compete against the growing economic and diplomatic clout of China, which in recent years has stepped up its own version of checkbook diplomacy. Since 2004, three countries in the region have switched their diplomatic recognition from Taiwan to the PRC: Dominica in March 2004, Grenada in January 2005, and most recently, Costa Rica in June 2007. Dominica severed relations with Taiwan in 2004 after Beijing trumped Taiwan's $9 million in assistance with a pledge of $122 million in assistance to the tiny country over six years.[28]

Table 2. China vs. Taiwan: Diplomatic Recognition in Latin America and the Caribbean

Countries Recognizing China (PRC)	Countries Recognizing the Republic of China, or ROC (Taiwan)
Mexico	
CENTRAL AMERICA:	
Costa Rica	El Salvador, Guatemala, Honduras, Nicaragua, Panama
CARIBBEAN:	
Antigua and Barbuda, Bahamas, Barbados, Cuba, Dominica, Grenada, Guyana, Jamaica, Suriname, Trinidad and Tobago	Belize, Dominican Republic, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
SOUTH AMERICA:	
Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Venezuela	Paraguay

[26] Jorge Dominguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes," Inter-American Dialogue, Working Paper, June 2006, p. 23; Derek J. Mitchell, "China and the Developing World," pp. 126–127, paper prepared for May 2007 conference, The China Balance Sheet in 2007 and Beyond, sponsored by the Center for Strategic and International Studies; and "China's Quest for Regional Influence: A Balance," Latinnews.com, Southcom Strategic Paper, September 2006, p. 3.

[27] Dominguez, p. 22.

[28] "Dominica severs ties with Taiwan," *BBC Caribbean,* March 29, 2004.

Grenada switched its recognition to China in the aftermath of Hurricane Ivan that devastated the island in September 2004 and destroyed a new cricket stadium that Taiwan had helped build. Disappointed about Taiwan's response after the hurricane, Grenadian Prime Minister visited China and received support for the rebuilding of the cricket stadium, with workers supplied by China, as well as other grants, support for the agricultural sector, and scholarships.

Most recently, Costa Rica under President Oscar Arias switched diplomatic recognition to China in June 2007 in large part because of growing trade relations in recent years and the prospect for increased Chinese trade and investment. China is now Costa Rica's second largest trading partner, after the United States, and the two countries are considering a free trade agreement.

China's overtures in the Caribbean experienced a setback in May 2007 when St. Lucia switched its diplomatic recognition back to Taiwan after ten years of recognizing the PRC. The diplomatic switch was related to the ouster of Prime Minister Kenny Anthony's St. Lucia Labour Party (SLP) from power in December 2006, and the election of a new government led by the United Workers Party (UWP). (In 1997, the ruling SLP government under Anthony had orchestrated a diplomatic switch from Taiwan to China.) Taiwan's promises of assistance to the new UWP government in 2007 includes support for public health, education (including the provision of computers and scholarships), and development of the agricultural sector.

Regional Organizations

Despite the setback with St. Lucia, the PRC's ability to develop and expand contacts with Taiwan's friends in the region has been facilitated by a decision by the Organization of American States (OAS) in May 2004 to accept China as a formal permanent observer in the OAS. The OAS has 35 members, including the United States and all 12 of the region's countries currently conferring diplomatic relations on Taiwan. Some 60 countries worldwide are OAS permanent observers, but Beijing has strongly objected to Taiwan's efforts to seek observer status.

In addition to the OAS, China has participated in several other regional organizations. Dating back to 1975, China has often sent its observers to the annual meetings of the Agency for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (OPANAL), the organization set up in the aftermath of the 1967 signing of the Tlatelolco Treaty prohibiting nuclear weapons in the region. The PRC has been an observer since 1994 to the Latin American Integration Association (ALADI), a 12-member regional organization focusing on trade integration and the goal of a common market. China is a member of the East Asia-Latin American Cooperation Forum (FOCALAE), an organization first established in 2001 that brings together ministers and officials from 33 countries from the two regions for strengthening cooperation in such areas as education, science and technology, and culture. The PRC also is a member of the Asia Pacific Economic Cooperation (APEC) forum that annually brings together leaders of 21 Pacific rim na-

tions (including Taiwan as "Chinese Taipei") as well as the Latin American nations of Chile, Mexico, and Peru.

More recently, in March 2007, China signed an agreement with the Inter-American Development Bank (IDB) to formalize talks on the PRC's request to become an IDB member. The bank has launched an internal discussion on whether to accept China as a member. If accepted, China would join Japan and Korea to become the third Asian country to join the IDB. China is already a member of the Caribbean Development Bank based in Barbados.

China has also helped support UN peacekeeping operations in the region through its contribution of a "special police" peacekeeping contingent of 125 personnel as part of the United Nations Stabilization Mission in Haiti (MINUSTAH) that began in 2004. This marked Beijing's first deployment of forces ever in the Western Hemisphere. MINUSTAH's mission, which was due to expire in mid-October 20007, was extended for another year until October 2008. In 2005, China reportedly put pressure on Haiti to switch its diplomatic recognition from Taiwan to the PRC as a condition for supporting the renewal of the UN peacekeeping mission, but Haiti has retained its relations with Taiwan.[29]

Analysis

For now, it appears that China and Taiwan will continue to battle for diplomatic recognition, using the prospect of increased aid, trade, and investment to sway the decisions of the remaining dozen nations recognizing Taiwan. Some observers maintain that key countries to watch include the Central American countries of Nicaragua and Panama, the Caribbean nation of the Dominican Republic, and Paraguay, the sole South American nation that continues to recognize Taiwan.[30] In the aftermath of Costa Rica's June 2007 decision to switch diplomatic partners, Chinese officials predicted a domino effect in which other countries would switch their recognition to China, but Taiwan launched an initiative in the region in order to counter China's attempts to tempt additional countries to switch sides that appears to have been successful in the short term. Nevertheless, over the long run, China's sheer economic size and power bodes well for its ability to entice Taiwan's remaining 12 allies in Latin America and the Caribbean to switch diplomatic sides.

Beyond competition with Taiwan, China's diplomatic efforts in the larger countries of the region appear to be geared at strengthening relations and expanding cooperation with nations that have potential resources and investment opportunities that could help feed China's resource needs and expanding economy. These diplomatic overtures in Latin America also satisfy China's efforts to foster relations with other developing countries worldwide and its promotion of South-South cooperation.

A 2006 study by the Inter-American Dialogue examined the 1991—2003 UN voting records of several major Latin American

[29] Rowan Scarborough, "China Seen Averse to Haiti-Taiwan Ties; Blocks Extension of UN Mission," *Washington Times,* June 8, 2005; and "Haiti: Extending Minustah's Mandate," Latin American Caribbean and Central American Report, August 16, 2007.

[30] Central America: Daniel P. Erikson and Janice Chen, "China, Taiwan, and the Battle for Latin America," The Fletcher Forum of World Affairs, Vol. 31:2 Summer 2007.

countries—Argentina, Brazil, Chile, Mexico, and Venezuela—and concluded that the increased Chinese trade with the region in recent years has had no discernable effect on the voting behavior of these nations. The study also looked at several countries having diplomatic relations with Taiwan—Costa Rica (before it switched diplomatic relations to the PRC), Panama, and Paraguay—and found little difference in voting coincidence with China between countries that recognize China and those that recognize Taiwan. Cuba, for political reasons, stands out as the Latin American country with a high voting coincidence with China, although increases in economic linkages do not appear to have had an impact on Cuba's voting behavior.[31]

While countries in the region that recognize Taiwan often speak out in favor of its inclusion at the UN and its various agencies, this is not always the case. During a vote in 2007 on Taiwan's membership in the World Health Organization (WHO), Panama and Nicaragua both abstained, while Costa Rica, which recognized Taiwan at the time, voted against its membership.[32]

ECONOMIC TIES

Trade

Much of China's interest in Latin America—especially in South America—is economically motivated, with Beijing eager for access to such commodities as iron and other ores, soybeans, copper, iron and steel, integrated circuits and other electrical machinery, and oil in order to meet the demands of China's booming economy. Total trade between China and the Latin America and Caribbean region rose from $8.2 billion in 1999 to almost $70 billion in 2006 (see Figure 1). During this period, China's trade with the region as a percentage of its world trade increased from 2.3% in 1999 to 4% in 2006. For many countries in the regions, China has become a major trading partner and ranks as one of the top four export and import markets. China signed a free trade agreement (FTA) with Chile in 2005, and in October 2007 China and Costa Rica announced that they would explore the feasibility of an FTA.

China's imports from the region grew from almost $3 billion in 1999 to almost $34 billion in 2006, more than an eleven-fold increase in seven years.[33] Because of this growth in imports, China has run a trade deficit with the region for three out of the past four years. While imports from Latin America are just a small percentage of China's overall imports, they grew from 1.8% of total Chinese imports in 1999 to 4.3% in 2006. China's top five import sources in Latin America in 2006 were Brazil ($12.9 billion), Chile ($5.7 billion), Argentina ($3.7 billion), Peru ($2.9 billion), and Venezuela ($2.7 billion). Major imports from the region in 2006 included: iron, copper, lead and other ores (30%); soybeans (14%); oil and other mineral fuel (14%); copper (7.5%); and electrical machinery (largely integrated circuits) 8.3%. For most countries in the re-

[31] Dominguez, pp. 12–18.
[32] "China Seen Edging Taiwan in LatAm Diplomacy," *Agence France Presse*, May 29, 2007.
[33] Trade statistics are from the World Trade Atlas, which uses official Chinese government data.

gion, one or two commodities dominate their exports to China. (See Table 3.)

China's exports to Latin America have also grown considerably in the last seven years, from $5.3 billion in 1999 to $35.8 billion in 2006. Major exports have included electrical machinery; home, office, and other appliances, including computers; woven and knit apparel; footwear; and organic chemicals. During this period, the overall share of China's exports to the region as a percentage of its worldwide exports, although small, increased slightly from 2.7% in 1999 to 3.7% in 2006. China's top five export destinations in Latin America in 2006 were Mexico ($8.8 billion), Brazil ($7.4 billion), Panama ($3.9 billion), Chile ($3.1 billion), and Argentina ($2 billion).

Figure 1. China's Trade with Latin America and the Caribbean (LAC)—1999–2006 (U.S. $millions)

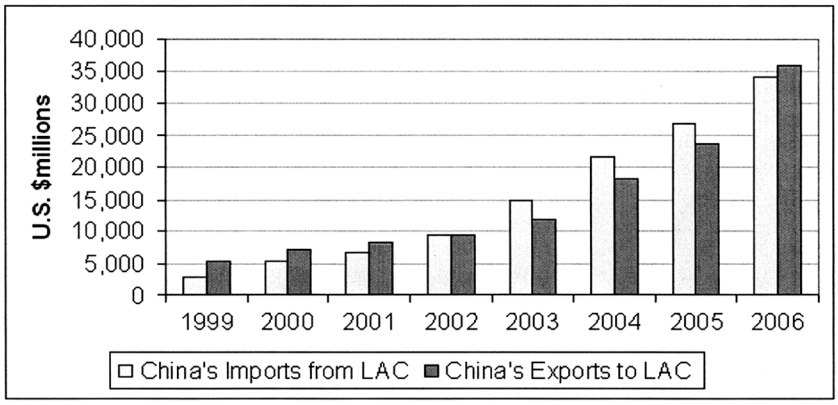


Table 3. China's Imports from Latin America and the Caribbean (LAC) in 2006: Top Ten Source Countries

Country	Import Value (U.S. $ billions)	Percent of Total LAC Exports to China	Country's Major Exports to China
Brazil	12.9	38.0	Iron Ore (44%) Soybeans (23%)
Chile	5.7	16.7	Copper Ore and Copper (79%)
Argentina	3.7	10.9	Soybeans and Soybean Oil (61%)
Peru	2.9	8.5	Copper, Iron, and other Ores (53%)
Venezuela	2.7	7.8	Oil (89%)
Mexico	2.6	7.7	Electrical Machinery and Machinery (57%)
Costa Rica	1.7	5.1	Integrated Circuits (96%)
Cuba	0.5	1.6	Nickel (54%)
Jamaica	0.4	1.1	Aluminum Oxide (99%)
Uruguay	0.3	0.8	Soybeans (47%)

Source: World Trade Atlas, which uses Chinese Government statistics.

In terms of China's trade importance for the region, as noted above, China ranks as one of the top four export markets and import markets for many countries in the region. Looking at Latin America and the Caribbean as a whole, almost $26 billion or about 3.7% of the region's exports worldwide in 2006 were destined for China while about $53 billion or about 8% of its imports were from China.[34] Table 4 shows the relative significance of China as a trading partner for several countries in the region in 2006.

Investment

While China's trade flows have increased dramatically, both globally and with Latin America, Chinese foreign direct investment (FDI) abroad, while increasing, has not been as significant. China's cumulative stock of FDI worldwide amounted to $73.3 billion at the end of 2006—just 0.58% of global FDI stock.[35] Traditionally, a large majority of China's investment abroad has been concentrated in Asia, largely Hong Kong, although in recent years, investment to Latin America and the Caribbean has been increasing.

The cumulative stock of Chinese FDI in Latin American and Caribbean rose from $4.6 billion in 2003, accounting for almost 14% of China's FDI stock worldwide, to $11.5 billion in 2005, accounting for 20% of China's investment worldwide.[36] Closer scrutiny of China's FDI data for the region, however, shows that the overall level could be significantly overstated. An overwhelming majority of Chinese FDI to the region goes to three British dependencies—the Cayman Islands, the British Virgin Islands, and Bermuda—that are known as tax havens. In 2005, almost 96% of Chinese FDI in Latin America and the Caribbean went to these three nations. These three nations are also major sources of FDI into China, showing that the possible intention of China's FDI into these jurisdictions could be so-called "round-tripping," whereby Chinese investors bring the capital back into the country as foreign capital in order to take advantage of preferences given to foreign firms.

Table 4. Importance of China as a Trading Partner for Selected Latin American Countries, 2006

Country	Exports to China (U.S. $ millions)	Percent of Country's Exports	Imports from China (U.S. $ millions)	Percent of Country's Imports
Argentina	3,473	7.5	2,150	6.3
Brazil	8,399	6.1	7,989	8.7
Chile	4,934	8.8	3,487	10.0
Colombia	1,066	1.9	5,250	8.5
Costa Rica	558	6.6	543	4.3
Mexico	1,688	0.7	24,438	9.5
Paraguay	20	1.0	1,412	26.9
Peru	2,267	9.7	1,586	10.4

Source: World Trade Atlas, utilizing data provided by Latin American governments.

[34] Calculations derived from trade statistics presented in: International Monetary Fund, Direction of Trade Statistics, 2007 Yearbook.

[35] UNCTAD, "World Investment Report 2007," October 2007.

[36] He Li, "China's Growing Interest in Latin America and Its Implications," *The Journal of Strategic Studies,* Vol. 30, No. 4–5, August-October 2007, p. 845, utilizes statistics from China's Ministry of Commerce.

China also could be using these tax-friendly jurisdictions to register companies and save money, with investment then actually flowing to Latin America.[37]

Non-financial Chinese investment in Latin America has focused on the extraction and production of national resources, but also has included investment in manufacturing assembly, telecommunications, and textiles. Outside of the Caribbean tax haven jurisdictions, China's FDI in the region in 2005 was concentrated in Mexico ($142 million), Peru ($129 million), Brazil ($81 million), Venezuela ($43 million), Panama ($35 million), and Cuba ($34 million).[38] Since the entry into force of the North American Free Trade Agreement (NAFTA) in 1994, China has viewed Mexico as an access point to the U.S. market, with a number of export assembly plants established in the country. In Peru, Chinese investment has been concentrated in mining (especially copper) and oil. In April 2007, China's Zijin Mining Group agreed to buy a majority share of the UK-based Monterrico Metals that operates exclusively in Peru, and in July 2007, China's Aluminum Corporation of China (Chinalco) purchased majority shares in Peru Copper, a Canadian mining company, which owns a property that could become one of Peru's largest copper mines by 2012.[39] In Brazil, Chinese investment has been concentrated in wood processing, mining, and energy. In 2007, China's state-owned steel company, Baosteel, announced that it would be a majority partner with Brazil's large mining company, Companhia Vale do Rio Doce (CVRD), in building a steel plant in southern Brazil.

The visit of Chinese President Hu Jintao to several Latin American countries in November 2004 raised expectations of a substantial increase in Chinese investment in the region in coming years. During a speech to the Brazilian Congress, Hu stated that China would invest $100 billion in Latin America over the next 10 years. In Argentina alone, he said China would invest $20 billion in the next decade. Latin American nations welcomed the increase in foreign capital that the Chinese were promising, especially since the region was experiencing a slump in attracting FDI. Among the investment pledges highlighted in the press during President Hu's trip to Latin America were: railway, oil exploration, and construction projects in Argentina; a nickel plant and oil and gas exploration in Cuba; copper mining projects in Chile; a steel mill, railway, and oil exploration projects in Brazil; and oil and gas exploration projects in Ecuador, Bolivia, and Colombia.

Chinese promises of such high levels of investment in the region have not yet materialized, and likely will total far less than the promised $100 billion by 2014. Many of the planned projects have not gone forward. At least one Chinese official specializing in Latin America maintains that the $100 billion referred to bilateral trade, not investment.[40] According to some observers, China's inexperience in investment abroad, its lack of information about business

[37] "China: Going Outside, Round-Tripping and Dollar Diplomacy: An Introduction to Chinese Outward Direct Investment," Global Insight, January 25, 2006; "World: Chinese ODI in Latin America: A Convergence of Interests," *Global Insight,* February 2, 2006.

[38] He Li, p. 845, utilizing statistics from China's Ministry of Commerce.

[39] Marco Aquino, "China Miners Keenly Eyeing Peru Resources," *Reuters News,* September 13, 2007.

[40] He Li, p. 846.

in Latin America, and concerns about the risks of investing in the region all combined have limited China's investment in the region.[41]

Energy

Energy concerns have played a role in China's overtures toward Latin America, with the PRC either concluding or exploring various energy investments in Brazil, Ecuador, Bolivia, Peru, Colombia, and Venezuela, as well as offshore projects in Argentina and Cuba. The three major, state-owned Chinese energy corporations making Latin American investments are the China Petroleum and Chemical Corporation (Sinopec), China National Offshore Oil Corporation (CNOOC), and China National Petroleum Corporation (CNPC). In April 2006, Sinopec signed an agreement with Brazil's Petrobras to build a natural gas pipeline linking the northeast and southeast of Brazil. Petrobras and CNOOC also reportedly are studying the feasibility of joint operations in exploration, refining, and pipeline construction around the world. In Cuba, Sinopec has focused on onshore oil extraction in Pinar del Rio province in western Cuba. In Venezuela, CNPC is partnered with Venezuela's state-oil company, PdVSA (Petroleos de Venezuela, S.A.), for exploration in development of the Orinoco belt oil reserves. Despite these investments in oil production and assets, observers point out that China relies relatively little on Latin America for oil, which accounts for some 3% of China's oil imports, and that while the percentage could rise a bit, it is unlikely to change significantly in the future.[42]

Some U.S. observers have been particularly concerned about China's activities in Venezuela, and question the reliability of Venezuela, which supplied over 11% of U.S. crude oil imports in 2006, as a major supplier of oil to the United States. They are concerned that Venezuela is looking to develop China as a replacement market, although Venezuelan officials maintain that they are only attempting to diversify Venezuela's oil markets. Venezuela exported about 1.4 million barrels per day (bpd) of oil to the United States in 2006, almost 64% of its net oil exports of 2.2 million bpd. For comparison, Venezuela's oil exports to China are far lower, although there is discrepancy about the actual level. The U.S. Energy Information Administration estimates that Venezuela's oil exports to China were about 80,000 bpd in 2006, while figures most often cited in the press are that Venezuela exported 150,000 bpd of oil to China.[43]

Venezuela has vowed to increase its oil exports to China to 1 million bpd by 2011, although energy analysts maintain that there are two major difficulties with this ambition. First, China does not have the capability to refine Venezuela's heavy crude oil, and second, freight costs are high because of the large distance between the two countries.[44] Nevertheless, in 2006, PdVSA announced that

---

[41] Claudio Loser, "The Growing Economic Presence of China in Latin America," China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, December 15, 2006.

[42] Derek Mitchell and Chietigj Bajpaee, "China and Latin America," Background Paper, China Balance Sheet, Center for Strategic and International Studies, July 2006.

[43] Energy Information Administration, "Venezuela, Country Analysis Brief," October 2007; David Luhnow and Peter Millard, "How Chavez Aims to Weaken U.S.—China to Get Preference with Oil from Projects Now Under State Control," *Wall Street Journal,* May 1, 2007.

[44] Andy Webb-Vidal, "Chavez on Oil Export Mission in China, *Financial Times,* August 24, 2006.

it would buy 18 oil tankers from China that would help Venezuela increase its oil exports to Asia.

Tourism

Over the past four years, China has designated 16 countries in Latin America and the Caribbean as approved destinations for Chinese citizens to travel as tourists. Such agreements allow the countries to take advantage of the increase in Chinese tourist travel worldwide, which is expected to reach 100 million by 2020. Cuba was the first country in the region to receive ADS status in 2003. Since 2005, 15 more countries in the region have been designated: Mexico; the South American countries of Argentina, Brazil, Chile, Peru, and Venezuela; and the Caribbean nations of Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Guyana, Jamaica, Suriname, and Trinidad and Tobago. Costa Rica appears to be a likely ADS candidate since its 2007 switch in diplomatic relations from Taiwan to the PRC. In November 2007, Costa Rica announced that some 200 Chinese tour operators would visit the country over the next several months as a step toward increasing Chinese tourism in the Central American country. While Chinese tourism to Latin America to date has not been significant, this could change given the recent tourism agreements with the region as well as the marketing campaigns undertaken by various nations in the region to attract Chinese tourists.[45]

Analysis

While many press accounts focus on Latin American countries welcoming Chinese trade and investment, this view is not shared by all countries in the region. Mexico and many Central American countries view China as a competitor, in terms of supplying assembled goods to the U.S. market. They fear losing their U.S. market share to China. Fear of competition from Chinese apparel and textile exports was a major factor for Central American nations and the Dominican Republic in negotiating the DR-CAFTA agreement with the United States. There has also been fear in other Latin American countries about the impact of Chinese competition on domestic manufacturing sectors. For example, Brazilian manufacturers of footwear, toys, textiles, and consumer electronics have suffered from competition with China.[46] Because of the large increase in Chinese imports, Brazil is poised to run a trade deficit with China in 2007, the first since 2000, which has raised considerable concern among Brazilian manufacturers. The specter of a flood of Chinese manufactured exports to Latin America has led some economists to question the future viability for manufacturing in Latin America.[47] Other economists and observers contend, however, that increased Chinese trade and investment can act as an engine of growth for Latin American economies and could serve as

[45] He Li, p. 848.
[46] Dominguez, p. 30.
[47] Maurico Mesquita Moreira, "Fear of China: Is There a Future for Manufacturing in Latin America?" *World Development,* Vol. 35, No. 3, 2006.

an impetus for reform in the region in order to increase the ability to compete with Chinese imports.[48]

As noted above, while China's economic linkages with Latin America and the Caribbean have grown considerably in the past few years, they represent only a small percentage of the PRC's economic linkages worldwide. Moreover, U.S. trade and investment with the region continues to dwarf that of China's involvement. China's overall trade with LAC grew to about $70 billion in 2006, representing just 4% of its overall trade. In comparison, U.S. trade with Latin America and the Caribbean amounted to almost $555 billion in 2006, accounting for about 19% of U.S. trade worldwide.[49] Moreover, the United States is far more important as a trading partner for the Latin America and Caribbean region than China is. In 2006, almost 38% of the region's exports were destined for the United States, compared to 3.7% destined for China; likewise, over 34% of the region's imports were from the United States in 2006, compared to almost 8% from China.[50] While China's reported cumulative stock of FDI in the region amounted to $11.5 billion in 2005, the cumulative stock of U.S. FDI in the region amounted to $366 billion in 2005, and grew to $403 billion by 2006.[51] Many observers are also skeptical about the prospects of Venezuela significantly increasing its exports to China.

An area in which China's economic overtures toward Latin America have been successful is in securing "market economy status," a determination which makes it more difficult for a country to initiate anti-dumping actions at the World Trade Organization.[52] In recent years, the PRC has secured this designation from a number of Latin American countries, including Argentina, Brazil, Chile, Peru, and Venezuela.[53]

FOREIGN ASSISTANCE

The exact level of China's foreign assistance to Latin America and the Caribbean is uncertain, but reportedly the region receives about 10% of China's foreign aid worldwide, far behind assistance that China reportedly provides to Asia and Africa.[54] Aid to the region appears to focus on bilateral assistance rather than through regional or multilateral institutions, with the objectives of strengthening diplomatic relations and isolating Taiwan.[55]

---

[48] Economic Commission for Latin America and the Caribbean, "Latin America and the Caribbean in the World Economy, 2004–2005 Trends," p. 157; Javier Santiso, "Can China Change Latin America?" OECD Observer, July 2007; and He Li, p. 852.

[49] U.S. trade statistics are from the Department of Commerce, as presented by World Trade Atlas.

[50] Calculations derived from trade statistics presented in: International Monetary Fund, Direction of Trade Statistics, 2007 Yearbook.

[51] U.S. foreign investment statistics are from the "Survey of Current Business," September 2007, Department of Commerce.

[52] The 110th Congress is considering legislation that would make it easier to initiate countervailing duties against "Non-market economies." Bills include: H.R. 708; H.R. 1229; H.R. 2942; S. 974; and S. 364.

[53] "China: Going Outside, Round-Tripping and Dollar Diplomacy: An Introduction to Chinese Outward Direct Investment," Global Insight, January 25, 2006; for information on congressional efforts to make it easier to initiate anti-dumping actions against non-market economies, see CRS Report RL33536, China-U.S. Trade Issues, by Wayne Morrison.

[54] Derek J. Mitchell, p. 117; Michael A. Glosny, "Meeting the Development Challenge in the 21st Century: American and Chinese Perspectives on Foreign Aid," National Committee on United States-China Relations, August 2006, p. 15.

[55] He Li, p. 847.

Particularly in the Caribbean and Central America, China has used assistance in recent years as part of its checkbook diplomacy to entice countries in the region to switch their diplomatic recognition from Taiwan, while a number of countries in the region have been adept at playing the two countries against each other in order to maximize financial benefits. As noted above, Chinese assistance to Dominica and Grenada was instrumental in those countries deciding to switch diplomatic recognition. Costa Rica was also rumored to have been offered substantial assistance, although Costa Rican officials maintain the prospect of increase trade and investment was the primary rationale for the switch.

In preparation for the Cricket World Cup 2007 played in the Caribbean, China provided assistance and workers to build cricket stadiums in Antigua and Barbuda, Grenada, Jamaica, and even St. Lucia, which subsequently switched its diplomatic recognition back to Taiwan. China also had built a cricket stadium in Dominica in 2004.

China also has provided assistance for housing, education (including scholarships as well as the construction of schools), health (including the construction of hospitals), and other infrastructure such as railways and highways.

In recent years, China also has provided additional types of assistance to the region, including disaster assistance, debt forgiveness, and concessional loans. In the aftermath of such natural disasters as earthquakes, floods, and hurricanes, China often has responded with assistance. For example, China provided hurricane reconstruction assistance to Grenada in the aftermath of Hurricane Ivan in 2004. In August 2007, China provided support to Peru in the aftermath of a devastating earthquake in the southern part of that country. While most of China's debt forgiveness has been for low-income African countries, China announced in July 2007 that it would write off over $15 million in debt owed by Guyana, one of the poorest countries in the hemisphere.[56] In terms of concessional loans, China's Export-Import Bank provided a $12 million loan to Jamaica in the water sector in 2000.

In addition to Jamaica, China has signed concessional loan framework agreements with three other countries in the region—Suriname, Venezuela, and Trinidad and Tobago.[57] In September 2007, China announced that it would provide about $530 million in favorable loans over three years to Chinese companies investing in the Caribbean.[58]

In early November 2007, China and Venezuela agreed to establish a joint development fund (with a $4 billion contribution from China and a $2 billion contribution from Venezuela) that would be used to finance loans for infrastructure, energy, and social projects in both nations.[59]

China also has increased student and educational exchanges with the region. In 2006, it established the first Confucius Institute

---

[56] "China Cancels Debt Owed by Guyana," *BBC Monitoring Americas,* July 11, 2007.

[57] Paul Hubbard, "Aiding Transparency: What We Can Lean About China Exim Bank's Concessional Loans," Center for Global Development, Working Paper Number 126, September 2007.

[58] "More Chinese Investment Coming," *BBC Caribbean,* September 11, 2007.

[59] "Venezuela, China Govts Create $6 Bln Joint Development Fund," *Dow Jones Newswires*, November 6, 2007.

in the region, in Mexico City, with the goal of promoting Chinese language and culture.

While the lack of data on Chinese foreign assistance going to the region makes it impossible to compare Chinese and U.S. assistance levels, it is safe to assume that U.S. assistance is far greater. Looking at 2005 statistics comparing foreign assistance levels from developed countries to Latin America and the Caribbean, the United States was by far the single largest bilateral donor to the region, accounting for 29% of the $4.6 billion in bilateral assistance.[60]

IMPLICATIONS FOR U.S. POLICY IN LATIN AMERICA AND THE CARIBBEAN

China's increasing linkages with Latin America and the Caribbean prompted growing concerns in Congress about China's intentions in the region beginning in 2005. House and Senate subcommittees held hearings that year on China's role in Latin America, while the U.S. China Economic and Security Review Commission, established by Congress, held hearings on China's global expansion, including in the Western Hemisphere. A flurry of other research studies emerged on the issue, examining a range of issues related to China's growing involvement in the region.

In congressional testimony and other statements, Bush Administration officials have downplayed concerns about potential threats to the United States emanating from China's engagement with Latin American nations, although they have maintained that the United States needs to be watchful of China's actions in the hemisphere. In April 2005 testimony before the House Subcommittee on the Western Hemisphere, then Assistant Secretary of State for Western Hemisphere Affairs Roger Noriega stated that "China's influence in the region is minimal today," and that while China's presence in the hemisphere is growing, "it is safe to say the United States has been and will continue to be the long-term partner of preference."[61]

At the same hearing, then Deputy Assistant Secretary of Defense for Western Hemisphere Affairs Rogelio Pardo-Maurer testified that there was no "evidence that Chinese military activities in the Western Hemisphere, including arms sales, pose a direct conventional threat to the United States." Nevertheless, both officials cautioned that the United States needed to be aware of China's actions in the region. Noriega maintained that the United States would continue to monitor China's outreach to Latin America, just as it monitors China's outreach around the world. Pardo-Maurer maintained that the United States needs "to be alert to rapidly advancing Chinese capabilities, particularly in the field of intelligence, communications, and cyber warfare, and their possible application in the region."

U.S. officials have suggested that Chinese engagement with Latin America could lead to increased U.S.-Chinese cooperation. At a September 2005 Senate Foreign Relations Committee hearing, Principal Deputy Assistant Secretary of State for Western Hemi-

[60] Organization for Economic Cooperation and Development, Geographical Distribution of Financial Flow to Aid Recipients, 2001–2005, 2007, p. 260.

[61] House International Relations Committee, Subcommittee on the Western Hemisphere, Hearing on "China's Influence in the Western Hemisphere," Serial No. 109–63, April 6, 2005.

sphere Affairs Charles Shapiro maintained that China's engagement with the region could "lead to increased cooperation between China, the United States, and other Latin American and Caribbean governments on matters affecting regional stability, especially terrorism, transnational crime, and counternarcotics."[62]

In April 2006, Assistant Secretary of State for Western Hemisphere Affairs Thomas Shannon visited Beijing as part of the first U.S. consultations with China on Latin America. Prior to the trip, Shannon acknowledged that China "is an increasingly important player" in Latin America, and that it was important for the two countries to "understand what each other is up to in the region." He maintained that the United States sees "the region as having achieved a consensus about democracy, free markets and protecting the security of the democratic state," and that the U.S. "interest is to make certain that China respects this larger consensus."[63] Shannon described the consultations as constructive and positive, with China assuring the United States that it has no plans to seek greater influence in the region beyond expanding trade.[64]

After several years of increased Chinese engagement with Latin America, most observers have concluded that China's economic involvement with the region has not posed a threat to U.S. policy or U.S. interests in the region. In terms of economic, political, and cultural linkages, the United States has remained predominant in the region. U.S. trade and investment in Latin America dwarfs that of China, while the future growth potential of such Chinese economic linkages with the region is constrained by the advantages conferred by U.S. geographic proximity to Latin America. Moreover, migration patterns to the United States from the region give the United States greater cultural ties and longer-term economic importance to the region than China could ever have. For example, remittance flows from the United States to the region amounted to $60 billion in 2006—a sum greater than both foreign aid and portfolio investment flows to the region, with remittances making a significant contribution to the economies of several Caribbean and Central American nations.

In its policy toward Latin America, China has been careful not to antagonize the United States in the region, and appears to understand that the United States is sensitive to involvement in its neighborhood. China has taken a low-key approach toward the region, focusing on trade and investment opportunities that help contribute to its own economic development and managing to avoid public confrontation with the United States.[65] Even Chinese relations with Venezuela are focused on oil resources rather than ideological rapport. China reportedly does not want to become a pawn in a dispute between Venezuela and the United States.[66] Moreover, China reportedly has concerns that Venezuelan President Hugo Chavez's efforts at spreading his populist agenda to other countries

---

[62] Senate Foreign Relations Committee, Hearing on "Challenge or Opportunity: China's Role in Latin America," September 20, 2005.

[63] Andres Oppenheimer, "China Likely to Calm U.S. Fears on Latin America," *Miami Herald*, April 9, 2006.

[64] Tim Johnson, "China: Our Goal is Economic; Despite Strengthening Trade Ties, China Said It Had No Plans to Expand Its Influence in Latin America," *Miami Herald,* April 15, 2006.

[65] He Li, pp. 854–858.

[66] William Ratliff, "Beijing's Pragmatism Meets Hugo Chavez," *Brown Journal of World Affairs,* Winter/Spring 2006.

in the region could unleash instability and ultimately be detrimental to Chinese trade and investment interests in the region.[67]

Nevertheless, other observers contend that China poses a potential threat to U.S. influence and interests in the region. First, some maintain that by presenting an alternative political and economic model—rapid economic growth and modernization alongside political authoritarianism—the PRC undermines the U.S. agenda to advance political reform, human rights and free trade in the region.[68] According to this view, the Chinese model could help strengthen anti-democratic and anti-U.S. political leaders and actors in some countries. Second, according to some analysts, China's regional presence ultimately could have significant strategic implications for the United States in the event of a possible military conflict with China. In this scenario, China could use its human and commercial infrastructure in the region to disrupt and distract the United States in the hemisphere. According to this view, China's increased presence in the region could also provide the country with new opportunities to collect intelligence data against U.S. forces operating in the region.[69]

Figure 2. Map of Central America and the Caribbean Region

[67] June Teufel Dreyer, "The China Connection," China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, November 8, 2006.

[68] "Findings and Recommendations of the China—Latin America Task Force, March—June 2006," Center for Hemispheric Policy, University of Miami.

[69] R. Evan Ellis, "The Military-Strategic Dimensions of Chinese Initiatives in Latin America," China-Latin America Task Force, Center for Hemispheric Policy, University of Miami, February 16, 2007.

Figure 3. Map of Latin America and the Caribbean

THE SOUTHWEST PACIFIC[70]

OVERVIEW

The People's Republic of China (PRC) has become a growing political and economic force in the Southwest Pacific. Some analysts argue that China has begun to fill a vacuum created by waning U.S. attention since the end of the Cold War, when USAID withdrew its aid missions. By comparison, Australia, Japan, and the EU have maintained strong regional presences. In order to garner political and economic influence for key objectives, as well as to access raw materials, China has expanded its diplomatic and commercial activities in the Pacific. By some accounts, the PRC has become the third-largest source of foreign aid to the South Pacific, which it largely provides without the kinds of conditions or performance criteria that have engendered resentment among some Pacific Island countries toward their major benefactor, Australia. Aid and investment from both China and Taiwan, which has diplomatic relations with six Pacific Island nations, have generated both appreciation and resentment among peoples of the region. Although China's influence currently is largely limited to diplomatic and economic "soft power," some analysts worry about the PRC's long-term strategic intentions.

The Pacific Islands can be divided into four spheres of influence: American, Australian, New Zealander, and French. The American sphere extends through parts of Micronesia, in which lie two U.S. territories (Guam and the Commonwealth of the Northern Mariana Islands) and the Freely Associated States (The Republic of the Marshall Islands, the Federated States of Micronesia, and the Republic of Palau), as well as Polynesia, including Hawaii and American Samoa.[71]Guam and the Northern Mariana Islands (CNMI), along with the Freely Associated States (FAS), have been regarded as a security border of the United States, the defense of which is considered to be key to maintaining vital sea lanes in the Pacific. In addition to being home to the Reagan Ballistic Missile Defense Test Site at Kwajalein Atoll in the Marshall Islands, the FAS are located strategically between Hawaii and Guam. According to some military experts, the FAS provide a vast buffer zone for Guam, which serves as the "forward military bridgehead" from which to launch U.S. operations along the Asia-Pacific security arc stretching from South Korea and Japan, through Thailand and the Philippines, to Australia.

Australia's regional interests focus on the islands south of the equator, including the relatively large Melanesian nations of Papua New Guinea (PNG) and the Solomon Islands as well as Vanuatu. New Zealand has long standing ties with the territory of Tokelau, former colony Samoa (also known as Western Samoa), and two self-governing but "freely associated" states, the Cook Islands and Niue. New Zealand also has a large native Polynesian population

[70] Prepared by Thomas Lum, Foreign Affairs, Defense, & Trade Division, with the assistance of Susan Chesser, Knowledge Services Group FDT, November 2007.

[71] The Freely Associated States are former districts of the United Nations Trust Territory of the Pacific, administered by the United States. Under the Compacts of Free Association (entered into by the United States and the Marshall Islands and Micronesia in 1986 and the United States and Palau in 1995), the FAS are sovereign nations but the United States is responsible for their security and economic well-being.

of Maoris as well as large numbers of other more recently arrived Pacific Islanders. Australia and New Zealand often cooperate on regional security matters. France continues to administer French Polynesia and New Caledonia. Australia, Japan, New Zealand, the United Kingdom, and the United States are the major providers of official development assistance (ODA).[72]

Other than Australia and New Zealand, the only Oceanic nations with significant defense forces are Papua New Guinea and Fiji. Tonga and Vanuatu also have small forces. The United States is obligated by treaty agreement to defend the Freely Associated States. Several other Pacific states rely upon Australia and New Zealand for their external security. In the past several years, China has asserted increasing diplomatic and economic influence across the entire region, but it lacks a regional military role or "hard power."[73] China's military assistance to Pacific countries reportedly is modest—mostly training and logistical support rather than weaponry—but increasing.[74]

DIPLOMACY

The China-Taiwan Rivalry and "Dollar Diplomacy"

Competition for friends among Pacific countries has spurred PRC and Taiwanese diplomatic and economic activity in the region. While the United States does not maintain an embassy in several Pacific Islands countries with which it has diplomatic relations, the PRC has opened diplomatic missions in all Pacific countries with which it has diplomatic relations and has provided bilateral assistance, embarked on high profile regional visits, and hosted lavish receptions in Beijing for Pacific Island leaders.[75] Of the 23 countries with which Taiwan (or ROC) has diplomatic ties, six are in the Pacific, of which two are Freely Associated States.[76] China and Taiwan have become major sources of trade, investment, immigration, and tourism in the region.

The PRC and Taiwan both have begun to develop more coordinated diplomatic and economic strategies in the Pacific. In April 2006, PRC Premier Wen Jiabao held a summit in Fiji (China-Pacific Island Countries Economic Development and Cooperation Forum) with members of the principal regional organization, the Pacific Islands Forum (PIF). At the meeting, China and several PIF countries signed the China-Pacific Island Countries Economic Development and Cooperation Guiding Framework. Wen reportedly pledged $375 million in development assistance and low interest loans as well as the establishment of preferential tariffs for Pacific Island goods. The PRC also has expressed interest in a free trade

---

[72] Most U.S. assistance to the region is not development aid but rather economic grants provided to the Freely Associated States pursuant to the Compacts of Free Association.

[73] See Scott Whitney, "U.S. Pays Little Attention to Asia, Less to the Pacific," Pacific Islands Report, July 2, 2003. For further information, see Henry S. Albinski, "External Power Engagement in Melanesia," in Bruce Vaughn, ed. *The Unraveling of Island Asia?: Governmental, Communal, and Regional Instability,* Westport: Praeger, 2002.

[74] Bertil Lintner, "China's Third Wave, Part 2," *Asia Times Online,* April 18, 2007 [www.atimes.com].

[75] China reportedly has more diplomats in the region than any other country. Nick Squires, "Pacific Persuasion," *South China Morning Post,* July 21, 2005.

[76] Taiwan (ROC) has diplomatic relations with the following Pacific Island nations: Kiribati, the Marshall Islands, Nauru, Palau, the Solomon Islands, and Tuvalu. China has diplomatic relations with Cook Islands, Fiji, Micronesia, Papua New Guinea, Samoa, Tonga, and Vanuatu.

agreement with the Pacific Island Nations. It was later reported that China had allocated $600 million for soft loans for development projects in the region.[77]

In September 2006, Taiwan President Chen Shui-bian held the country's first summit with its Pacific allies, in which Taiwan signed agreements on cooperative projects including law enforcement, online government, tourism, public health, the environment, energy, agriculture and fisheries. Taiwan and the six summit participants (the six Pacific Island countries with which Taiwan has official relations) signed a "Palau Declaration," recognizing Taiwan's achievements in political democratization and economic development and supporting Taiwan's bid to join the United Nations, World Health Organization, and other major international organizations.[78] In October 2007, President Chen visited the Marshall Islands for the 2nd Taiwan-Pacific Allies Summit, in a new convention center financed by Taiwan.

China and Taiwan receive direct diplomatic benefits from their exertion of soft power. In return for economic aid, Beijing and Taipei demand diplomatic recognition and support of diplomatic objectives. China insists that its diplomatic relations in the Pacific support the "one-China" policy, cut off contacts with Taiwan, and oppose resolutions in the United Nations (UN) that it feels would criticize unfairly China's human rights record. Taiwan's Pacific friends support its membership in international organizations, including the United Nations and the World Health Organization.

Some experts argue that "dollar diplomacy"—large amounts of unconditional aid in exchange for support on international issues—may exacerbate political instability and corruption in recipient countries while not leading to broad economic development. According to many observers, financial and other benefits from Beijing and Taipei may exert undue influence over the behavior of Pacific Island leaders who preside over limited budgets, or undermine the aid, diplomatic, and political efforts of regional powers such as Australia. Some have accused the PRC and Taiwan of meddling in the domestic politics and elections of several Pacific Islands countries, including Fiji, Kiribati, Nauru, the Solomon Islands, and Vanuatu. Both Beijing and Taipei have denied using aid primarily to advance diplomatic or strategic agendas and have stressed the mutual benefits of their Pacific Island relationships. Taiwanese officials have stated that their aid programs also involve health, education, rural development, and culture.

Many Pacific Island nations have welcomed the attention, aid, and economic support from the PRC and Taiwan. Several of these countries, such as Kiribati and Nauru, have switched diplomatic alliances more than once reportedly in response to enticements of assistance by China and Taiwan.[79] Some Pacific Island leaders argue that foreign assistance is not a "zero-sum game" and that increased

---

[77] "Fiji to Seek Development Loan from China after Donors Threaten to Cut Funding," *International Herald Tribune,* July 5, 2007.

[78] Lawrence Cheng, "Chen Denies Chequebook Diplomacy," *South China Morning Post,* September 5, 2006; "Taiwan Allies Issue Palau Declaration," PA CNE WS, September 6, 2006; Lilian Wu, "Too Early to Discuss Cost of Projects with Allies: MOFA," *Central News Agency English News,* September 5, 2006. In addition to Taiwan, the six participants were: Palau, Marshall Islands, Kiribati, Nauru, Solomon Islands, and Tuvalu.

[79] Robert Keith-Reid and Samisoni Pareti, "China Stirs the Pot of Divided Pacific Loyalties," *Pacific Islands Report,* March 16, 2006.

aid, trade, and investment from the PRC and Taiwan neither exclude the influence of Australia and New Zealand nor preclude U.S. re-engagement in the region.[80]

China, Taiwan, and the Freely Associated States

The FAS remain under strong U.S. economic and strategic influence, despite growing economic assistance and investment from China and Taiwan. There appears to be little, if any, political pressure within the FAS to alter the economic and strategic underpinnings of their relationships with the United States. As in other Pacific Islands countries, some citizens in the Freely Associated States have expressed concerns about the possible adverse effects of PRC and Taiwanese influence.

Despite the strength of the U.S.-FAS relationships, the former Trust Territory districts also have good relations with Japan, China, and Taiwan based largely upon foreign assistance and commerce. The Compact does not restrict the countries with which the sovereign Freely Associated States may have diplomatic relations. Micronesia established diplomatic relations with China in 1989, while the Marshall Islands and Palau recognize Taiwan, for largely economic rather than ideological reasons. China is likely one of the largest providers of foreign assistance to the Republic of the Marshall Islands (RMI), after the United States and Japan, although amounts are difficult to determine.[81] PRC assistance to Micronesia has included loans, grants, and the construction of government buildings and a sports center. China also maintains a large tuna fishing fleet in the country.

The Marshall Islands switched recognition from the PRC to Taiwan in 1998. According to the U.S. Government Accountability Office, Taiwan is the second largest source of foreign aid to the Marshall Islands (about $10 million annually) after the United States (Japan is the third largest provider of assistance).[82] Taiwan has pledged $40 million over 20 years for the Marshall Islands Trust Fund, which was established by the United States and the Marshall Islands as part of the amendments to the Compact of Free Association in 2004. A major portion—over 50%—of the large businesses reportedly are owned by Taiwanese, many of whom are naturalized citizens of the RMI, which has caused some concern among the native business community.[83]

Taiwan, which has had diplomatic relations with Palau since 1999, reportedly "casts a huge shadow" over the country's economy, with estimates of $100 million in cumulative aid and loans, causing some resentment among locals.[84] Japan is also a major aid donor. In addition, Taiwan and Japan are Palau's top source of tourists: Taiwan supplied 34,000 tourists or 42% of total foreign visitors to Palau, a nation of 20,000, in 2005.

---

[80] "Chinese Aid Won't Mean Chinese Influence: Sevele," *Tonga Now,* May 22, 2007.

[81] U.S. Government Accountability Office, "Compacts of Free Association: Development Prospects Remain Limited for Micronesia and the Marshall Islands," June 2006.

[82] Ibid.

[83] "Sale of Biggest Marshalls Business Shows Increasing Taiwan Dominance," PA CNE WS, October 18, 2005.

[84] Jennings, Ralph, "Taiwan Patronage Buoys, Irks Ally Palau," *Reuters News,* September 6, 2006.

TRADE AND INVESTMENT

China is gaining upon the top countries and regions in terms of trade and investment in the Southwest Pacific (see Table 5). There reportedly are more than 3,000 Chinese state-owned and private enterprises (including energy production, garment factories, fishing and logging operations, plantations, hotels, restaurants, and grocery stores) in the Pacific, witha total value estimated at between $600 million and $1 billion.[85] The governments of the largest Pacific Island countries—Papua New Guinea (PNG), Fiji, and the Solomon Islands—have welcomed investment from China or Taiwan as part of their "look north" foreign policies. Papua New Guinea (PNG) and the Solomon Islands, whose exports of wood to China grew by 26% and 29% respectively in 2006, run large trade surpluses with the PRC. PRC investments in PNG include the $1 billion Ramu nickel mine, logging, gas production, and tuna processing. Chinese demand for timber reportedly has fueled large-scale illegal logging in Indonesia and Papua New Guinea.[86] China operates a large tuna fishing fleet in Fijian waters and has agreed to help develop a hydro power plant in the country.

The PRC government has designated seven western Pacific nations—those with which it has diplomatic relations—as "approved tourist destinations" and pledged to encourage Chinese tourists to visit the region, despite the relatively high costs for Chinese travelers to fly there. China is the only non-Pacific Island nation to be a member of the South Pacific Tourism Organization (SPTO). In 2005, the SPTO estimated that 45,000 Chinese tourists would visit the region by 2007.[87]

Table 5. Total Trade (Imports + Exports) Between Pacific Island Countries, the World, and Selected Countries, 2006
($ Millions)

	World	Australia	Japan	EU-25	China	New Zealand	United States	Taiwan
Fiji	2,200	467	101	210	69	281	206	13
Kiribati	70	21	5	2*	1	4	3	n/a
PNG	6,270	3,011	656	570	518	113	132	57
Samoa	430	83	26	10	13	65	23	20
Solomon Islands	460	62	41	20	130	14	9	0.5
Tonga	15011	9	20	4	37	20	1	
Vanuatu	520	53	80	0	19	22	11	.5
Totals	10,100	3,708	918	832	754	536	404	92

Source: IMF, Direction of Trade Statistics Quarterly, 2007.
* = 2005

[85] Kalinga Seneviratne, "South Pacific: China Seen As Alternative to Big-Brother Aussies," *Inter Press Service,* April 17, 2006; Alphonse Muapi, "Investment Grows," *Business News,* April 6, 2006.

[86] "China's Demand for Timber is Destroying Forests in Indonesia, PNG, Says Greenpeace," *Associated Press,* April 17, 2007.

[87] SPTO Press Release, "SPTO Identifies Significant Growth in Tourism from Chinese Arrivals," May 17, 2005.

FOREIGN AID

According to some experts, the PRC has become the third-largest source of foreign aid to the South Pacific. In terms of official development assistance (ODA), the main form of assistance provided by the major donors in the region, China provides relatively little aid. (See Table 6.) However, the PRC administers a wider range of assistance that includes non-development aid, loans, and trade and investment agreements. According to some analysts, when these kinds of assistance are added, China becomes a major donor in the region.

China's foreign aid to the Southwest Pacific, like its aid to many other regions, is difficult to quantify due to a lack of data and to the unique characteristics of Chinese assistance. Furthermore, because China offers assistance without the conditions that other donors frequently place on aid (i.e. democratic reform, market opening, and environmental protections), it often garners appreciation disproportionate to the size of its aid, and thus can have a large impact on recipient governments.[88] China's policy of "non-interference in domestic affairs" often wins friends not only among Pacific governments but also by many peoples in the region because it is regarded as respectful of their countries' sovereignty. Such aid, announced at lavish receptions with toasts to the recipient countries, also carries great symbolic value.[89]

Many PRC aid projects, such as government buildings, public facilities, and infrastructure, often built by Chinese companies, are high profile efforts that primarily benefit capital cities or the governments in power. Many foreign aid experts, non-governmental organizations (NGOs), and local groups have criticized Chinese aid for not promoting widespread, sustainable development and for exacerbating official corruption. Recent Chinese aid and funding projects in the region include government buildings in Samoa, a sports stadium in the Cook Islands, infrastructure in Niue, and reconstruction efforts in Tonga following the riots and destruction of 2006.

Aid to Fiji

In response to the December 2006 military coup in Fiji, the United States and other powers in the region imposed sanctions. The United States suspended military aid to the country worth $729,000 in 2006 pursuant to Section 508 of the Foreign Operations Appropriations Act.[90] The Australian government suspended foreign assistance with the exception of health, education, and community development programs and aid to the apparel and textile sectors. New Zealand suspended aid, defense ties, and sporting contacts.

---

[88] China's conditions on aid are often international rather than domestic—requiring aid recipients to support the "one-China" principle regarding Taiwan and China's agenda in the United Nations.

[89] Jane Perlez, "China Competes with West in Aid to its Neighbors," *The New York Times,* September 18, 2006.

[90] "U.S. Cuts Aid to Fiji Army," Pacific Islands Report, December 20, 2006; U.S. Suspends $3M in Military Aid," *Fiji Times,* December 21, 2006.

Table 6. Official Development Assistance to the Pacific

	Population	Major Official Development Assistance (ODA) Donors [1]	Net Official Development Assistance (2005) $ million	Estimated Foreign Aid as Percent of Recipients' GDP [2]	U.S. foreign assistance (2006) $ million
Cook Islands	21,000	Italy, New Zealand, Australia	32.0*	7.0	—
Fiji	906,000	EC, Australia, Japan	64.0	3.0	2.5
Kiribati	105,400	Japan, Australia, EC	28.0	22.0	1.3
Marshall Islands	60,400	United States, Japan	57.0	35.0	31.0
Micronesia	108,000	United States, Japan	106.0	37.0	70.0
Nauru	13,287	Australia, Japan, New Zealand	9.0	33.0	—
Niue	2,166	New Zealand, Australia	21.0	26.0	—
Palau	20,579	United States, Japan	23.0	13.5	30.0
Papua New Guinea.	5,670,544	Australia, Japan	266.0	9.6	0.3
Samoa	176,908	Japan, Australia	44.0	7.5	1.4
Solomon Islands	552,438	Australia, EC, New Zealand	198.0	42.0	0.2
Tonga	114,689	Australia, Japan, New Zealand	32.0	7.7	1.7
Tuvalu	11,810	Australia, EC, New Zealand	9.0	85.0	—
Vanuatu	208,869	Australia, France, New Zealand	39.0	11.0	2.2
Totals	7,972,090		928.0		140.6

Sources: CIA, The World Factbook, 2007; Organization for Economic Cooperation and Development (OECD).
* 2006
[1] OECD members only.
[2] Foreign Aid as a percentage of GDP based upon World Factbook ''economic aid'' figures (2004) and nominal GDP data.
Note: China does not provide official data on foreign aid. According to some sources, Taiwan is a top provider of foreign assistance to the Marshall Islands while China is a major source of aid to Papua New Guinea.

The EU suspended all non-humanitarian aid and threatened to suspend assistance for the Fijian sugar industry to offset the phase-out of EU price supports for imported Fijian sugar. However, Fiji reportedly has sought a loan of up to $600 million from China if other aid sources are cut. The PRC government promised that its aid programs in Fiji would continue despite the coup, stating that "the political situation is an internal matter for the country."[91]

PACIFIC VIEWS TOWARD CHINA

Pacific Chinese

The ethnic Chinese population in the Pacific Island region is economically influential but remains relatively small numerically. Estimates of the ethnic Chinese population in the Pacific (including French Polynesia and the U.S. territories), range from 80,000 to over 200,000, or between 1% and 3% of the total population. These estimates are based upon data that generally do not break down ethnic Chinese populations by place of origin.[92] There reportedly has been an influx of Chinese in the two largest Pacific Island nations, Papua New Guinea and Fiji (with an estimated 20,000 Chinese in each country), along with reports of illegal immigration and ethnic Chinese involvement in organized criminal activity, including illegal drugs, gambling, prostitution, and money laundering. However, according to other experts, the PRC government has no systematic policy to populate the islands and "no real need" to bol-

[91] "Envoy Stresses Fiji Still Eligible for Chinese Aid," BBC Monitoring Asia Pacific, August 20, 2007; "Fiji to Seek Development Loan from China after Donors Threaten to Cut Funding," *Associated Press Newswires,* July 5, 2007.
[92] Penny Spiller, "Riots Highlight Chinese Tensions," *BBC News,* April 21, 2006 and "The Pacific Proxy: China vs. Taiwan," PA CNE WS, February 9, 2007.

ster its influence through such a policy. Rather, Chinese immigrants in Pacific Island communities often complicate PRC relations in the region by creating resentment among indigenous citizens toward Asians in general or Chinese in particular. Furthermore, some argue, Chinese populations in the Pacific are not monolithic—they include ethnic Chinese from China, Hong Kong, Taiwan, and elsewhere in Southeast Asia as well as Pacific Islanders of Chinese descent who have resided and intermarried in the Pacific region since the 19th century. Where these ethnic Chinese populations originally came from and how long they have been in their Pacific Island habitats generally are determining factors in how these ethnic populations view China and Taiwan.

Anti-Ethnic-Chinese Riots

PRC and Taiwanese engagement in the region, coupled with the ethnic-Chinese economic presence, while often welcomed by Pacific Island Nation governments, has engendered some resentment among indigenous peoples. In some cases, public anger against the national government has spilled over into anti-ethnic-Chinese activity. In November 2006, riots broke out in Tonga's capital, Nuku'alofa, in which at least eight people died and three-quarters of the commercial district were destroyed, including 30 Chinese-owned businesses. More than 70% of Nuku'alofa's grocery stores are owned by newly-arrived migrants from China, according to one report.[93] The riots were sparked by anger over the perceived slow pace of political reforms following the death in September 2006 of King Taufa'ahau Tupou IV, and reflected frustration over political and economic privileges enjoyed by the hereditary nobility, unemployment and the reduction of civil service jobs, and the growth of ethnic Chinese-owned businesses.[94] Estimates of the ethnic Chinese population in Tonga, many of whom are Tongan citizens, range from 1,000 to 4,000 persons. Australia and New Zealand sent 85 and 70 troops and police, respectively, to help restore order and enforce martial law. Although stability was restored, Tongan opposition groups criticized the foreign troops as backing an undemocratic government.[95] Approximately 200 300 Chinese nationals returned to China on an airplane chartered by the PRC government.

In April 2006, an estimated 1,000 political demonstrators, rioters, and looters clashed with police and set buildings on fire in the business district of Honiara, the capital of the Solomon Islands, where there is a concentration of ethnic Chinese-owned businesses. Among the demonstrators' charges was that both the former and newly-appointed governments were corrupt and unduly influenced by local Chinese business interests and Taiwan government money or "assistance." The ethnic Chinese community in the country is estimated to total a few thousand," with about 2,000 in Honiara. Most ethnic Chinese in the Solomon Islands reportedly are from Hong Kong, Singapore, Indonesia, and Malaysia or are naturalized

[93] Lintner, op. cit.
[94] "Not So Friendly—Tonga," *The Economist,* November 25, 2006.
[95] Pesi Fonua, "Tonga Gets Outside Help after Riots," *Associated Press,* November 19, 2006; Dan Eaton, "Stop Backing Regime, Troops Told," *The Press* (New Zealand), November 22, 2006; Peter Lewis, "Australian Troops Go 'Softly Softly'," *Australian Broadcasting Corporation,* November 23, 2006.

third or fourth generation Solomon Islanders, with no links to Taiwan.

Taiwan, which has diplomatic relations with the Solomon Islands, reportedly provides $11 million in annual assistance to the SI and has been accused of exacerbating corruption there.[96] Taiwanese officials denied that they had "bought" any influence in the election of Snyder Rini to be Prime Minister in 2006. The PRC evacuated 300 Chinese nationals during the upheaval. Australia and New Zealand, which together had approximately 300 military troops and police officers already stationed in the country, a legacy of the 2003 peace-keeping mission established to help quell ethnic violence, sent additional personnel.[97]

IMPLICATIONS FOR U.S. POLICY IN THE REGION

According to some experts, unconditional and unregulated foreign aid and business investment from China and Taiwan—provided without goals related to democracy, sustainable development, fair working conditions, and the environment—may exacerbate underlying political, economic, and social problems in the Southwest Pacific. Others argue that, on the whole, assistance from the PRC and Taiwan has benefited the region. Some specialists contend that China has devised a comprehensive strategy to gain strategic influence in the Pacific within the context of U.S. neglect. However, others counter that China's main objectives in the region are to check and reverse Taiwan's diplomatic inroads and to garner influence but not replace the United States as the foremost military power.

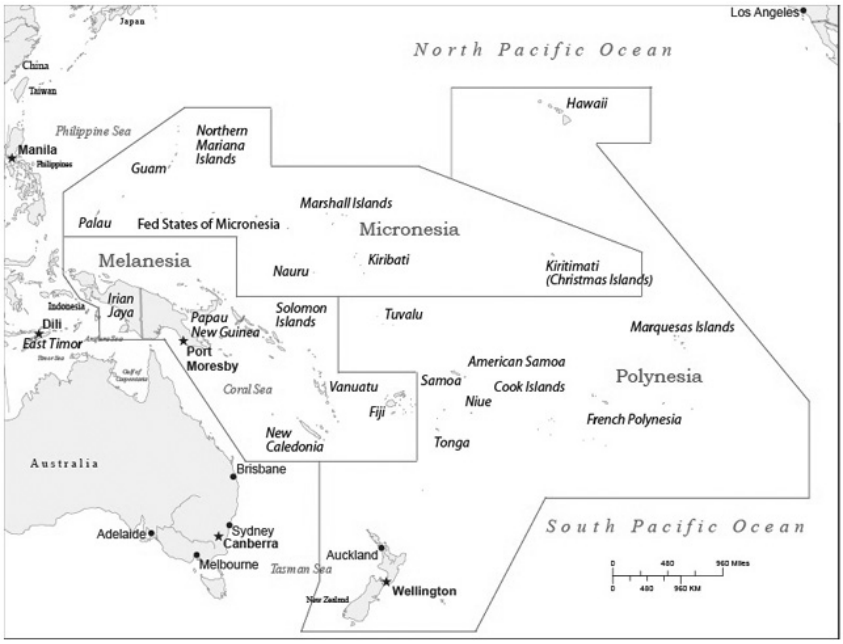
Many regional specialists argue that the United States should pay greater attention to or more directly engage Pacific Islands countries, many of which are plagued by weak political institutions, civil unrest, and persistent poverty. Some analysts argue that addressing these issues would not only help promote political stability and economic development but also enhance U.S. security interests and counter possible adverse effects of China's growing influence. In May 2007, the Bush Administration may have signaled a move toward greater or renewed involvement in the region when it declared 2007 the "Year of the Pacific" at the eighth Pacific Islands Conference of Leaders.[98]

[96] Ashley Wickham, "Taiwan Payments Cloud Solomons Democracy," *Pacific Islands Report,* May 19, 2006; Alfred Sasako, "Taiwan Fund Secrecy Dangerous for Solomons," *Pacific Islands Report,* March 30, 2006.

[97] The Regional Assistance Mission to the Solomon Islands (RAMSI).

[98] The Pacific Islands Conference of Leaders (PICL) is a triennial meeting of Pacific states and territories sponsored by the East-West Center, an education and research organization established by the U.S. Congress in 1960 to strengthen relations and understanding among the peoples and nations of Asia, the Pacific, and the United States.

Figure 4. Map of the Southwest Pacific



Source: Map Resources. Adapted by CRS. 06/07

The conference, held in Washington, D.C. for the first time, was attended by Secretary of State Condoleezza Rice. Among the main topics, aims, and initiatives under discussion were: expanding public diplomacy efforts through a new public affairs office in Fiji; strengthening the Joint Commercial Commission; Pacific fisheries management; the U.S. military expansion in Guam and its impact on the region; global warming and rising sea levels; and establishing a regular U.S.-Pacific Islands dialogue. Other proposals included: enhancing educational and cultural exchanges; expanding foreign aid grants in the area of democracy-building; more fully utilizing the Generalized System of Preferences (GSP) program; and creating more welcoming business environments.[99]

[99] U.S. Department of State, "U.S. Engagement in the Pacific Islands Region: 2007 Pacific Islands Conference and Core Partners Meeting," Fact Sheet (Revised), May 8, 2007.

JAPAN AND SOUTH KOREA[100]

OVERVIEW

In Northeast Asia, China's rise and its soft power are causing fundamental changes in its relations with Japan and South Korea. Both of these countries have well-developed, democratic political systems, industrialized economies, export oriented businesses, a well-educated populace, and relatively high income levels. As such, they differ from certain developing nations that may not be as well prepared to cope with the growing influence of China and its use of soft power to pursue its national interests.

Another difference with Japan and South Korea is that soft power relations are mutual, much as they are between the United States and China. While China's economic reach is affecting policies in Tokyo and Seoul, the economic and cultural influences of Japan and South Korea also are affecting policies in Beijing.

As neighboring countries in Northeast Asia, Japan and South Korea's relations with China after World War II and the Korean Conflict have developed from open warfare to a period of frigidity during the Cold War that was interrupted by occasional chinook winds that warmed temperatures temporarily. During the Cold War, bilateral security ties between the United States and Japan and also with South Korea established pathways for economic and cultural flows. Each of these countries came to rely heavily on the U.S. market and viewed the United States as its role model and provider of security in a hostile regional environment.

Currently, Northeast Asia is undergoing a tectonic shift in relations between China and both of its formerly hostile neighbors. The countries have entered into a new era in which the economic benefits of trade, tourism, investment, and cultural flows may be gradually overcoming the inertia of long harbored feelings of enmity, even though "history issues" still pop up at times and pour cold water on warming relationships. Globalization is creating interdependence in Northeast Asia in which domestic and global affairs have become inseparably intertwined.

Trade flows, in particular, have forged the way for rapprochement along political pathways. Japan and South Korea gradually are turning from the United States toward the Chinese economy for exports, imports, and for other interaction, but the United States still plays a key role in the region because of its military and economic might.

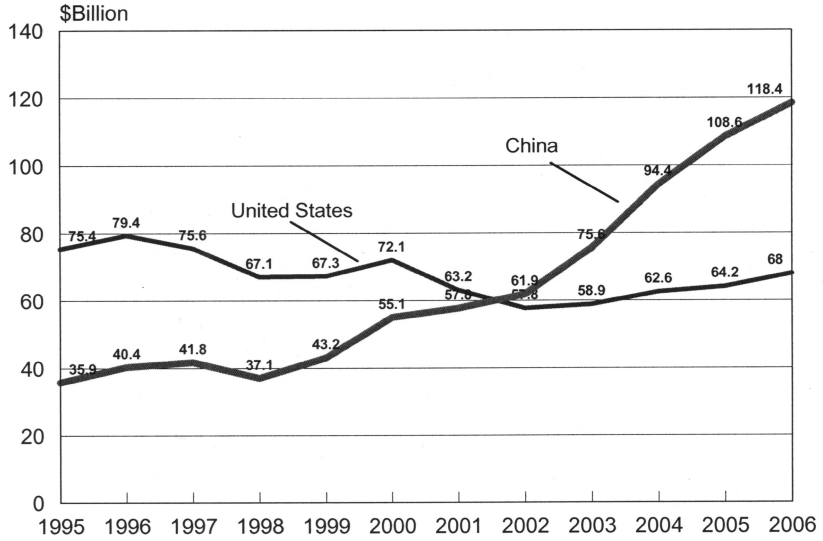
INTERNATIONAL TRADE FLOWS

Figure 5 shows Japan's imports of merchandise (not adjusted for inflation) from China and the United States over the 1995–2006 period. Whereas in 1995, Japan's imports from the United States were twice those from China, by 2006 nearly the opposite was the case. The shape of the lines in Figure 5 create an "ominous X" that illustrates the rise of China's economic power and shift by Japan toward China and away from the United States as a source of imports. The intersection point for this "ominous X" occurred in 2002. The crossing of these lines may or may not portend future difficul-

[100] Prepared by Dick Nanto, Foreign Affairs, Defense, & Trade Division, November 2007.

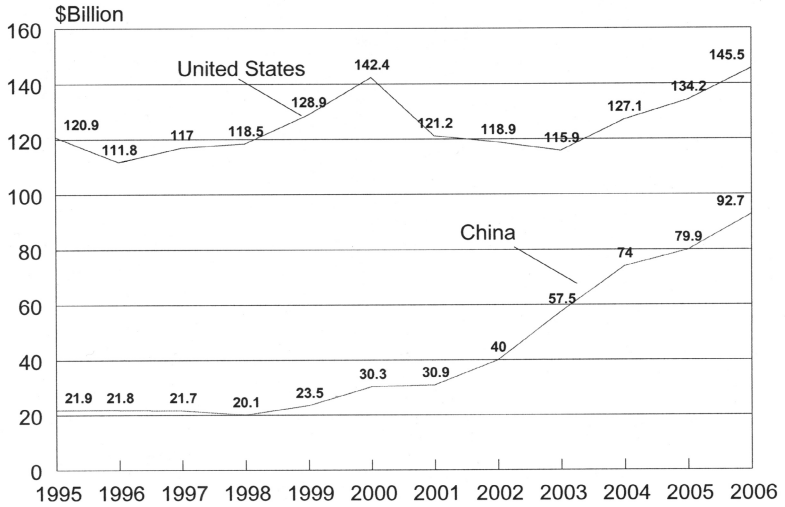
ties for the United States, but it may challenge long held assumptions regarding the dependency of Japan on the United States.

Figure 5. Japan's Merchandise Imports from the United States and China



Source: Data from Global Trade Atlas.

Figure 6. Japan's Merchandise Exports to the United States and China



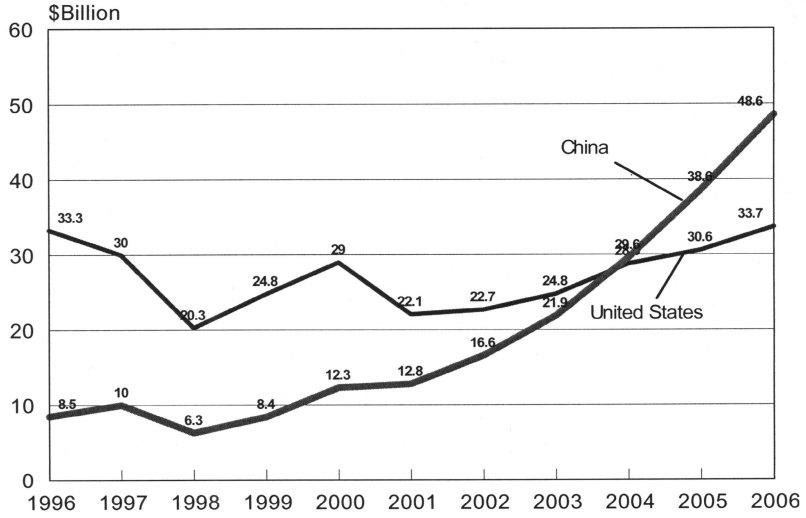
Source: Data from Global Trade Atlas.

Figure 6 above compares Japan's exports of merchandise (not adjusted for inflation) to China with those to the United States. In Japan's exports, the "ominous X" has not yet appeared, but the trends point toward a possible intersection point in the future. Japan's exports to China are rising faster than those to the United States. Whereas in 1995, Japan's exports to the U.S. market were 450% more than those to China, by 2006 they were 57% more. The gap has been narrowing, and in the first eight months of 2007, Japan's exports to the United States were only 11% more than those to China. At this pace, the "ominous X" may occur in 2008 or soon thereafter.

With South Korea, the story is similar. As shown in Figure 7, an "ominous X" appears as South Korean imports of merchandise from China exceeded those from the United States in 2004. Although Korean imports from the United States continue to increase, those from China have increased more rapidly. Korea now imports 30% more from China than it does from the U.S. market.

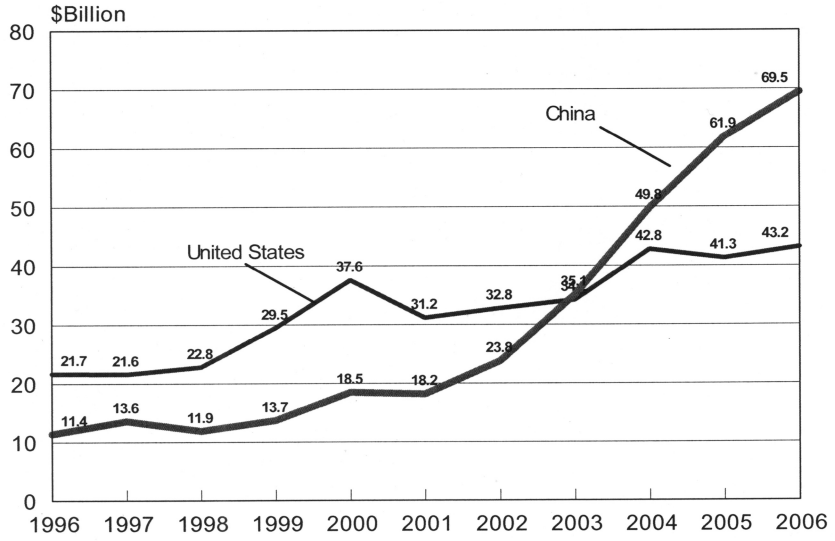
For South Korean merchandise exports, the pattern is the same. As indicated in Figure 8, the intersection of the "ominous X" occurred in 2003. South Korean exports to the U.S. market continue to rise gradually, but those to China are rising faster. In 1995, South Korean exports to the United States were nearly double those to China. In 2006, South Korean exports to China were 60% greater than those to the United States, although some of those exports were components and materials for manufacturing plants in China that export the finished products to the United States.

Figure 7. South Korea's Merchandise Imports from the United States and China



Source: Data from Global Trade Atlas.

Figure 8. South Korean Merchandise Exports to the United States and China



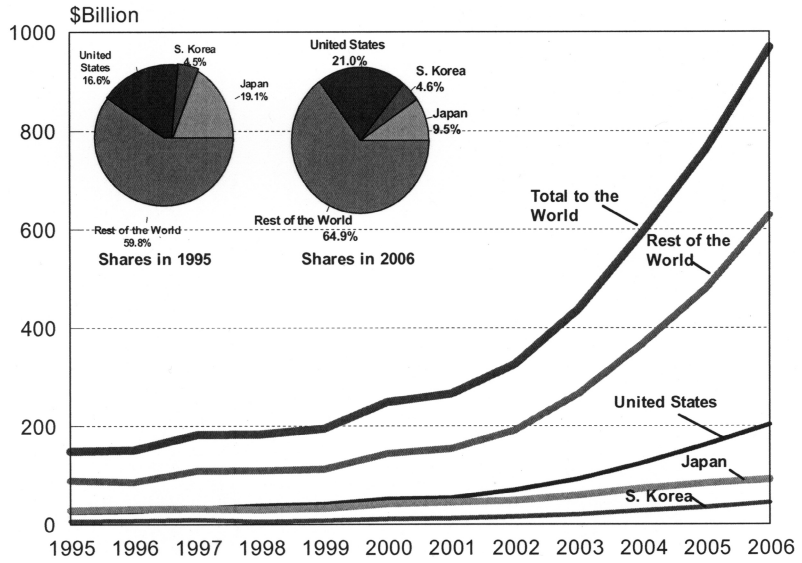
Source: Data from Global Trade Atlas.

With respect to China's overall export markets, Figure 9 shows China's exports of merchandise (not adjusted for inflation) to the United States, Japan, South Korea, and to the Rest of the World. China's exports overall are rising rapidly. As for the destination of those exports, China's exports to the United States have been rising as a share of total exports while the share going to Japan has been falling. China is becoming less dependent on exports to the Japanese market and more dependent on sales to the United States, even though Japan is becoming more dependent on China for its imports (Figure 9). This is an example of how soft power generates diverse results. China is becoming less dependent on Japan as an export market, but Japan is becoming more dependent on imports from China.

INVESTMENT, FINANCIAL, AID, AND CULTURAL FLOWS

Much of the trade between China and Japan and South Korea is related either to investments made in China by Japanese or South Korean companies or through a supply chain in which business transactions tend to be relational—conducted between buyers and suppliers with established business relationships. Foreign invested companies, moreover, account for more than half of China's exports of manufactured goods. Foreign direct investment has contributed greatly to Chinese economic development and plays an important role in drawing countries in Northeast Asia closer together.

Figure 9. China's Exports to the United States, Japan, South Korea and the Rest of the World



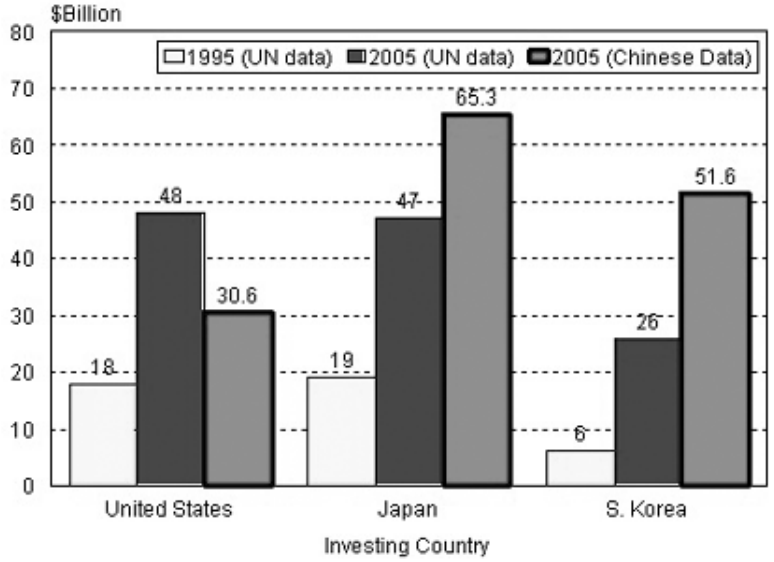
Source: Data from Global Trade Atlas.

Figure 10 shows the stock of foreign direct investment (FDI) in China by the United States, Japan, and South Korea. In 1995, the United States and Japan each had about $18 billion in FDI in China. South Korea had about a third as much. By 2005 the amounts invested for the United States at $48 billion and for Japan at $47 billion had more than doubled and still were similar. South Korea's FDI in China at $26 billion was smaller but had more than quadrupled. Chinese data provide a somewhat different picture of this investment. For 2005, China reported the stock of FDI from the United States to be less ($30.6 billion) than that in the UN database, but from Japan ($65.3 billion) and from South Korea ($51.7 billion) the Chinese figures are higher. The Chinese figures are for utilized FDI. According to Beijing, both Japan and South Korea have significantly more FDI in China than does the United States.[101] By sector, Japan's FDI in China is primarily in the manufacture of motor vehicles, machinery and equipment, and electronic equipment, as well as in wholesale and retail trade, construction, transportation, and finance.[102]

[101] A considerable amount of the FDI in China flows through third parties such as Hong Kong and off-shore tax havens such as the Bahamas, Virgin Islands, Cayman Islands, Bermuda, and Western and Eastern Samoa. Also, some FDI may originate from companies abroad that are affiliated with U.S. companies but not counted as such.

[102] UN Trade and Development Agency. WID Country Profile: Japan.

Figure 10. Foreign Direct Investment in China by the United States, Japan, and South Korea

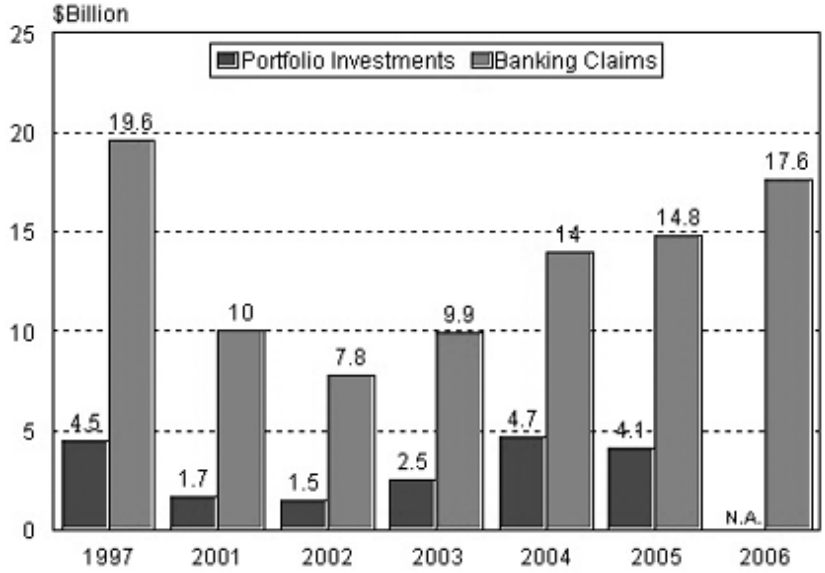


Source: Data from United Nations Trade and Development Agency. Chinese data from China Statistical Yearbook, 2006.

In private financial flows, Japan has invested or loaned considerable sums to Chinese entities. Figure 11 shows consolidated claims by Japanese banks on Chinese borrowers as well as portfolio investments in Chinese securities by Japanese investors. In 2006, Japanese bank claims totaled $17.6 billion while portfolio investments were $4.1 billion. (Comparable data for South Korea were not available.)

In development assistance and other foreign aid, the flows in Northeast Asia go from Japan to China and not the other way around. China also does not provide official development assistance (ODA) to South Korea and vice versa. Japanese ODA to China began as a form of reparations to compensate for Japan's actions in World War II. Japan's ODA disbursements to China declined after China's nuclear tests in 1993–94, rose in 1998 and 1999 then fell again before recovering by 2005.

Figure 11. Japan's Portfolio Investments in and Banking Claims (Loans) on China

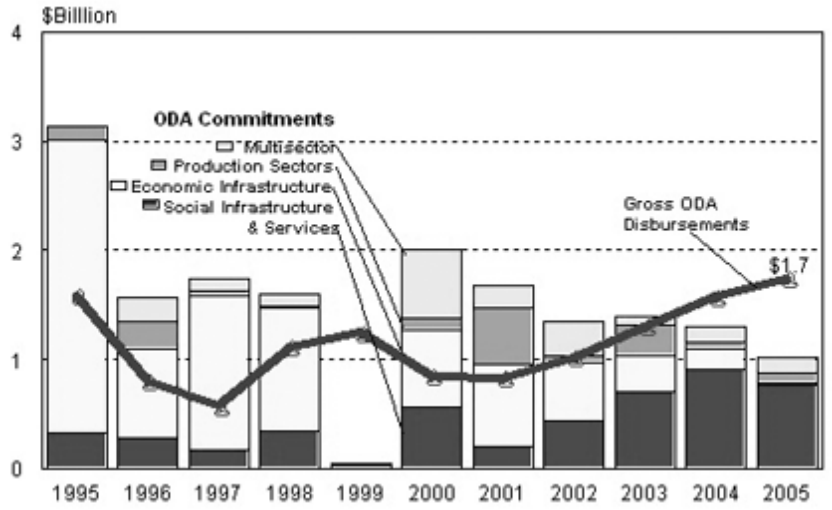


Source: Data from Bank for International Settlements and the International Monetary Fund.

Over the 2004–2005 period, Japan was the top donor of official development assistance to China with an average of $1.7 billion per year in gross ODA disbursements. This was more than four times that of the next larger donor, Germany ($470 million) and far more than that of France ($164 million). In total ODA, China traditionally has been the largest recipient of Japan's foreign aid, but in recent years Iraq has taken the number one position with an average of $2.1 billion per year in 2004–2005. This arguably is a temporary exigent situation. Japan's aid to India also is increasing as India has become another rising power.

Figure 12 shows gross ODA disbursements by Japan to China along with Japan's commitments by sector for the ODA it was providing. Japan's aid to China is noteworthy because it shows how soft power goes both ways. By sector, economic infrastructure, which dominated Japan's aid in 1995, accounted for only a small proportion of ODA commitments in 2005. The major increase has been in aid for social infrastructure and services—70% of which went for water and sanitation projects.

Figure 12. Japan Gross ODA Disbursements and ODA Commitments by Sector to China



Source: OECD, Development Database, Country Reporting System.

Also increasing has been aid for multi-sector projects. These primarily have been for environmental protection, for support of organizations with interest in Japan, and for training and education. Japan provides about 90% of its official aid to China in soft loans rather than grants or technical assistance.[103]

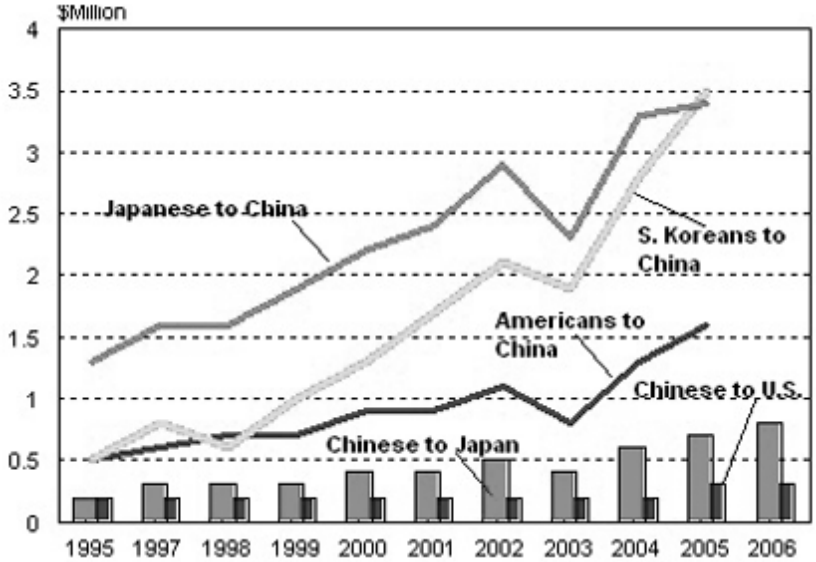
Japan has begun to use its aid to China to accomplish broader political and diplomatic goals. Following the 1989 Tiananmen Square incident in Beijing and the 1995 Chinese nuclear test, Japan temporarily cut off grant aid to China. In the past, Japanese aid has been tied to its exports, but as Figure 12 illustrates, social infrastructure and services now dominate recent ODA commitments. Japan funnels some of its aid funds to pro-Japanese nongovernmental organizations in China. Some in Japan have been questioning the need for continued ODA to a country that now is an aid provider and who is seen by may Japanese as a regional economic and strategic competitor.[104] One suggestion has been to cut off all aid to China in 2008 when Beijing hosts the Olympic games. In September 2007, Japan and China met to discuss China's aid to African countries. Japan requested that China disclose more information about the aid it is providing to countries such as Sudan.[105]

[103] Organisation for Economic Cooperation and Development. Development Database (CRS).

[104] Emily Parker. "Japan's Development Aid to China: The Long-running Foreign Policy of Engagement." *Far Eastern Economic Review,* June 2006, Vol. 169, pp. 55–56.

[105] "Japan, China Discuss Cooperation on Aid for Africa." *BBC Monitoring Asia Pacific,* London: September 18, 2007, pg. 1.

Figure 13. Tourist Visits: Japan, South Korea, and the United States with China



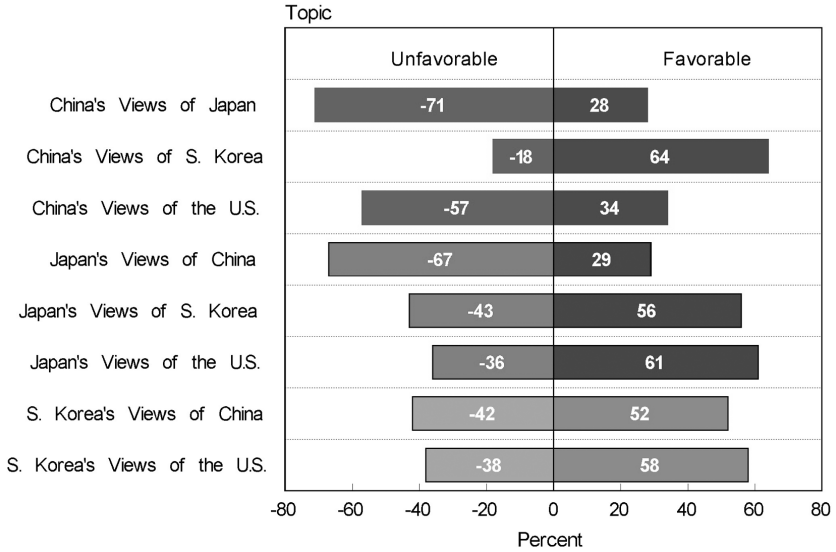
Source: China Statistical Yearbook/2006, Japan Tourism Marketing Co., U.S. Bureau of Economic Analysis.

In the cultural and social area, China also is drawing closer to Japan and South Korea. For example, as shown in Figure 13, there were about 3.5 million tourist visits to China by both Japanese and South Koreans in 2005—more than twice the 1.6 million visits by Americans. South Koreans, in particular, are traveling to China in record numbers. Tourist visits from China are less frequent, but are rising. In 2006, there were 811,000 Chinese tourist visits to Japan and 320,000 such visits to the United States. As with trade flows, tourist visits illustrate the growing soft power ties between China and northeast neighboring countries compared with such visits between the United States and China.

Despite all the economic, cultural and political interaction in Northeast Asia, in 2007 China, Japan, and South Korea in 2007 still harbor overall negative attitudes toward each other. A 2007 Pew Research Center survey of global attitudes indicated that 67% of Japanese expressed an unfavorable view of China—comparable to but down from the 71% recorded in 2006. Among Chinese, 71% expressed an unfavorable view of Japan—little changed from the 70% in 2006.[106] (See Figure 14) These were more negative than Chinese unfavorable views of the United States (57%) and considerably worse than the unfavorable views of South Korea. In both China and Japan, South Korea is viewed favorably by about 60% of those surveyed.

[106] Pew Research Center."Publics of Asian Powers Hold Negative Views of One Another," September 21, 2006, and "Global Unease With Major World Powers," June 27, 2007.

Figure 14. Chinese, Japanese, and South Korean Attitudes Toward Each Other, 2007



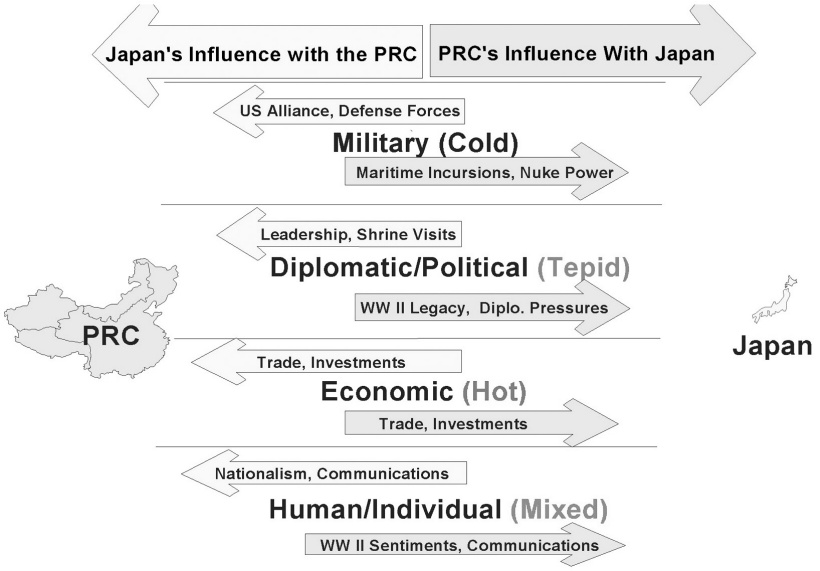
Source: Pew Research Center. The Pew Global Attitudes Project.

For China and Japan, each country still appears to have some distance to travel before underlying attitudes become favorable toward each other. In this sense, soft power by both nations appears to be changing underlying attitudes only very slowly as measured by survey research. By way of comparison, China views the United States more favorably than it does Japan. The same also holds of Japan's views of the United States which were 61% favorable. Despite the growing linkages between China and South Korea, the people in South Korea still indicated that they had a more favorable view of the United States than of China.

CHINA'S RELATIONS WITH JAPAN

The bilateral relationship between China and Japan is shifting dramatically. As indicated above, there is growing and consistent interaction at the human and economic level shaded by bouts of political friction and historic tension as well as occasional naval tensions. As depicted in Figure 15, beginning at the human and individual level, the temperature of interaction is mixed. Communication and cultural exchanges tend to be warm, but historical disputes dating back before World War II have fanned nationalistic sentiments in China and riled the Chinese people. These disputes include Japan's role in World War II atrocities such as the Nanking Massacre, as well as disputes over visits by certain Japanese politicians to the Yasukuni Shrine in which war dead, including some war criminals, are enshrined.

Figure 15. Temperature, Strata of Interaction, and Influence in Relations Between the People's Republic of China and Japan



Source: Congressional Research Service.

At the economic and financial level, however, relations are hot. These comprise the bulk of interaction, are self motivating, and take place without much official notice or fanfare. Japan's economic recovery has been maintained partly by exports to China, and Japan's businesses have incorporated China as an important manufacturing platform for their products. Japan now trades as much with China as it does with the United States. Statements by both Beijing and Tokyo indicate the desirability of mutually beneficial trade. The two nations also have been cooperating more in addressing environmental and energy problems.

At the diplomatic and political level, Sino-Japanese relations are tepid—not warm but not cold either. China is supplanting Japan as the leader in Asia, and Japan is having to cede diplomatic territory to Beijing. Many in Tokyo are taken aback at what they consider to be high handed actions by Chinese leaders and their use of historical animosities that many in Japan feel are generated by the government-controlled Chinese press and educational system.[107] The two countries had no visits by top leaders for five years after 2001 primarily because of China's objections to visits to the Yasukuni Shrine by former Prime Minister Junichiro Koizumi. In October 2006, former Prime Minister Shinzo Abe began his administration with a trip to China (and South Korea), and on December 27, 2007, Japan's Prime Minister, Yasuo Fukuda, made his own visit to China in which the two sides pledged closer cooperation on trade, climate change, and other issues. To date, however, the

[107] Interviews by the author in Tokyo, January 2005.

warming ties have not brought a change in China's opposition to Japan's bid for a permanent seat on the United Nations Security Council.[108]

Taiwan in Japan-China Relations.—The Japan-Taiwan-China triangle poses a vexing dilemma for both Beijing and Tokyo. Japan's relations with Taiwan have been close since Taiwan, then known as Formosa, was a Japanese colony for a half century until the end of World War II. In 2005, 1.4 million Taiwanese visited Japan, and 1.2 million Japanese visited Taiwan. Trade and investment relations are also strong, but the two-way trade of $60 billion in 2006 is only about a third the size of Japan's two-way trade with China. The October 2006 joint communique for former Prime Minister Abe's visit to China did not mention the Taiwan issue. Beijing reportedly requested that the communique include the phrase that "Japan opposes Taiwan independence." Japan, however, states that its policy is in line the 1972 Japan-China Joint Communique that recognizes Beijing as the only legitimate Chinese government. In a subsequent visit to Japan by China's Premier Wen Jiabao in April 2007, Abe reportedly stated that "Japan does not support Taiwan independence."[109]

In 2005 in a joint statement on their common strategic objectives, the United States and Japan stated that a common strategic objective was to "encourage a peaceful resolution of issues concerning the Taiwan Strait through dialogue."[110] This was a rare statement by Japan of its interest in stability across the Strait and was viewed in Beijing as "brazenly interfering in China's internal affairs."[111] In the May 2007 joint statement of the U.S.-Japan Security Consultative Committee, however, there was no mention of Taiwan.[112]

Japan and China also share an interest in halting North Korea's nuclear program and in maintaining stability in the region. Each participates in the various regional institutions and summits that have arisen in East Asia. These include the East Asia Summit, the ASEAN Regional Forum, ASEAN + 3, APEC, and the Six-Party Talks dealing with the North Korean nuclear program.

At the military level, relations are cold as both countries seek to establish their claims to offshore islands and energy resources in neighboring seas. Japan is watching the Chinese military buildup with apprehension, and China fears that the U.S.-Japan alliance may bring Japan into any outbreak of hostilities that China may have with the United States over the status of Taiwan.

A Japanese observer of major trends sees China as the single most formidable challenger to Japan. Although private economic relations are thriving, he sees rising friction at the government level.

---

[108] "More on Japan, China Agree to Build Strategic Ties," *Kyodo News Service*, Tokyo, April 11, 2007.

[109] "Abe, Wen Agree on Ways to Realize Mutually Beneficial Ties," *Jiji Press English News Service,* Tokyo, April 11, 2007. Also see: CRS Report RL33436, Japan-U.S. Relations: Issues for Congress, coordinated by Emma Chanlett-Avery.

[110] U.S. Department of State. "Joint Statement of the U.S.-Japan Security Consultative Committee," Washington, DC, February 19, 2005.

[111] *Xinhua Daily Telegraph* as cited in U.S. Department of State, INR, "Issue Focus: U.S.-Japan Joint Security Statement: Concerns over an 'Emerging China.'" February 24, 2005.

[112] U.S. Department of State. "Joint Statement of The U.S.-Japan Security Consultative Committee." May 1, 2007.

The two countries maintain a type of "cold peace," as China matures and attempts to reclaim its position in the world.[113]

In Japan, economics and politics always have mixed. In many respects, the U.S. nuclear umbrella has allowed the country to pursue "checkbook diplomacy" by which Tokyo has used its trade, aid, and investments alongside of the strengthening of its military to develop what they have called comprehensive security. Japanese experience in the 1980s showed that while economic interdependence may not deflect trade and political friction, it puts incentives in place to resolve disputes amicably. Economic and financial relations formed a base from which Japan could approach diplomatic, political, and security relations with other states.[114]

For both Japan and China, one key question is to what extent the extensive economic interactions and diplomatic sensibilities will prevent political tension from escalating into outright hostility or even military conflict. Stronger economic, financial, and cultural ties between the two countries increase the potential costs of bilateral friction or of regional instability. In a sense, what is evolving is a type of economic realpolitik. Although each country uses its soft power to attempt to influence the other, in essence, each country appears to have warmed toward the other because of practical and material factors. In short, economic interaction appears to have induced the two sides to keep the nationalist rhetoric to a manageable level and adroitly tiptoe around potential military clashes. Chinese influence in Japan is growing as China rises to become a major regional power. On the other hand, Japanese influence in China also is growing as the Beijing leaders come to rely more on delivering growth and prosperity to underpin their claim to legitimacy.

CHINA'S RELATIONS WITH SOUTH KOREA

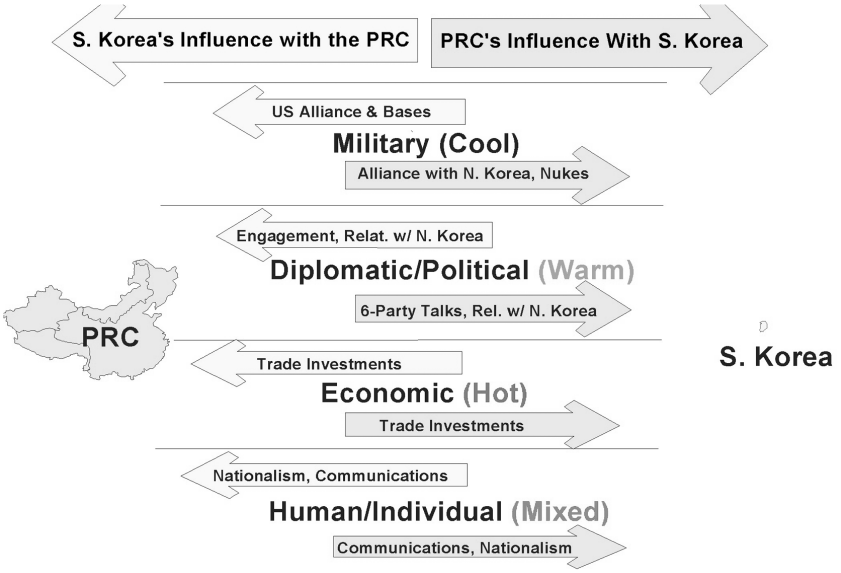
The relationship between China and South Korea (The Republic of Korea or ROK) provides a model for how deepening economic relations can bring two capitals together politically. Figure 16 outlines the major strata of interaction, channels of influence, and the temperature of relations between the PRC and South Korea. Beginning at the bottom of the figure, as is the case with Japan, the major daily interaction is in communications and cultural interchanges while disputes over historical issues occasionally cloud the relationship. At the human and individual level, the temperature of relations is mixed with rising warmth in cultural exchanges and communications but occasional cooling in nationalistic disputes. Cultural ties have also increased multifold: tourism in both directions has increased markedly, and the number of South Korean students studying Mandarin has skyrocketed. Historical ties between China and South Korea are not as fraught as those between China and Japan, but disputes still surface.

---

[113] Tomohiko Taniguchi. "Major Trends in Japan." Slide presentation, December 2004.

[114] Ron Matthews. "Business Focus Turning Point for Japan," *Jane's Defence Weekly,* May 29, 1993.

Figure 16. Temperature, Strata of Interaction, and Influence in Relations Between the People's Republic of China and South Korea



Source: Congressional Research Service.

The temperature of economic and financial relations has been hot as China has displaced the United States as South Korea's major trading partner, and South Korean businesses have moved labor-intensive production processes to Chinese factories. Each economy has grown increasingly dependent on the other for trade and investments. In 2006, South Korea exported $69.4 billion in goods to China, $43.2 billion to the United States, and $26.5 billion to Japan, while importing $51.9 billion from Japan, $48.6 billion from China, and $33.6 billion from the United States.[115]

At the diplomatic and political level, relations have generally been warm (cordial) since the normalization of ties in 1992, but disputes over treatment of North Korean refugees seeking passage through China and other issues have sometimes cooled relations. Frequent reciprocal visits by top officials have solidified the political relationship, and cooperation in attempting to resolve the North Korean nuclear crisis has gained Beijing further favor in Seoul.

Korea's history with China is not always viewed as a positive influence on contemporary diplomatic and political relations. In 2004, in a move that diminished its "image" in South Korea, China sparked a major political dispute. The flap arose because of a PRC claim that the Koguryo Kingdom (37 B.C.–668 A. D.) was a part of Chinese territory and history, not, as Koreans claim, an independent Korean entity that produced many of Korea's long-stand-

[115] Global Trade Atlas. Note that some South Korean exports to China are components for finished products that are than exported to the United States.

ing traditions. Angry reaction in South Korea came from many quarters, including the public, members of the National Assembly from both parties, and the Ministry of Foreign Affairs and Trade. Many claimed that the controversy exposed Beijing's "hegemonic ambitions," and erased an earlier impression of China as a benevolent economic partner.[116] Officials on both sides scrambled to calm the controversy and Beijing dispatched Vice Minister Wu Dawei, former ambassador to South Korea, to negotiate a resolution. The resulting five-point agreement soothed Korean concerns at least temporarily. With the North Korea problem still at a sensitive stage, government officials were relieved to patch up the relationship. Still, the incident exposed strong underlying sentiment in both populations and could indicate a shift away from the cozy political relationship the two capitals have enjoyed for over a decade since normalization.

At the military and security level, relations are cool, but warming. Despite China's intervention in the Korean conflict (1950–53) and alliance with North Korea, security relationships between Seoul and Beijing are improving. In 1999, China and South Korea agreed to hold annual discussions on regional security issues.[117] China holds a large wild card in the security relationship because of its influence with Pyongyang. Similar to Japan, however, South Korea also is concerned about the potential adverse behavior of China two or three decades into the future when it is expected to achieve major power status. South Korea also has turned a cautious eye toward China's increasing trade with and investments in North Korea. While South Korean investment in North Korea have been confined to specific enclaves, China's businesses are allowed to invest in existing enterprises. China's companies seem to be viewed as less threatening to the North Korean socialism than those from South Korea or other nations with market-oriented economies.

The threat of instability posed by the North Korean nuclear program has induced the major powers in the region to cooperate in bringing Pyongyang to the negotiating table. These Six-party Talks build on common security and economic interests and have brought the governments of China and South Korea into a loose partnership. Both countries oppose the development of a nuclear arms program by North Korea. Each fears the consequences of a collapsed Kim Jong-il regime in Pyongyang which could create instability on the peninsula and a flood of North Korean refugees. Because Japan generally has hewed closely to what (until 2007) had been a more hardline U.S. position, Seoul and Beijing found themselves advocating a similar approach of engagement and laying out in explicit terms what Pyongyang could gain if it abandoned its nuclear weapons program. Observers note the irony that with respect to the North Korean nuclear issue, China's relations with the DPRK have become somewhat of a burden for Beijing while their ties with South Korea have become more economically beneficial.

---

[116] Scott Snyder, "A Turning Point for China-Korea Relations?" Comparative Connections, 3rd Quarter 2004.

[117] James A. Foley, "China Hedges Its Bets on North Korea," *Jane's Intelligence Review,* November 1, 2004.

As in the case with Japan, the U.S.-South Korean military alliance weighs heavily on the growing ties between Beijing and Seoul. In essence, both have been able to deepen the economic relationship with full knowledge that the United States also seeks stability in Northeast Asia. China and South Korea's cautious political alignment on the Six-party Talks has taken place, however, as cracks began to appear in the U.S.-South Korea alliance.

However, both Washington and Seoul policymakers insist that the alliance is strong as evidenced by Korea's support of the Iraq war and by statements by President Lee, Myung-bak in 2008 indicating that unlike the previous Roh administration, his would "work to develop and further strengthen traditional friendly relations with the United States into a future-oriented partnership."[118] Under former President Roh, Moo-hyun, South Korea did respond to Washington's request to send troops to Iraq to perform humanitarian work, but his administration attempted to pursue a geopolitical strategy of seeking to play the role of a balancing force and transportation hub in Northeast Asia. Apparently, many in South Korea wanted the country to act as a stabilizer for peace and prosperity and to place exchanges with China at the same level as those with Japan or the United States—despite concerns that this strategy implied a shift toward China.[119] The strategy stemmed partly from the increased economic traffic in the peripheral countries around China, partly from the chronic tension between Seoul and Tokyo, and partly as an attempt by South Korea to define itself in a region that increasingly was becoming dominated by China. For some in South Korea, however, even though China looked like an appealing alternative when relations with the United States wavered, they did not have to search far into the past to see that China had a history of shifting alliances—not to mention its entry into the Korean War in 1950 that ultimately preserved the division of the peninsula.

Expert studies also point to the growing strength of the economic relationship in Chinese foreign policy. One expert concludes that since successful implementation of reform and open-door measures for China requires stability, Beijing has few options other than to pursue a pragmatic diplomatic policy rooted in economic benefits, although clearly China shows no intention of compromising or negotiating over matters related to its sovereignty. In this respect, China regards peace and stability on the Korean peninsula as indispensable to its continued economic advancement. It seeks to preserve the Pyongyang regime while taking measures to resolve the North Korean nuclear problem. Also, the talk of reunification between South and North Korea places pressure on Beijing to keep on the good side of South Korea to avoid the prospect of a nuclear-armed, unified Korea as an unfriendly neighbor. The PRC also would like to wean South Korea away from its close military alli-

[118] Norimitsu Onishi. "At swearing-in, Lee highlights U.S. ties He calls for pragmatism over ideology in dealings with North and Washington," *International Herald Tribune,* Paris: February 26, 2008, pg. 1.

[119] Sung-kyoo Ahn. "Security Aide Explains Vision of Balancer Role." *Seoul JoonAng Ilbo* (Internet version). April 14, 2005. (Reported by Open Source Center) "Seoul Downgrading U.S. Alliance in Favor of Closer Military Ties with China, Russia." East-Asia-Intel.com (subscription e-mail service), April 12, 2005. "ROK Presidential Committee Head Views ROK's 'Balancing Role' in Northeast Asia." *Chosun Ilbo* (Internet Version in Korean), April 12, 2005. (Translated by Open Source Center).

ance with the United States in order to weaken what it views as an important link in the U.S. "encirclement" of China. Beijing, therefore, has placed great importance on its economic and trade relations with South Korea while maintaining its support of Pyongyang and expanding diplomatic and political contacts with Seoul.[120]

REGIONAL TRADE ARRANGEMENTS

In almost no other area is competition between China and Japan for soft power influence in Northeast Asia manifested more clearly than in the emerging economic architecture of the region. The two countries are in a type of tug-a-war over who will be the lead country in Asia. During the 1980s, Japan claimed the lead based on its industrial prowess, export successes, and its democratic political institutions. Japan, however, could rely on the United States to maintain security in the region. Now China is wresting the lead from Japan, and China's new strength is being manifest in the manner in which various regional trade and political/security arrangements are evolving.

The growing economic interaction and interdependency in Northeast Asia are leading to a spate of preferential trading arrangements that also have spawned nascent regional economic and political arrangements. This process is being helped along by China's increasing diplomatic prowess and a rush by Japan and South Korea to negotiate free-trade agreements of their own so as not to place their exporters at a competitive disadvantage. In an ironic twist, the rivalry between China and Japan for leadership in building the new Asian economic and security architecture has enabled the Association of Southeast Asian Nations (ASEAN) to step forward and serve as the organizing hub and as the nucleus for the resultant trade and security structure.[121] ASEAN is seen as a neutral party in the Sino-Japanese rivalry.

In 1992, ASEAN created an ASEAN Free Trade Area among its member nations. This has become the base for a number of arrangements with the neighboring countries in Asia. In 2002, China signed an FTA (Framework Agreement) with ASEAN that would create a zero-tariff market for China and the six original ASEAN members by 2010 and in 2015 for the other four members. This included an early harvest program that eliminated tariffs on goods. Japan and South Korea followed with FTAs with ASEAN of their own. Each country also is negotiating bilateral FTAs with individual countries within A SEAN and with each other. In addition, each country either has concluded or is negotiating bilateral FTAs with numerous other countries both in Asia and around the world. Meanwhile, the United States has concluded a bilateral FTA with Singapore, has completed negotiations on the Korea-U.S. FTA, and is still negotiating a FTAs with Thailand and Malaysia.

[120] Kim, Taeho. The Rise of China and Korea's Strategic Outlook. *Korea Focus,* 10 (3), May–June 2002, p. 79–81.

[121] The Association of Southeast Asian Nations or ASEAN was established on August 8, 1967 in Bangkok by the five original member countries: Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined in 1984, Vietnam in 1995, Laos and Burma/Myanmar in 1997, and Cambodia in 1999.

For the future regional architecture in East Asia, China, Japan, South Korea, ASEAN, and the United States each seem to have competing visions, national interests, and long-term strategies. Each is using its soft power to pursue its own goals. The underlying questions with regard to the regional architecture include: (1) who takes the lead—China, Japan, the United States, or ASEAN; (2) should the Asian regional organizations be confined to East Asia, or should they include South Asia, Australasia, Russia, and even extend across the Pacific to include countries of the Americas; and 3) how deep should integration go? Is the ultimate goal something akin to the European Community?

Competing Visions for East Asia

China's vision for East Asia appears to be to establish itself as the leading regional power and to attain a status in the world community of nations commensurate with its position as one of the five permanent members of the United Nations Security Council, a nuclear power, a successful explorer of outer space, and the country with the world's largest population. China sees a U.S. decline as the corollary to its rise and seeks to displace Japan as the economic leader of East Asia.[122] China's strategy seems to be to foster favorable conditions for continuing its modernization while also reducing the perception that its arrival as an industrial power and political force threatens the interests of others. China needs peace and stability in the region while it grows and resolves numerous internal economic, political, and social problems. Beijing recognizes that the United States is perhaps the only power that can thwart its plans to bring Taiwan under its sovereign control or can impose a system of economic sanctions that could cripple its economic—and military—ascent. Beijing has preferred an exclusive East Asian regional organization that would enable it to take the lead and place the United States and Japan in secondary roles. Paramount in China's vision is a region in which countries respect what it considers to be its territorial integrity, allow for flows of trade and investment necessary to sustain its high rates of growth, and not interfere with what it considers to be its internal affairs.

Japan's vision for East Asia is one in which the United States continues to provide a nuclear umbrella for the region and in which Tokyo relies on its economic power and diplomatic skills to exercise leadership. It seeks to be a "normal" nation without vestiges of its defeat in World War II, particularly the self-maintained constraints on its military. Japan would like to bury its World War II history and be viewed as a peaceful nation and a force for betterment in Asia through economic progress. Prior to the resurgence of China, Japan characterized the countries of East Asia as flying in a wild geese migrating pattern with Japan playing the role of the lead bird. Tokyo recognizes now that Beijing is rapidly assuming the leadership role in East Asia and that the Chinese economy is becoming the regional center of gravity for trade and investment activity. Japan, however, would like to maintain a position of leadership in Asia, accommodate China's resurgence without tinges of

[122] See, for example: Shen Qiang. "New Developments in Evolving Relationships among Major Powers," *International Strategic Studies,* 3rd Issue, 2005, p. 54.

vassalage, and continue to be at the forefront in economic and financial affairs.

For South Korea, the vision for the region is one in which South Korea is a hub for transportation and economic activity. With a relatively small economy when compared with those of Japan and China and historical enmity against Japan, South Korea has been cultivating relations with China while seeking to strengthen its economic and security ties with the United States. South Korea claims Japan has not offered to open its agricultural market enough to continue negotiating a bilateral free trade agreement. South Korea also views North Korea, the other half of the Korean peninsula, as a possible partner in manufacturing and a unified North and South Korea as a bulwark against competition from China. South Korea also seeks a nuclear-free Korean peninsula.

For the United States, the vision for the region begins with its preeminent position as a keeper of the peace, a wellspring for economic prosperity, an advocate for open markets, and a role model for social, cultural, and political values. Its goals in East Asia are to prevent any other single power from dominating Asia, to maintain stability, to increase access to markets in the area, to encourage development of democratic institutions, and to protect basic human rights. The United States shares leadership with other nations and institutions and does not need to have a seat at the table each time Asians meet. Washington, however, usually seeks a presence when decisions are made affecting its vital interests in East Asia (but it sometimes is absent—as in the inaugural meeting of the East Asia Summit). The strategy of the United States in the region has been to continue its hub and spoke system with the United States being the hub and bilateral FTAs and security arrangements spoking out with Asian nations. The United States also has multilateral relationships with links to regional organizations or sets of countries such as APEC (the 21-nation Asia Pacific Economic Cooperation forum) and the proposed Free Trade Area of the Asia Pacific (FTAAP) that calls for an APEC-based trans-Pacific FTA.[123] The United States also recognizes that cooperation with China, Japan, and South Korea are essential to resolving vital security issues, such as the North Korean nuclear threat. Furthermore, the United States would like a more balanced trading relationship with Asian nations. In 2007 the United States incurred a merchandise trade deficit of $256 billion with China, $83 billion with Japan, and $13 billion with South Korea (43% of the total U.S. trade deficit of $816 billion). These three countries also hold more than a trillion dollars in U.S. Treasury securities.[124]

Shifting Regional Groupings

These alternate visions are played out in attempts at use of soft power as a tactic to pursue strategic visions or goals by the countries competing for traction in Asia. In regional trade, China has

[123] See: CRS Report RL31038, Asia Pacific Economic Cooperation (APEC) and the 2007 Meetings in Sydney, Australia, by Michael F. Martin.

[124] U.S. Treasury Department. "Major Foreign Holders of Treasury Securities," December 2007. (Japan—$581.2 billion, China—$477.6 billion, South Korea—$39.2 billion) See also: CRS Report RL34319, Foreign Ownership of U.S. Financial Assets: Implications of a Withdrawal, by James K. Jackson and CRS Report RL34314, China's Holdings of U.S. Securities: Implications for the U.S. Economy, by Wayne M. Morrison and Marc Labonte.

promoted the ASEAN + 3 arrangement in which the ASEAN-10 countries join with China, Japan, and South Korea in what could lead to an East Asian trading bloc that would exclude the United States. The ASEAN + 3 Unit has been organized and helps coordinate the activities of the group. It is located within the ASEAN Secretariat. The ASEAN + 3 group holds its annual summit immediately following the ASEAN summit. It has focused on trade facilitation, establishing institutional structures for financial and monetary cooperation, and on being a forum for discussing political and security matters. Beijing apparently views ASEAN +3 as an institution in which it can take the lead without competition from the United States or Europe or the dilution of East Asian interests by India or Australia.

In 2006, Japan proposed a 16-nation East Asian Free Trade area to be coordinated by an organization similar to the Organization for Economic Cooperation and Development (OECD). The 16 nations would include the ten members of the Association of Southeast Asian Nations, Japan, China, South Korea, India, Australia, and New Zealand, identical to the membership of the East Asia Summit.[125] This larger grouping would dilute the influence of China in the proposed free trade area.

Japan's concept was welcomed by ASEAN and India, but China and South Korea indicated that their first priority would be the ASEAN + 3 FTA proposal.[126] U.S. Ambassador to Japan Thomas Schieffer has expressed some concern about the proposed Asia FTA saying it could damage U.S. interests in the region. He said that the United States is uncomfortable "when people start talking about somehow trying to exclude the United States from Asia." The United States has tremendous interests there and wants to be a part of Asia, he remarked.[127]

At the 2006 Leader's Meeting of the Asia-Pacific Economic Cooperation forum the APEC members decided to study the possibility of a Free Trade Area of the Asia Pacific (FTAAP). This trans-Pacific FTA was promoted by the United States and would encompass the 21 APEC economies and include the ASEAN-6 plus Vietnam, China, Chinese Taipei (Taiwan), Hong Kong, Japan, and South Korea in Asia; the United States, Canada, Mexico, Peru, and Chile in the Americas; Australia, New Zealand, and Papua New Guinea in the Pacific; and Russia.[128] As a start, the United States has begun talks with the P4 (New Zealand, Singapore, Brunei, and Chile) to possibly join that FTA with the aim toward using that as a base for creating an FTA that spans the Pacific Ocean. These actions reflect the U.S. strategy of creating a trans-Pacific trading bloc rather than one dominated by China or Japan. The FTAAP also addresses the U.S. concern that Taiwan not be shut out of any emerging Asian free trade area.

---

[125] "Japan Aims to Launch East Asia FTA Talks in '08," *Jiji Press English News Service,* Tokyo: April 4, 2006.

[126] "S. Korea, China Snub Japan's 16-nation FTA Plan," Organisation of Asia-Pacific News Agencies, August 24, 2006.

[127] "US Envoy Expresses Concern About Japan's Idea of East Asia Free Trade Zone," *BBC Monitoring Asia Pacific,* London: April 19, 2006.

[128] Asia Pacific Economic Cooperation, "14th APEC Economic Leaders' Meeting, Ha Noi Declaration." Ha Noi, Viet Nam, 18–19 November 2006. For information on APEC, see: [http://www.apec.org].

One issue in Asia that differentiates the Chinese from the U.S. approach to FTAs is the U.S. insistence on a "gold standard" template that provides for elimination of all tariffs and addresses other barriers to economic interaction such as liberalizing investment flows, enforcing intellectual property rights, and increasing access for providers of services. The purpose of this "gold standard" is to eventually combine bilateral FTAs into regional FTAs that include the United States and to avoid what is being called the "spaghetti bowl" of intertwining and overlapping free trade agreements each with its own rules and special exceptions. This helps U.S. companies to compete in this new world of disparate sets of trading rules that are not necessarily convergent. U.S. adherence to this "gold standard," however, often creates ill will as the United States is perceived to be excessively intrusive in requiring reforms in FTAs. The Chinese approach is to sidestep controversial issues (such as imports of rice) and to maximize the good will aspects of FTAs. The Japanese approach is somewhere in between the two extremes with scrupulous avoidance of any opening of rice markets but amenable to most other types of market liberalization.

Chinese recent economic and diplomatic successes, however, should not be over emphasized. The United States still is the world's preeminent military and economic power, and while many global supply chains include China, they also include the United States—particularly in product design, technology, and marketing. Asian nations are seeking to broaden international options with major powers, and they engage in a continuing round of hedging and maneuvering for advantage and against possible Chinese dominance. In this process, they are seeking closer ties with each other and also with the United States.[129]

IMPLICATIONS FOR U.S. POLICY IN REGION

The extent to which China relies on soft power in Northeast Asia is different from that in either Southeast Asia or in Africa and Latin America. China, Japan, and South Korea tend to be peer competitors in trade and business relationships. Each is jockeying for position and using the tools of soft power in trying to influence each other and other countries in the region. With trade and investments, though, international interaction cuts both ways. Japan and South Korea are clearly more dependent on China, but China also is more dependent on Japan and South Korea. A question is whether this economic interdependence combined with other interaction is having an effect on political relationships, or whether the opposite is the case—whether increased political and diplomatic relations are affecting trade and investment flows.

One economic study examines this question through use of an econometric technique to test causality in the relationship between trade and political conflict among China, Japan, and the United States. Conflict in the study is defined as an unfriendly or negative political action or stance of one country towards another (an index of cooperation minus conflict). The study found that in the 1990–97 period, Japanese net cooperation towards China was positively

[129] Robert Sutter. "China's Rise: Implications for U.S. Leadership in Asia," East-West Center Washington, *Policy Studies,* Vol. 21, 2006. p. vii-ix.

affected by Japan's growing importance to China. In the 1998–2004 period, Japanese net cooperation towards China was negatively affected by China's growing exports to Japan as China's dominance grew and became more visible. The study also found that growing Chinese exports to Japan and to the United States were causing a rise in the measure of negative sentiment towards China, but for Japan the growth of exports to China seems to dampen this effect. The large imbalance in trade with the United States, however, was causing tensions to rise in the United States. The study concluded that the stable and rapidly growing economic relationship constrained antagonistic political behavior between China and Japan. The authors of the study conclude, "The rising interdependence between the nations and concomitant opportunity cost of serious conflict has led to an easing of political tensions and even some movement towards increased cooperation. The structure of the political relationship appears likely, from this analysis, to be increasingly affected by the economic relationship." [130]

This study reinforces intuitive notions that increasing interdependence and interchange between nations leads to a lessening of tensions, unless the interdependence or interchange is viewed as being tilted in favor of the other party. This implies for China that its "charm offensive" and soft power are likely to improve political relations with a trading partner unless a large trade surplus in its favor appears. Then the increased economic interaction is likely to raise political conflict. In short, China may be gaining friends now, but those friendships could sour later if the economic interaction becomes unbalanced. By that time, however, structures and institutions could be in place that solidify a Chinese position of power.

To many observers, the policy implications for the United States call for continued and reinvigorated U.S. engagement in East Asia to counter Chinese soft power and active participation in building the economic and political/security architecture of the region. With Japan and South Korea, much of Chinese soft power actually is being generated by Japanese and South Koreans, themselves, through trade and investment flows. Among these countries, soft power effects go both ways. Although unlikely at this time, an East Asian organization similar to the Chinese dominated Shanghai Cooperation Organization is clearly not in the U.S. interest. The current U.S. hub and spoke strategy of negotiating free trade agreements and security arrangements with individual countries in Asia is one way to ensure that the U.S. presence remains strong, but the U.S. insistence on "gold standard" provisions in its bilateral FTAs that require major changes in domestic laws has caused resentment when compared with China's "non-interventionist" approach.

Japanese and South Korean soft power in their dealings with China may work to the U.S. advantage in raising the costs of instability and rash military actions (such as conflict over Taiwan) in East Asia. Despite the growing economic and financial interaction, however, considerable distrust (stemming from historical issues) still exists between China and Japan and between Japan and South Korea. Currently, the probability that a Northeast Asian

[130] Peter Drysdale and Shiro Armstrong, "The Effects of Politics on Trade and Trade on Politics, Japan and China," pg. 25. Paper presented at the Japan Economic Seminar, Washington, DC, November 16, 2007.

trading bloc combining the economies of China, Japan, and South Korea seems small, since those countries have not made much progress on bilateral FTAs with each other. If such a trading bloc were to emerge, however, this could pose a significant challenge for the United States. Currently, the three countries account for 43% of the U.S. merchandise trade deficit and hold over a trillion dollars in U.S. Treasury securities in their foreign exchange reserves.

Figure 17. Mainland China, Japan, and South Korea in East Asia

Source: Adapted by CRS. Map Resources (11/07).

CENTRAL ASIA[131]

OVERVIEW

After the Soviet breakup, China focused on establishing trade and other cooperative relations with the newly independent Central Asian states and encouraging their efforts to ensure regional and border security.[132] The new geopolitical situation permitted China to largely demilitarize its borders with the new states, opened markets for Chinese goods and investment, yielded better access to raw materials, provided economic opportunities for China's Xinjiang Uighur Autonomous Region, and promised to reinstate Central Asia as a transit corridor ("Silk Road") between China and Europe and between China and the Middle East. The Soviet collapse also confronted China with several security challenges, including growing contacts between separatists in Xinjiang and their supporters in Central Asia, the growth of Islamic extremism in Central Asia, rising instability or even state failure in the region, the possibility of the development of ties between the Central Asian states and Taiwan, and Central Asian regional cooperation that excluded China.[133]

China's relations with Central Asia slowly evolved during the 1990s and at first were largely limited to diplomacy and merchandise trade. Diplomacy included exhortations to the Central Asian states to crack down on support by citizens in their countries of separatism by Uighurs (a Turkic Muslim people) in Xinjiang, as well as negotiations over border demarcation in order to facilitate trade and reassure the regional states that China did not seek to annex them. During his early 1994 visit to Uzbekistan, Premier Li Peng highlighted China's interest in friendship and peaceful coexistence, mutually advantageous cooperation, non-interference in domestic affairs, and the promotion of regional stability. By the late 1990s, however, China had become increasingly concerned that the "three forces"—international terrorism, religious extremism, and ethnic separatism—posed a growing threat to the security and stability of both China and Central Asia. Also, domestic energy shortages contributed to China placing relations with the region at a higher priority level. A stablesecurity situation in the region was viewed as necessary for building energy transport links to China and for improving Xinjiang's economy.[134] See Figure 18.

---

[131] Prepared by Jim Nichol, Specialist in Russian and Eurasian Affairs, Foreign Affairs, Defense, and Trade Division.

[132] As discussed here, Central Asia consists of the former Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

[133] Ablat Khojaev, "China's Central Asian Policy," Central Asia and the Caucasus, No. 3 (2007), pp. 26–39.

[134] Muratbek Imanaliev and Erlan Abdyldaev, "Globalization Challenges in Central Asia and Certain Aspects of China's Central Asian Policies," Central Asia and the Caucasus, No.3 (2007), pp. 88–98; Niklas Swanstrom, quoted by Jeremy Bransten, "Central Asia: China's Mounting Influence," *Eurasia Insight,* November 23, 2004.

Figure 18. Commonwealth of Independent Central Asian States

This report focuses on mainly non-military types of influence—sometimes termed "soft power"—exercised by China in its relations with the Central Asian states.[135] The term "soft power," generally has referred to influencing the behaviors of other countries by attracting and persuading others to adopt one's goals. Such influence includes diplomatic, cultural, and economic relations. China's military and security assistance also is included here. Multilateral forms of Chinese influence are examined, primarily that exercised through the Shanghai Cooperation Organization, as well as bilateral forms of influence.

BILATERAL AND MULTILATERAL DIPLOMACY

China has pursued both bilateral ties with each Central Asian state as well as multilateral ties through the Shanghai Cooperation Organization (SCO), whose members include China, Russia, and all the Central Asian countries except Turkmenistan, which claims to be nonaligned. China's growing bilateral and multilateral ties with Central Asia are the major impetus to political and economic integration in the region, according to some observers.[136] China has concluded Friendship and Cooperation Treaties with Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan that provide a framework

[135] Joseph S. Nye, Jr.,"Bound to Lead: The Changing Nature of American Power," New York: Basic Books, 1990; "Soft Power: The Means to Success in World Politics," New York: *Public Affairs,* 2004.

[136] Adil Kaukenov, "China's Policy Within the Shanghai Cooperation Organization," *Central Asia and the Caucasus,* No. 3 (2007), pp. 62–76.

for enhancing bilateral relations. The most recent Friendship and Cooperation Treaty was signed with Tajikistan in January 2007 and contains features common to all the treaties. Both sides foreswear forming alliances with or hosting troops from countries or groups that might threaten the security of the other party. Both sides agree to hold consultations if there is a situation that threatens the peace or security of either side. They pledge to create opportunities for investment and trade, and to work both bilaterally and within the SCO to crack down on terrorism, separatism, and extremism, and cross-border organized crime, illegal immigration, and arms and drug trafficking. Both sides promise to guarantee the legal rights of each other's visiting citizens.

Some observers suggest that China may regard close relations with Kazakhstan as the most important to achieving its strategic goals.[137] China and Kazakhstan proclaimed a "strategic partnership" in 2005, and in December 2006 concluded a strategy for "deepening cooperation in the 21st Century." This agreement proclaimed that both countries had resolved border demarcation and called for expanding trade turnover to $10 billion by 2010 and to $15 billion by 2015, building pipelines and other transport routes, and cooperating in oil and gas development.[138] Despite these growing ties between Kazakhstan and China, many in Kazakhstan remain concerned about Chinese intentions and the spillover effects of tensions in Xinjiang. Some have raised concerns about growing numbers of Chinese traders and immigrants, and there are tensions over issues like water resources. China's crackdown on dissidence in Xinjiang creates concern in Kazakhstan, because over one million ethnic Kazakhs reside in Xinjiang and many Uighurs reside in Kazakhstan (some ethnic Kyrgyz also reside in Xinjiang). Some in Kazakhstan fear that Uighur separatism in Xinjiang could spread among Uighurs residing in Kazakhstan, who may demand an alteration of Kazakh borders to create a unified Uighur "East Turkestan."

While pursuing close ties with Kazakhstan, China also has focused on bolstering the economic and security capabilities of bordering Kyrgyzstan and Tajikistan in order to prevent instability in these countries from affecting its own territory. China's interest in close relations with Uzbekistan derives in part from the country's large number of potential consumers (it is the most populous Central Asian state) as well as its role as a transit state to markets further west. Since Kazakhstan is no longer taking on new public sector foreign debt, Kyrgyzstan, Tajikistan, and Uzbekistan apparently were the targets of loans that China announced in 2004 would be made available for regional development (see below).

Among multilateral ties, China cooperates in the Central Asia Regional Economic Cooperation program (CAREC; members are China, Afghanistan, Azerbaijan, Mongolia, and all the Central Asian states except Turkmenistan), initiated by the Asian Development Bank in 1997 to improve living standards and reduce poverty

[137] Shi Ze, "Relations Between China and Central Asian Countries Face Opportunity of All-Round Development," *China International Studies,* Winter 2005, p. 83; Open Source Center, *Central Eurasia: Daily Report* (hereafter CEDR), September 7, 2007, Doc. No. CEP-950007.

[138] Open Source Center, *China: Daily Report* (hereafter CDR), December 20, 2006, Doc. No. CPP-442003.

in its member states through regional economic collaboration. Also participating in CAREC are the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), the Islamic Development Bank, the United Nations Development Program (UNDP), and the World Bank. For the period from 2006 to 2008, CAREC plans to provide over $2.3 billion for more than 40 projects.

The Shanghai Cooperation Organization

Some observers argue that China increasingly has stressed multilateral relations with the Central Asian region through the mechanism of the Shanghai Cooperation Organization (SCO), in which China plays the leading role.[139] The genesis of the organization was an April 1996 treaty among the presidents of China, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan pledging the sanctity and substantial demilitarization of the former Soviet-Chinese borders. The presidents also signed protocols that they would not harbor or support separatists, aimed at China's efforts to quash separatism in Xinjiang. In April 1997, the five presidents met again to sign a follow-on treaty demilitarizing the 4,000 mile former Soviet border with China. In May 2001, the parties admitted Uzbekistan as a member and formed the SCO. The states signed a Shanghai Convention on joint fighting against what President Jiang Zemin termed "the forces of separatism, terrorism and extremism." The SCO also agreed to set up an anti-terrorism coordinating center in the region. In theory, the treaty allows China to send troops into Central Asia at the request of one of the states. Besides security cooperation, China stressed the "huge economic and trade potential" of regional cooperation.[140]

Some observers have viewed the creation of the SCO as reflecting the common goal of Russia and China to encourage the Central Asian states to combat regime opponents of the two major powers. While cooperating on this broad goal, Russia and China have appeared to disagree on other goals of the SCO and to vie for dominance within the organization. Russia has viewed the SCO mainly as a means to further military cooperation and to limit China's influence in Central Asia, while China in recent years has viewed the SCO not only as enhancing regional security but also as an instrument to increase trade and access to oil and gas.

China stressed economic initiatives at the June 2004 SCO summit when President Hu Jintao offered $900 million in export credits with a 2% interest rate for a period of 20 years to Kyrgyzstan, Tajikistan, and Uzbekistan. The summit declaration emphasized that "the cornerstone of stability and security of the Central Asian region and the adjacent countries lies in their economic progress, in meeting the essential needs of the population."[141] Russia emphasized the security aspects of the SCO in early October 2007 when the Russia-led Collective Security Treaty Organization (CSTO; members include Russia, Armenia, Belarus, and all the Central Asian states except Turkmenistan) signed an information-

[139] Shieves; Konstantin Syroezhkin, "China in Central Asia: from Trade to Strategic Partnership," *Central Asia and the Caucasus,* No.3 (2007), pp. 40–51.
[140] *CDR,* September 10, 2002, Doc. No. CPP-131.
[141] *CEDR,* June 17, 2004, Doc. No. CEP-335.

sharing accord with the SCO. According to some observers, China anticipates that with its increasing economic and military power, it will gradually eclipse the influence of Russia in the region. It is possible that as China's influence grows in the region, Russia will become more alarmed and will reduce its role in the SCO (see also below, Implications for Central Asia).[142]

For the Central Asian states, the SCO is seen as balancing Russian and Chinese influence, since the regional states also belong to the economic and security organizations that are part of the Russia-led Commonwealth of Independent States.[143] At the same time, according to some observers, regional leaders have preferred the economic and security cooperation offered by the SCO over what they view as U.S. advocacy of democratic "color revolutions."[144] It may also be the case that Central Asian leaders value the SCO's economic prospects more than its security prospects, given the history of the group. The regional leaders may have devalued SCO as a security organization after September 11, 2001, when U.S. and Western military activities in Afghanistan demonstrated the lack of effectiveness of the SCO in combating terrorism. SCO members did not respond collectively to U.S. requests for assistance but mainly as individual states. Further challenges to the prestige of the SCO as a collective security organization occurred in 2005, when it failed to respond to the coup in Kyrgyzstan or to civil unrest in Uzbekistan. Russia and China have not used the SCO to channel significant amounts of military training and equipment to the regional states. In the case of China, relatively small amounts of security assistance have been provided to the Central Asian states either through the SCO or bilaterally, and largely has taken the form of training in exercises.[145]

During an early July 2005 SCO summit, the presidents of China, Russia, Uzbekistan, Kyrgyzstan, and Tajikistan signed a declaration that "as large-scale military operations against terrorism have come to an end in Afghanistan, the SCO member states maintain that the relevant parties to the anti-terrorist coalition should set a deadline for the temporary use of . . . infrastructure facilities of the SCO member states and for their military presence in these countries."[146] The declaration allegedly was strongly pushed by Russia and Uzbekistan. Later that month, Uzbekistan requested that the United States vacate an airbase near the town of Karshi Khanabad, which was used for U.S.-led coalition operations in Af-

---

[142] Konstantin Syroezhkin, "China in Central Asia: from Trade to Strategic Partnership," *Central Asia and the Caucasus,* No.3 (2007), pp. 40–51.

[143] *CEDR,* August 22, 2007, Doc. No. CEP-25001; *CDR,* August 18, 2007, Doc. No. CPP-94003; Artyom Matusov, "Energy Cooperation in the SCO: Club or Gathering?" *China and Eurasia Forum Quarterly,* Vol. 5, No. 3 (2007) pp. 83–99. Tajik journalist Qosim Bekmuhammad has argued that Russia's economy does not permit it to provide credits on the scale offered by the Chinese, so it stresses political and military activities in the SCO. *CEDR,* September 7, 2007, Doc. No. CEP-950141.

[144] Konstantin Syroezhkin, "China in Central Asia: from Trade to Strategic Partnership," *Central Asia and the Caucasus,* No. 3 (2007), pp. 40–51.

[145] According to analyst Dru Gladney, security cooperation beyond pro forma exercises has mostly involved "the occasional repatriation of suspected Uighur separatists." U.S.-China Economic & Security Review Commission, Hearing on China's Role in the World: Is China a Responsible Stakeholder? Panel IV: China's Involvement in the SCO, China's 'Uighur Problem' and the SCO, August 3, 2006.

[146] *CEDR,* July 5, 2005, Doc. No. CPP-249.

ghanistan, for reasons that included what Uzbekistan termed a stabilizing security situation in Afghanistan.

According to analyst Stephen Blank of the U.S. Army War College, China has fashioned "the SCO as a template of the future organization of Asia against the American alliance system." He also states that China has resisted the Russian "idea of the SCO being a military bloc." Taking a different view, analyst Martha Olcott of the Carnegie Endowment for International Peace has argued that China focuses more on fostering regional stability than on using the SCO as an anti-U.S. forum, and that Russia and the Central Asian states have resisted Chinese efforts to expand security cooperation within the SCO.[147]

While China has held several military exercises with the Central Asian states that it claims are under the aegis of the SCO, some have appeared to be primarily bilateral exercises held between China and one other Central Asian state. China has also provided counter-terrorism training and border security assistance to Central Asian countries under the aegis of the SCO, including funding for radiation detection equipment at border crossings.[148]

- China and Kyrgyzstan held a joint military exercise in October 2002 that China hailed as the first under SCO auspices and the first by the Chinese People's Liberation Army on foreign soil.[149]
- In August 2003, China's ground forces participated with the forces of Russia, Kazakhstan, Kyrgyzstan, and Tajikistan in Xinjiang in what China termed the first SCO multilateral military exercise (another part of the exercise was held in Kazakhstan without the participation of Chinese troops).
- In 2005, Russia and China held a joint military exercise in northeastern China. The two sides claimed that the exercises were aimed to combat terrorism or political disorder in an SCO member-state, but some observers suggested that the exercises had more in common with "a conventional all-out assault."[150]
- In August 2006, Chinese and Kazakh police and security forces held their first coordinated anti-terrorist exercises on their own respective territories.
- In September 2006, Chinese and Tajik military forces held a joint exercise at a Russian military base in Tajikistan.
- In August 2007, an SCO military exercise took place in Xinjiang and southern Russia, the first that included representatives of all member countries (although Russian and Chinese forces predominated). The scenario for the exercise involved defeating terrorists whom had taken over a town in an SCO member-state.

---

[147] United States Commission on Security and Cooperation in Europe (Helsinki Commission), Testimony by Stephen Blank and Martha Olcott, The Shanghai Cooperation Organization: Is it Undermining U.S. Interests in Central Asia? September 26, 2006.

[148] *CDR,* September 22, 2006, Doc. No. CPP-63007; *CDR,* September 23, 2006, Doc. No. CPP-706021; NDU

[149] *CDR,* December 15, 2003, Doc. No. CPP-91.

[150] Roger McDermott, The Rising Dragon: SCO Peace Mission 2007, Occasional Paper, The Jamestown Foundation, October 2007.

The most recent SCO summit of the heads of state took place in Bishkek, Kyrgyzstan, in mid-August 2007. A Bishkek Declaration and a multilateral Friendship and Cooperation Treaty were signed. The Bishkek Declaration appeared to refer to the United States when it criticized "unilateral actions" by some countries and when it stated that "Central Asia's security and stability first relies on the efforts of various countries in this region." It called for the members to coordinate their energy security strategies. The Friendship Treaty largely reiterated provisions of the bilateral friendship treaties China has signed with regional states.

ECONOMIC TIES

Trade and Foreign Investment

Trade turnover between China and Central Asia has increased from negligible amounts during the Soviet period to almost $12 billion in 2006, according to Chinese Customs Statistics (See Table 7). Chinese officials have stated that trade with all the regional states expanded in 2007. While China is becoming a major trade partner for the Central Asian states, the region still accounts for only a tiny percentage (about 1.3%) of China's overall foreign trade.[151] Most of China's regional trade is with Kazakhstan, and Kazakhstan ranks along with Russia as China's largest trade partners among the Soviet successor states. Kyrgyzstan ranks second after Kazakhstan in regional trade turnover with China, and this bilateral trade may substantially increase in coming years after the Kyrgyz-China border post at Irkeshtam is linked by an improved highway (and possible railway) to Kyrgyzstan's southern city of Osh (at the edge of the Fergana Valley shared by Kyrgyzstan, Tajikistan, and Uzbekistan), and possibly to Uzbekistan's city of Andijon (see also below).

For the Central Asian states, trade with China has become more significant in recent years. In 2006, Kazakhstan's main export markets were Germany, Russia, and China, and its main import markets were Russia and China. China is Kyrgyzstan's largest trade partner. According to French analyst Sabastien Peyrouse, up to 75% of China's exports to Kyrgyzstan are re-exported to other Central Asian countries, and the profits made by this re-exporting may constitute a notable part of Kyrgyzstan's economy.[152]

---

[151] Niklas Swanstrom, Nicklas Norling, and Zhang Li, "China," in *The New Silk Roads: Transport and Trade in Greater Central Asia,* edited by S. Frederick Starr (Washington D.C.: Central Asia-Caucasus Institute & Silk Road Studies Program, 2007).

[152] Sabastien Peyrouse, "The Economic Aspects of the Chinese-Central Asia Rapprochement," p. 17. Although it is difficult to estimate the amount of profits, a 10% return would yield some $160 million to the Kyrgyz economy. To compare to other sources of GDP, labor remittances are estimated at between $200-$350 million annually. According to the International Monetary Fund (IMF), Kyrgyzstan's nominal GDP was $2.6 billion in 2006. IMF, Kyrgyz Republic: Enhanced Initiative for Heavily Indebted Poor Countries: Preliminary Document, IMF Country Report No. 06/4 17, November 2006; The World Bank, Migration and Remittances: Eastern Europe and the Former Soviet Union, 2006.

Table 7: China's Trade with Central Asia, 2004–2006
(million dollars)

Country	2004	2005	2006	Percent Share of China's Exports in 2004	Percent Share of China's Exports in 2005	Percent Share of China's Exports in 2006	Percent Change 2006 over 2005
China's Exports to Central Asia							
Kazakhstan	2,212.49	3,898.88	4,751.53	0.37	0.51	0.49	21.87
Kyrgyzstan	492.76	865.92	2,113.03	0.08	0.11	0.22	144.02
Tajikistan	53.49	143.87	305.70	0.01	0.02	0.03	112.49
Turkmenistan	84.80	90.44	162.45	0.01	0.01	0.02	79.62
Uzbekistan	172.47	230.22	406.10	0.03	0.03	0.04	76.40
Total	3,016.04	5,229.33	7,738.81	0.50	0.68	0.80	47.99
China's Imports from Central Asia							
Kazakhstan	2,280.81	2,902.27	3,607.17	0.41	0.44	0.46	24.29
Kyrgyzstan	109.45	104.56	112.79	0.02	0.02	0.01	7.87
Tajikistan	15.37	14.20	18.00	0.00	0.00	0.00	26.81
Turkmenistan	13.88	18.99	16.01	0.00	0.00	0.00	(15.68)
Uzbekistan	402.70	451.02	565.85	0.07	0.07	0.07	25.46
Total	2,822.21	3,491.04	4,319.82	0.50	0.53	0.54	23.74
China's Total Trade Turnover with Central Asia							
Total Turnover	5,838.25	8,720.37	12,058.63	1.00	1.21	1.34	38.28

Source: World Trade Atlas.

Roads and railways have been the focus of investments to provide the infrastructure for increased commercial ties between China and Central Asia. In 1997, China also decided to place greater strategic significance on obtaining access to world energy resources, including the purchase of oilfields and the building of pipelines in Central Asia. China has reported that it has funded 127 projects since launching its $900 million SCO funding initiative in 2004. Although offered under the SCO framework, each country has to negotiate separately with China about specific projects.[153] Under the western development strategy of China's 11th Five-Year Plan (2006–2010), the government aimed to open Xinjiang to foreign investment and to encourage Chinese firms to carry out economic and technological cooperation with Central Asian nations. French analyst Sabastien Peyrouse argues that China carries out investment projects in Central Asia that Western investors might consider too risky, in part because China is looking long-term and is interested in fostering stability in the region, and perhaps also because some potentially highly profitable areas of investment already are taken by Russian and Western firms.[154]

Kazakhstan-China Trade and Investment Ties.—Since the early 1990s, Kazakhstan has been the top trade partner of China in the Central Asian region. China also is among the five largest foreign investors in the country, reportedly contributing $8 billion of investment by mid-2007. President Nazarbayev reported in August 2007 that "the key topic" of his talks with visiting Chinese President Hu Jintao "was, of course, trade, economic, and investment cooperation . . . We discussed . . . energy, oil and gas industry, petrochemicals, oil processing, tourism, transport, and communica-

[153] Artyom Matusov, China and Eurasia *Forum Quarterly,* Vol. 5, No. 3 (2007).
[154] Vice Minister of Commerce Yi Xiaozhun on Oct 17, 2006. *CDR,* October 19, 2006, Doc. No. CPP-715032; Adil Kaukenov, "China's Policy Within the Shanghai Cooperation Organization," *Central Asia and the Caucasus,* No. 3 (2007), pp. 62–76.

tions in detail." He raised the hope that trade turnover would amount to $1 billion per month in 2008, and even suggested that it would be "great to reach the level of U.S.-Canadian trade turnover, $1 billion every day. I am convinced that we will do this."[155]

A railway line from Kazakhstan's city of Almaty to the border post of Dostyk-Alataw and hence to Urumqi in Xinjiang currently is the only rail link between China and Central Asia and carries a large share of the regional trade. This railway is linked to northern China's seaport at Tianjin. Reportedly, an increasing amount of trade between Kazakhstan and Japan, South Korea and the United States travels via the port and railway to Kazakhstan. A highway and the newly built Atasu-Alashankou oil pipeline (see below) add to the significance of the Dostyk-Alataw border post and both China and Kazakhstan have invested in infrastructure to facilitate trade. Kazakhstan opened a major highway route in 2004 that links Almaty to China at the border town of Khorgos.[156] China hopes to link Khorgas to its railway network in 2008, and Kazakhstan and China are planning for a rail line from Khorgas to the Kazakh town of Sary Ozek (north of Almaty), which could become the second cross-border rail link between the two countries.

Kyrgyzstan-China Trade and Investment Ties.—In January 2002, the visiting Chairman of China's International Committee for Natural Disasters, Ismail Amat, met with Kyrgyz First Deputy Prime Minister Nikolay Tanayev to discuss a possible Chinese loan to build a railway line from Kashgar (Kashi) in Xinjiang through Jalalabad in Kyrgyzstan to Andijon in Uzbekistan, and the possible supply of Kyrgyz electricity to China to pay for the loan. The two sides also discussed progress on a joint Kyrgyz-Chinese paper mill being built in Kyrgyzstan, for which China extended an $18 million loan for refurbishment.[157] In June 2002, after the Kyrgyz legislature had ratified a border demarcation agreement, Kyrgyzstan's then-President Askar Akayev visited China and met with Chairman Jiang Zemin to sign a friendship and cooperation treaty.[158] China indicated that it also would provide a loan to Kyrgyzstan, and visiting Chinese Deputy Minister of Foreign Trade Zhang Xiang signed an agreement with newly appointed Prime Minister Tanayev in August 2002 for a $1.875 million loan to complete a feasibility study for building the Kashgar-Andijon rail line and for purchasing broadcasting, agricultural, and security-related equipment. The two sides also celebrated the opening of the paper mill.[159] In 2005, China allocated $3.75 million to repair the 16 miles of roadway between the Kyrgyz capital of Bishkek and the Manas airport.[160] In September 2006, China provided a loan for Kyrgyzstan's purchase of automobiles worth $1.8 million.[161]

Popular contention in Kyrgyzstan over the cession of some mountainous border territory to China raised concerns among Chinese officials. In June 2006, Kyrgyz President Kurmanbek Bakiyev vis-

---

[155] *Interfax,* August 18, 2007.
[156] *CDR,* September 22, 2007, Doc. No. CPP-968049.
[157] *CEDR,* January 16, 2002, Doc. No. CEP-335.
[158] Moscow Kommersant, as reported in *CEDR,* June 25, 2002, Doc. No. CEP-214.
[159] *CEDR,* August 27, 2002, Doc. No. CEP-291; September 3, 2002, Doc. No. CEP-199; September 21, 2002, Doc. No. CEP-65; October 26, 2002, Doc. No. CEP-126.
[160] *CEDR,* February 21, 2005, Doc. No. CEP-129.
[161] *CEDR,* May 13, 2005, Doc. No. CEP-402005.

ited China and assuaged these concerns somewhat by signing a joint declaration with Chairman Hu Jintao re-affirming that "the parties will abide strictly by all the agreements and documents signed between the two countries on the border issue." The two sides signed a contract on the construction of a cement plant in the town of Kyzyl-Kiya in Osh Region, for which China provided a $70 million loan, and both sides pledged to cooperate in the successful operation of the plant. They raised regrets that their earlier joint investment in a paper mill (mentioned above) had failed.[162] China also agreed to provide $8.75 million to Kyrgyzstan to purchase 1,200 tractors on an urgent basis.[163]

Tajikistan-China Trade and Investment Ties.—Although China previously had provided some small loans to Tajikistan, bilateral ties greatly improved after the two countries signed a border demarcation agreement in May 2002. In 2005, China announced loans of $110 million (for 20 years at 2% interest with a five-year grace period) to finance Chinese construction of two highway tunnels, one connecting Dushanbe to the southern city of Kulyab and the other connecting Dushanbe to the northern city of Khuj and. Many observers view the construction of these tunnels as potentially enhancing the Tajik government's control over the country. Construction on the Dushanbe-Kulyab tunnel project reportedly began in October 2006 and is projected to be completed in 2009. Other projects funded with Chinese loans include the rehabilitation of the highway from Dushanbe through Khuj and to Chanak (near the Uzbek border), modernization of the telecommunications system, and upgrading of electricity transmission lines.[164] At the July 2006 ceremony to begin repaving the Dushanbe-Chanak highway, President Rahmon claimed that the Chinese firm doing the work would employ 2,500 local citizens, and that the road would be completed in 2008.[165]

In January 2007, Chinese and Tajik firms signed an agreement in Beijing for the provision of a $200 million loan (for 25 years with an annual interest of 1%) to build a 150-megawatt hydroelectric power station on the River Zarafshon in northern Tajikistan. That same month, the visiting deputy head of China's Eximbank, Li Jun, praised Tajikistan as a leading country among SCO members in taking advantage of preferential loans to carry out projects. He also announced new loans to provide 23 Chinese locomotives to the Tajik railway directorate, and to finance work on a railway from Dushanbe to the southern city of Qurghonteppa, a railway from the southern city of Kolkhozobod to the town of Panji Poyon (on the Afghan border), and a railway from the northern town of Konibodom to the Uzbek town of Bekobad. The June 2007 purchase by the Chi-

---

[162] According to one report, the paper mill had failed to pay its electricity bill and power was shut off in May 2004. Management-employee conflicts were also alleged. Kyrgyzstan, which owned a 75% share in the mill (China owned 25%), preemptorily decided to sell its shares. Kyrgyzstan Daily Digest, Eurasianet, May 20, 2004. In August 2007, China stated that it would write off its loan to refurbish the mill.

[163] *CEDR,* July 2, 2006, Doc. No. CEP-950067; October 26, 2006, Doc. No. CEP-950306. In September 2007, the mayor of Osh (the regional capital) stated that China was the largest foreign investor in the city. *CEDR,* September 19, 2007, Doc. No. CEP-950242.

[164] *CEDR,* March 12, 2006, Doc. No. CEP-950006; June 15, 2006, Doc. No. CEP-950119; Agence Presse France, June 24, 2006. Chinese investments in Tajikistan's hydroelectric and transport infrastructure amounted to $500 million, Rakhmon claimed. *CEDR,* September 14, 2007, Doc. No. CEP-950368.

[165] *CEDR,* July 11, 2006, Doc. No. CEP-950325.

nese Zijin Mining Group of the controlling shares of a British company involved in gold mining in Tajikistan appears to be another example of China's interest in regional mineral resources.[166]

Tajik President Rahmon generally has viewed close economic ties with China as enhancing Tajikistan's development. During his January 2007 China visit, he stated that about 40 Chinese companies were investing and operating in Tajikistan, and at the August 2007 SCO Summit, he reported that he had urged China to increase investment and that it had agreed to explore joint ventures for cotton processing. In September 2007, he termed the expansion of the Tajik-Chinese "partnership" a priority of Tajikistan's foreign policy. Tajikistan's state-run news agency reported in January 2008 that Tajikistan owed China $217 million, the largest amount owed to one country. One Tajik newspaper seemed to reflect this positive view of China's regional political and economic influence when it stated that "China is a reliable ally of Central Asian states, which can support their struggle against various groups that are considered as a threat . . . [China is] powerful and has large financial resources for investing in their economies."[167]

Turkmenistan-China Trade and Investment Ties.—China's trade ties with Turkmenistan were minimal during much of the autarchic rule of the late Turkmen President Saparamurad Niyazov, but began to increase after Niyazov visited China in April 2006. After Niyazov's death in late 2006, Russia, the United States, China, and the EU moved to improve relations with Turkmenistan. Although Russia has been the main customer for Turkmen natural gas exports, the United States and the EU have been interested in building possible trans-Caspian oil and gas pipelines from Turkmenistan that would link to pipelines in Azerbaijan. At the same time, China has been interested in building pipelines from Turkmenistan to China (see below).

Several inter-governmental accords were signed during the late President Niyazov's April 2006 visit to China that contributed to increased Chinese trade and investment. In late 2006, China extended a $24.5 million low-interest loan to finance construction or revamping of fiber optic and cellular telephone networks throughout the country.[168] In March 2007, China provided a $24 million loan for the purchase of Chinese drilling equipment and field camps for geological work and a $36 million loan to purchase Chinese railway passenger cars.

Uzbekistan-China Trade and Investment Ties.—Bilateral trade between China and Uzbekistan was limited for many years by Uzbekistan's import substitution strategy of development and its hopes for greater economic ties with the West. By the early 2000s, however, it appeared that Uzbekistan and China had begun to explore boosting trade relations. In January 2003, China's Eximbank proposed extending a $2 million loan for 15 years at 3% interest to Uzbekistan for small-scale energy projects. In June 2004, Chinese President Hu Jintao visited Tashkent to take part in the SCO summit, and announced grants and long-term loans amounting to

[166] *CEDR,* January 20, 2007, Doc. No. CEP-950072.
[167] *CEDR,* April 11, 2007, Doc. No. CEP-950068; September 14, 2007, Doc. No. CEP-950247.
[168] *CEDR,* September 27, 2006, Doc. No. CEP-950353.

$350 million for economic development in Uzbekistan (among the $900 million he offered to the SCO members). A Russian newspaper reported that "members of the Chinese delegation said that this is the biggest economic aid package ever granted by China to any country at one time." The state-owned China National Petroleum Corporation (CNPC) also signed oil and gas cooperation contracts with Uzbekneftegaz. Perhaps also indicating Uzbekistan's ability to play off prospective aid donors, Russia's Lukoil oil firm and Gazprom gas pipeline firm signed large-scale investment accords with Uzbekistan.[169]

According to many observers, China's stress on regional stability as well as on good bilateral relations contributed to its strong support for Karimov's crackdown on dissent in Andijon in May 2005.[170] In July 2005, China allocated two grants worth $3.6 million for economic training and other cooperation. In September 2005, a production-sharing agreement was concluded by the CNPC, Uzbekistan's Uzbekneftegaz, Russia's Lukoil, Malaysia's Petronas, and South Korea's National Oil Corporation to explore and develop prospective natural gas deposits in the Aral Sea (see below). In June 2006, CNPC signed contracts with Uzbekneftegaz for seismic exploration of potential oil and gas fields and for drilling 27 wells within five years. In August 2006, the trade ministers of the SCO member states approved what was termed the SCO's first highway construction project, the Andijon to Kashgar highway, "which will . . . greatly facilitate the revival of the Great Silk Road."[171]

Energy

According to analyst Niklas Swanstrom, "the most important reason for a Chinese presence," in Central Asia "appears to be . . . to secure China's growing need for oil and natural gas."[172] Although Central Asia's oil and gas are not expected to amount to more than a tiny fraction of China's energy imports, they are considered significant by China's leaders for the development of Xinjiang, China's northwestern province. Increased access to gas might also facilitate greater use of gas in China over more polluting energy sources. According to analyst Sebastien Peyrouse, China may also regard electricity imports from Central Asia as significant in addressing energy needs in Xinjiang. China also hopes to earn funds by participating in joint ventures and otherwise investing in dams and power lines, and by serving as a transit state for Central Asian electricity exports to Pakistan.[173]

Kazakhstan-China Energy Ties.—In 1997, Kazakhstan and China agreed on building an oil pipeline to Xinjiang within five years and Kazakhstan granted the CNPC production rights to develop some

---

[169] *CEDR,* July 1, 2004, Doc. No. CEP-93. Uzbek media reported in early 2007 that Uzbekistan apparently had not used much of the extended credit, which was intended for the import of Chinese-made goods, and that China's Eximbank had extended the time limit on applying for the credit. *CEDR,* March 16, 2007, Doc. No. CEP-950385.

[170] Kevin Sheives, "China Turns West: Beijing's Contemporary Strategy Towards Central Asia," *Pacific Affairs,* June 22, 2006.

[171] *CEDR,* July 18, 2005, Doc. No. CEP-27077; August 24, 2006, Doc. No. CEP-950145; September 30, 2007, Doc. No. CEP-950009; *CDR,* September 3, 2006, Doc. No. CPP-52003.

[172] Niklas Swanstrom, "China and Central Asia: A New Great Game or Traditional Vassal Relations?" Journal of Contemporary China, Vol. 14, No. 45 (2005), p. 570.

[173] "The Hydroelectric Sector in Central Asia and the Growing Role of China," *China and Eurasia Forum Quarterly,* Vol. 5, No. 2 (2007), pp. 131–148.

oil fields in the Aktobe Region in northwestern Kazakhstan. China's efforts to form an international financing consortium for the pipeline were unsuccessful, and China decided to largely finance the project itself. In 2005, CNPC purchased the Canadian-based company PetroKazakhstan for a reported $4.2 billion, giving it control over the Shymkent oil refinery, production licenses for twelve oilfields, and exploration licenses for five other areas. Responding to the sale, the Kazakh legislature quickly passed a law giving the government the right to preempt such transfers. In order to complete the sale, CNPC reportedly had to transfer about one-third of the PetroKazakhstan shares to KazMunaygaz, and yield effective control over the Shymkent refinery, which Kazakhstan wanted to control to ensure domestic supplies.

Kazakhstan and China completed construction in mid-2006 of a 600 mile oil pipeline from Atasu in central Kazakhstan to the Xinjiang region of China. Initial capacity is 146.6 million barrels per year. The $700 million pipeline was mostly funded by China. At Atasu, the pipeline links to another pipeline from Kumkol, also in central Kazakhstan, and will eventually link to Atyrau on Kazakhstan's Caspian Sea coast. Chinese customs officials reported in mid-2007 that about 29.3 million barrels of oil had been imported through the pipeline in its first year of operation (other oil continued to be imported by rail). To process the oil, China is building the country's largest oil refinery in Xinjiang, which is slated for completion in 2008. Some observers have argued that the pipeline has been greatly underutilized in its first year of operation, including because Russia has balked at supplying oil to China through the pipeline.[174]

Perhaps as part of an effort to gain greater access to Kazakh oil to help fill the pipeline—particularly the large reserves of oil in western Kazakhstan—China's state-owned CITIC Group investment firm acquired the Kazakh oil assets of Canada's Nations Energy Company for $1.91 billion at the end of 2006, giving China the rights to develop the Karajanbas oil and gas field, near Aqtau on the Caspian Sea, until 2020. The pending sale reportedly raised concerns in the Kazakh legislature and in the Energy Ministry that China was obtaining too many national energy assets.[175] These concerns may have led to a concession by CITIC to give KazMunaiGaz a 50% stake in the operating company that will develop the oilfield. To move the oil and gas to China, visiting President Hu Jintao and President Nazarbayev agreed in August 2007 to build pipelines so that "the Caspian will be linked to western China," according to President Nazarbayev. He announced that Kazakhstan and China would jointly finance the construction of an oil pipeline from central Kazakhstan to the Caspian Sea and a 4,350 mile gas pipeline to be completed by 2009 with an annual ca-

[174] Nadia Rodova, "Russian exports to China via Kazakhstan to start this year," Platts Commodity News, June 1, 2007. Artyom Matusov, *China and Eurasia Forum Quarterly,* Vol. 5, No. 3 (2007).

[175] According to some reports, the 50,000 bpd of current heavy crude production at the Karajanbas field, when added to 150,000 bpd at the Kumkol fields and 116,000 bpd in western Kazakhstan, would result in Chinese control over about one-fourth of Kazakhstan's production of 1.3 million bpd. "CITIC to buy Nations Energy," Open Source Center Feature, October 27, 2006, Doc. No. FEA-29192; November 17, 2006, Doc. No. FEA-030017; *CEDR,* November 18, 2006, Doc. No. CEP-950145. CNPC reportedly has invested $8.5 billion in Kazakhstan through 2006. *IntelliNews,* August 24, 2007.

pacity of 40 billion cubic meters to deliver gas from Kazakhstan and Turkmenistan to China. The gas pipeline will start in Xinjiang and will split into two branches near Shymkent in southern Kazakhstan. One branch will go through Uzbekistan to Turkmenistan, and the other will go to gas fields in southwestern Kazakhstan.[176]

Turkmenistan-China Energy Ties.—Although Turkmen-Chinese energy relations were minor compared to Turkmen-Russian ties, China reportedly provided a $12 million loan in the late 1990s to Turkmenistan's state-owned Turkmennebit oil firm and Turkmengaz gas firm to purchase Chinese drilling and hoist equipment and spare parts. In 2003, China provided a $1.875 million grant and a $3.6 million loan (for 20 years with no interest) to develop Turkmenistan's gas industry.[177] Indicative of stepped-up relations, Niyazov visited China in April 2006 and the two countries signed general accords to construct a gas pipeline for the export of 30 billion cubic meters of Turkmen gas to China. China also pledged new preferential loans. CNPC signed a $150 million service contract with Turkmenistan in May 2007 for drilling and exploration work at the Gunorta Eloten oil and gas field. According to some estimates, the Gunorta Eloten oil and gas field may contain reserves of 7 trillion cubic meters of natural gas. In July 2007, visiting Turkmen President Berdymuhammedow and President Hu Jintao witnessed the signing of a gas sales and purchase agreement between CNPC and the Turkmen State Agency for the Management And Use Of Hydrocarbon for the supply of 30 billion cubic meters of gas per year for the period 2009–2038. The two sides also signed a production sharing agreement to develop the Bagtyyarlyk area in eastern Turkmenistan, near the Uzbek border.

China and Uzbekistan signed an inter-governmental agreement in May 2007 on the construction of the 330-mile Uzbek section of the Turkmenistan-China gas pipeline. A working group was set up to complete a feasibility study by the end of the year. In August 2007, China's Eximbank agreed to lend Uzbekistan $177.9 million for oil and gas projects.[178] In late 2007, CNBC and the state-owned Uzbekneftegas oil and gas firm began exploring five areas of Uzbekistan.

FOREIGN ASSISTANCE

There are no official Chinese data on grant assistance to Central Asia. Most assistance to Central Asia has been in the form of concessionary loans, in most cases to governments and joint ventures to finance the purchase of Chinese equipment and services. Most observers have suggested that Chinese grant assistance to Central Asia has been greatly eclipsed by that given by the United States and other donors. In some categories, however, Chinese assistance may be notable, particularly educational exchanges.

---

[176] *CEDR,* August 18, 2007, Doc. No. CEP-950135; September 7, 2007, Doc. No. CEP-950287. Some Russian observers viewed the Summer 2007 Chinese oil and gas agreements with Kazakhstan and Turkmenistan as representing the "breakaway" of the two states from Russian influence. *CEDR,* August 1, 2007, Doc. No. CEP-380002. China also has taken part in the building of the Moyinake hydropower station in Almaty, a project of China and Kazakhstan. When the plant opens, it will transport part of the electricity to Xinjiang.

[177] *CEDR,* December 28, 2003, Doc. No. CEP-62; December 25, 2003, Doc. No. CEP-67.

[178] *CEDR,* August 22, 2007, Doc. No. CEP-950253.

Educational and cultural exchanges have been stepped up, both bilaterally and under the aegis of the SCO. Confucius Institutes have been set up and funded in Kazakhstan, Kyrgyzstan, and Uzbekistan, among the scores established worldwide since 2004 to foster Chinese language and culture. Russia and China seemed to compete at the August 2007 SCO summit in offering educational exchanges, with China offering to boost the number of exchanges and President Putin perhaps countering by calling for setting up an SCO University. In September 2007, Turkmen President Berdimuhamedow praised China for greatly boosting the number of Turkmen students admitted to study at leading Chinese universities.[179]

Among reports of Chinese grant assistance to Central Asia, several appear to involve security assistance. According to one U.S. analyst, these grants are indicative of China's increased military diplomacy activities in developing countries worldwide since the early 2000s. Examples in Central Asia include uniforms for the Tajik armed forces, 20 jeeps for Kyrgyzstan's Ministry of Public Security, and 40 all-terrain vehicles for the Kazakhstan military.[180] According to a report by Agence Presse France, "Since 1993 China has given more than $30 million to [Tajikistan] in technical aid for the Tajik police and army." Turkmen media reported in July 2006 that China had provided a $2.5 million grant to the Turkmen State Customs Service for the delivery of a mobile customs inspection system. Kyrgyz Television reported in September 2006 that the Kyrgyz National Guard received a technical assistance grant in the form of cars and barracks worth about $245,000 from the Chinese People's Armed Police Force. In March 2007, the Chinese Ministry of State Security provided computers, printers, laptops, video cameras, riot gear, night vision devices, and other equipment worth $321,000 to Kyrgyzstan's Interior Ministry. In May 2007, China provided crime detection equipment and training "as a gift" to the Uzbek Ministry of Internal Affairs.[181]

IMPLICATIONS FOR CENTRAL ASIA

Many analysts have viewed the growing Chinese diplomatic, economic, and security influence in the Central Asian states as enhancing their development and stability. They argue that Chinese interests are not hegemonic but are limited to mainly market- and security-related goals.[182] These analysts also tend to view China's growing presence in the region as not greatly restricting the interests of Russia or the United States, since the developmental needs of the region are vast. The growth of regional trade and transport

---

[179] *CEDR,* September 14, 2007, Doc. No. CEP-950354.

[180] Phillip C. Saunders, China's Global Activism: Strategy, Drivers, and Tools, National Defense University Press, Washington, D.C., October 2006.

[181] *CDR,* June 24, 2006, Doc. No. CPP-52012; *CEDR,* July 16, 2006, Doc. No. CEP-950034; September 2, 2006, Doc. No. CEP-950039; May 26, 2007, Doc. No. CEP-950137.

[182] According to analyst Martha Olcott, China's main interest is energy ties with the region, and the SCO as a vehicle for building such ties does not today pose "any direct threat to U.S. interests in Central Asia or in the region more generally." United States Commission on Security and Cooperation in Europe (Helsinki Commission), Testimony by Martha Olcott, The Shanghai Cooperation Organization: Is it Undermining U.S. Interests in Central Asia? September 26, 2006.

with China provides the states more freedom of choice in their trade relations with Russia and other countries.[183]

Other observers view the growing Chinese presence as ultimately harmful to the independence and development of the Central Asian states (see below). They also view China's growing influence as coming at the expense of Russian and U.S. influence. Given Russia's traditional hegemonic role in the region, these analysts stress that Russian and Chinese policy will inevitably clash. Many of these observers view Russia as ultimately losing some or most influence in the region.[184]

Human Rights

Most analysts maintain that China's poor human rights record serves as a poor model for the Central Asian states. According to the U.S. State Department, China continues to commit human rights abuses against the Uighurs and encourages the Central Asian states to limit the rights of the Uighurs.[185] China and the regional states, with the possible exception of Kyrgyzstan, fear that democratization will be destabilizing, and they may exaggerate Islamic extremism in order to crack down on democratization demands. China raised concerns in 2005 that Kyrgyzstan's "tulip revolution" that deposed long-time president Askar Akayev would be destabilizing, and a major goal of Kyrgyz President Bakiyev's June 2006 visit to China was to assure his hosts that his government would maintain domestic order. At the end of a visit by China's Premier Wen Jiabao to Uzbekistan in November 2007, a communique issued by the two sides affirmed that "the Chinese side opposes any intervention in Uzbekistan's internal affairs in the name of 'human rights.'"[186]

Reflecting the view that China is a poor human rights example for Central Asia, Sen. Sam Brownback warned at a hearing in September 2006 that "a further rise in SCO influence can only encourage the governments of Central Asia in more repressive and less reformist policies that will contribute to the growth of regional extremism and the terrorism that the SCO was founded to combat."[187] In his testimony at the hearing, analyst Sean Roberts of Georgetown University suggested that one reason why the Central Asian states joined the SCO was to jointly oppose the OSCE's efforts to foster free and fair elections in the region.

---

[183] Trade leverage was stressed in one Hong Kong publication which argued that Turkmenistan's 2006–2007 agreements on supplying gas to China are "an opportunity" for the country "to free itself from Russia's stranglehold over its gas export markets." *Asia Sentinel,* September 7, 2007.

[184] According to Kazakh analyst Venera Gallamova, "neither the course of the geopolitical contest, nor the probable deviations from the policy of certain Central Asian republics . . . will be able to break the general trend toward China becoming the main regional nation." "Central Asia and China: New Horizons of International Regionalization," *Central Asia and the Caucasus,* No. 3 (2007), p. 86. Similarly, Russian analyst Aleksandr Khramchikhin has argued that Kyrgyzstan and Tajikistan, the most economically fragile states in the region, "can only await their fate. It will be decided by Moscow and Beijing, with some input from Astana. Most likely, the strongest and most pragmatic country's concept will prevail. That is the Chinese side." *CEDR,* August 22, 2007, Doc. No. Doc. No. CEP-25001.

[185] U.S. Department of State, Country Reports on Human Rights Practices for 2006. Washington, D.C.: Government Printing Office, Mar. 6, 2007.

[186] *CDR,* November 3, 2007, Doc. No CPP-73005.

[187] Helsinki Commission, Opening Statement by Co-Chairman Sen. Sam Brownback, The Shanghai Cooperation Organization: Is it Undermining U.S. Interests in Central Asia? September 26, 2006.

Environment

Central Asia's environmental concerns with China include the diversion of water resources, the spread of wind-blown dust, and damage associated with the activities of Chinese energy firms. Efforts to cooperate in the use of water resources and to ameliorate sandstorms remain rudimentary, according to many observers. China's efforts to divert Irtysh River water to its Xinjiang region have raised concerns in Russia and Kazakhstan and resulted in negotiations. Kazakhstan also has raised concerns about China's increasing use of water from the Ili River, which drains into Kazakhstan's Lake Balkhash. If the water level in the lake—the third largest water body in Central Asia—greatly decreases, some observers warn, the regional climate could be harmed.[188] Chinese firms reportedly had considered participating in building a dam on the Zarafshon River in Tajikistan for hydro-electricity production. After Uzbekistan raised concerns that downstream water flows would be disrupted, however, Chinese firms allegedly decided not to participate.[189]Efforts to ameliorate sandstorms in Central Asia and China require cooperation with other possible sources of dust, including Mongolia.[190]

China's major energy firm, CNPC, has followed the examples of other foreign energy firms in Kazakhstan of stressing that it adheres both to the letter and spirit of environmental laws. CNPC carries out environmental protection work in communities near its facilities and claims that it is more protective of the environment than other foreign oil and gas companies. In late 2006, a Kyrgyz official alleged that Chinese gold mining had polluted river water in southern Kyrgyzstan.[191]

Sustainable Development

Observers disagree about the ultimate effects of Chinese economic influence in Central Asia. Some view China as an engine of economic modernization and globalization in the region. As economic growth accelerates in the region, Xinjiang also benefits economically, and the poverty that could contribute to disorder fades away, according to these observers. They endorse China's efforts to build trade and transport links as a major driver in the integration of Central Asia. For instance, plans for building the Turkmen gas pipeline through Uzbekistan may also have contributed to similar Turkmen-Uzbek initiatives on railways and roads, these observers suggest. Similarly, China's efforts to encourage accession by all the states to the World Trade Organization (Kyrgyzstan already is a member) promises to foster regional trade as well as better access to world markets.

Other observers view China as vitiating economic development in Central Asia, with the region becoming merely a natural resource base and a market for Chinese goods. One group of analysts

---

[188] U.N. Economic and Social Commission for Asia and the Pacific, "Central Asia and the Caucasus," State of the Environment in Asia and the Pacific 2005, April 2006, p. 202; Marina Kozlova, "Kazakhstan: China's Draining of Kazakh Lake Imperils Region," Inter Press Service/Global Information Network, November 6, 2006.

[189] *CEDR,* August 1, 2007, Doc. No. CEP-950066; October 4, 2007, Doc. No. CEP-950294.

[190] He Sheng and Xiao Guo, "Scientists Chart Route of Fierce Sandstorms," *China Daily,* January 28, 2003.

[191] *CEDR,* October 3, 2007, Doc. No. CEP-950386.

warned that "if the present trend continues, with Central Asia serving mainly as a natural resource base for China and Russia, it will erode the region's processing industries and drain capital."[192] One Kazakh newspaper called for Kazakh officials to negotiate a trade agreement with China that would encourage the domestic development of light industry and food production by limiting Chinese exports in these sectors. Concerns also have been raised that the repayment of Chinese loans, even at low rates of interest, could become a burden to regional governments. These observers also assert that by stressing authoritarianism, China ultimately discourages the development in the region of sustainable market economies based on the rule of law.[193]

Constraints on Chinese Influence

Constraints on the growth of Chinese economic influence in Central Asia include the poor transportation, banking, communications, and other infrastructure in much of the region and the massive investments that must be made to upgrade them. Some potential Chinese investors also have complained that regional governments remain somewhat hostile or indifferent to the development of free market economies. Managerial and other skills necessary for building market economies remain in short supply. High levels of crime and corruption also create risks for Chinese investment. Chinese analyst Zhao Changqing claims that another constraint is China's current inability to offer as much foreign aid in grant form as Western countries.[194] In the security realm, the Central Asian states remain largely dependent on Russia for military and other equipment and training, and Russia retains military bases and facilities in Kazakhstan, Kyrgyzstan, and Tajikistan.[195] Central Asian elites also remain linked to Russia by language and culture, since many were trained in Soviet-era schools and speak the Russian language. Reportedly, there are region-wide shortages of Chinese translators to facilitate communications.

Another possible constraint on the growth of Chinese influence in Central Asia may be residual suspicions among the region's elites and populations about China's intentions, perhaps partly based on ethnic prejudices and on memories of heightened Sino-Soviet tensions that culminated in border clashes in 1969.[196] Some observers have suggested that such sentiments were in evidence during the unrest of Kyrgyzstan's "tulip revolution" in March 2005, during which some Chinese businesses were attacked. Kubanychbek Apas, cochairman of the El Jurt civic movement and 2005 presidential candidate in Kyrgyzstan, appeared to raise suspicions of China's intentions in August 2007 when he criticized the SCO as a Chinese

---

[192] Niklas Swanstrom, Nicklas Norling, and Zhang Li, "China," p. 413.

[193] *CEDR,* September 7, 2007, Doc. No. CEP-950007; Ablat Khojaev, *Central Asia and the Caucasus,* No. 3 (2007).

[194] *CDR,* July 30, 2007, Doc. No. CPP-508001. The United States has been the largest provider of grant assistance to Central Asia, amounting to $4.05 billion from fiscal year 1992 through fiscal year 2006, followed by the European Union's approximately 1.39 billion euros ($2.13 billion at current exchange rates).

[195] According to analyst Roger McDermott, the Central Asian states would be less likely to ask China (under the aegis of SCO membership) than Russia (under the aegis of membership in the Collective Security Treaty Organization) for military support in case of a terrorist incident, partially because of the availability of elements of the Rapid Deployment Forces of the CSTO based in Kyrgyzstan. The Rising Dragon: SCO Peace Mission 2007.

[196] Helsinki Commission, Testimony by Martha Olcott, September 26, 2006.

tool for expansionism and reportedly asserted that "we believe that Kyrgyzstan will shortly be swallowed up by this Chinese Yellow Dragon."[197] Kyrgyz popular concerns about Chinese traders appeared evident in a regulation issued by the government in January 2007 that would sharply limit the role of foreigners in trade activities (similar to a regulation that Russia had put in place). The Chinese embassy criticized the regulation as possibly harming 4,000–5,000 Chinese traders.[198]

The treatment by China of its ethnic populations of Uighurs, Kazakhs, and Kyrgyz, including allegations that ethnic Han are favored by Chinese authorities to trade with Central Asia, may also contribute to popular concerns in Central Asia.[199] Tensions associated with Chinese workers may have been evident in Kazakhstan in August 2007 when about 300 Kazakh workers took part in a strike at the Janajol oilfield against their employer, a Chinese-Kazakh joint-stock company, claiming that their demands to obtain pay and living conditions equal to that provided to the Chinese workers were not being addressed.[200]

Some analysts suggest that trans-border terrorism and organized crime activities such as drug and arms trafficking may contribute to regional hesitancy to substantially ease controls on trans-border trade and travel, and that such controls may somewhat delay China's drive for commercial dominance in Central Asia.[201] Reflecting organized crime concerns, one Kazakh analyst complained that the government still had not been able to wrest control over goods transportation from crime networks, even after many Kazakh customs and other officials had been arrested in 2005.[202]

Analyst Svante Cornell of Johns Hopkins University argues that while China is interested in Central Asia as an energy source and as a commercial market, the region is not China's top national security priority, so it does not seek regional hegemony. He states that "China's security challenges lie to the East, with the Taiwan issue looming large over its foreign policy, and relations to the Korean peninsula and Japan following closely."[203]

IMPLICATIONS FOR U.S. INTERESTS

U.S. policy has emphasized bolstering the security of the Central Asian states to help them combat terrorism, proliferation, and arms trafficking. Other strategic U.S. objectives have included promoting free markets, democratization, human rights, and energy development. Such policies aim to help the states become what the Administration considers to be responsible members of the international community rather than to degenerate into xenophobic, extremist, and anti-Western regimes that threaten international peace and stability.

---

[197] *CEDR,* August 22, 2007, Doc. No. CEP-311001.

[198] *CEDR,* November 24, 2006, Doc. No. CEP-950189. A law passed by the Kyrgyz legislature in April 2007 similarly aimed to sharply limit the number of work permits granted to foreigners.

[199] Sabastien Peyrouse, "The Economic Aspects of the Chinese-Central Asia Rapprochement," p. 12.

[200] *CEDR,* August 17, 2007, Doc. No. CEP-950205; January 10, 2007, Doc. No. CEP-950253.

[201] Niklas Swanstrom, Nicklas Norling, and Zhang Li, "China," p. 410.

[202] *CEDR,* August 3, 2006, Doc. No. CEP-950264; January 20, 2006, Doc. No. CEP-311003.

[203] Svante Cornell, "The United States and Central Asia: In the Steppes to Stay?,"*Cambridge Review of International Affairs,* Vol. 17, No. 2 (July 2004).

The Administration's diverse goals in Central Asia have reflected the differing characteristics of these states. U.S. interests in Kazakhstan have included securing and eliminating Soviet-era nuclear and biological weapons materials and facilities. U.S. energy firms have invested in oil and natural gas development in Kazakhstan and Turkmenistan. Economic and democratic reforms and border security have been among U.S. concerns in Kyrgyzstan. In Tajikistan, U.S. aid has focused on economic reconstruction following that country's 1992–1997 civil war. U.S. relations with Uzbekistan suffered following the Uzbek government's violent crackdown on armed and unarmed protesters in the city of Andijon in May 2005.

The United States has encouraged the Central Asian states to become responsible members of the international community, supporting integrative goals through bilateral aid and through coordination with other aid donors. The stated policy goal is to discourage radical anti-democratic regimes and terrorist groups from gaining influence. All the Central Asian leaders publicly embrace Islam but display hostility toward Islamic fundamentalism. At the same time, they have established some trade and aid ties with Iran. Although they have had greater success in attracting development aid from the West than from the East, some observers argue that, in the longer run, their foreign policies may not be anti-Western but may more closely reflect some concerns of other Islamic states. Some Western organizational ties with the region have suffered in recent years, in particular those of the OSCE, which has been criticized by some Central Asian governments due to its emphasis on democratization and respect for human rights.[204]

After September 11, 2001, all the Central Asian states soon offered overflight and other assistance to U.S.-led anti-terrorism efforts in Afghanistan. The states were predisposed to welcome such operations. Tajikistan and Uzbekistan had long supported the Afghan Northern Alliance's combat against the Taliban, and all the Central Asian states feared Afghanistan as a base for terrorism, crime, and drug trafficking (even Turkmenistan, which tried to reach some accommodation with the Taliban). The United States established two bases in the region, one at the town of Karshi-Khanabad in Uzbekistan and another just outside Kyrgyzstan's capital of Bishkek at the Manas international airport.

In early July 2005, the presidents of China, Russia, Uzbekistan, Kyrgyzstan, and Tajikistan signed a declaration issued during an SCO Summit that called for the eventual closure of U.S. and NATO military bases in Central Asia used for operations in Afghanistan (see above, SCO). Despite this declaration, none of the Central Asian leaders immediately called for closing the bases. However, after the United States and others interceded so that refugees who fled from Andijon to Kyrgyzstan could fly to Romania, Uzbekistan on July 29 demanded that the United States vacate Karshi-Khanabad within six months. On November 21, 2005, the United States officially ceased operations to support Afghanistan at

[204] See also CRS Report RL30294, Central Asia's Security: Issues and Implications for U.S. Interests, by Jim Nichol.

Karshi-Khanabad. Many activities at Karshi-Khanabad shifted to the Ganci airbase in Kyrgyzstan.

Some observers view the closure of the base and souring U.S.-Uzbek relations as setbacks to U.S. influence in the region and as gains for Russian and Chinese influence. Others suggest that U.S. ties with other regional states provided continuing influence and that U.S. criticism of human rights abuses might pay future dividends among regional populations.[205] Among the observers with the former view, Niklas Swanstrom of Uppsala University in Sweden asserts that China intends to create what "could be compared to a classical vassal relationship . . . This can be seen in the aggressive investment, military and political initiatives in the region . . . " He thinks that China will gain influence at Russia's expense, and that the United States will be able to retain a presence in the region.[206] On the other hand, analyst Stephen Blank of the U.S. Army War College seemingly views Russia as gaining influence in the region at the expense of China (although both are mostly cooperating in the near term in efforts to push the United States out).[207]

China's attitude toward a continuing U.S. military presence in the region remains a subject of debate. China benefited from the U.S.-led coalition actions in Afghanistan against the Islamic Movement of Uzbekistan (IMU) terrorist group and the Taliban, since these groups had been providing training and sustenance to Uighur extremists. The United States also supported China's efforts to combat terrorism in the region by designating the ETIM as a terrorist group. Although China supported the SCO declaration that called for eventually closing coalition bases in Central Asia (see above), some observers view China as opposing Russia's calls for the SCO to become more stridently anti-American.[208] On the other hand, analyst Roger McDermott of the Jamestown Foundation argues that China and Russia support SCO military exercises as demonstrations to the Central Asian states that the U.S. security presence in the region is no longer necessary.[209]

Some analysts have viewed apparent U.S. setbacks in the region—and putative gains by Russia and China—as reflecting regional disappointment with low levels of U.S. assistance after expectations in the region were raised by U.S. expressions of support after 9/11. According to this argument, Uzbekistan expected a substantial increase in U.S. economic and military assistance after it granted basing privileges at Karshi-Khanabad, and was disappointed by the actual amounts granted.[210] This disappointment,

---

[205] On growing Chinese regional influence, see Michael Mihalka, "Counter-insurgency, Counter-terrorism, State-Building and Security Cooperation in Central Asia," *The China and Eurasia Forum Quarterly,* May 2006.

[206] Niklas Swanstrom, Journal of Contemporary China, p. 584

[207] Stephen Blank, U.S. Interests in Central Asia and the Challenges to Them, Strategic Studies Institute, U.S. Army War College, March 2007.

[208] *CDR,* August 18, 2007, Doc. No. CPP-94003. Sheives and Olcott state that it is incorrect to view the SCO as a military alliance opposed to NATO. Kevin Sheives, "China Turns West: Beijing's Contemporary Strategy," Pacific Affairs, June 22, 2006; Helsinki Commission, The Shanghai Cooperation Organization: Is it Undermining U.S. Interests in Central Asia? Testimony by Martha Olcott, September 26, 2006.

[209] Roger McDermott, The Rising Dragon: SCO Peace Mission 2007.

[210] The United States provided $239.78 million in assistance to Uzbekistan in FY2002 (FREEDOM Support Act and agency budgets), $83.46 million in FY2003, $85.44 million in FY2004, and $75.87 in FY2005. U.S. Department of State, Office of the Coordinator of Assistance to Eu-

Continued

along with U.S. criticism of human rights conditions in Uzbekistan, may have spurred Uzbekistan to re-evaluate its ties with the United States (and the EU) and to improve its ties with China and Russia. This process may have begun even before the civil unrest in the city of Andijon in May 2005 (that led to U.S. and EU criticism of the Uzbek government's crackdown), as evidenced by a joint declaration on strengthening cooperation and friendship signed in June 2004 by visiting President Hu Jintao and President Karimov.

U.S. officials appear to view the SCO with caution. In his testimony at a hearing in September 2006, Assistant Secretary of State Richard Boucher stated that the United States had not asked to participate in the SCO, and that "in terms of our cooperation with the region, we don't think this is a particularly helpful organization. It's certainly not one that we would want to back, or sponsor, or promote in any way. We think our money, our energy, our time is better invested in working with the individual countries and working with the organizations that take a broader view, the NATO, the OSCE, the European Union, other partners, Japan, working with them in the region, people who are interested in all aspects of cooperation in that region."[211]

Deputy Assistant Secretary of State Evan Feigenbaum appeared to take a more equivocal position about the role of the SCO in a talk in September 2007, where he stated that "we in the United States are still struggling to sort fact from fiction, to distinguish statements from actions, and to differentiate what is 'good' for our interests from what might be rather less productive." He discounted speculation that the SCO is a "new Warsaw Pact" (a former Soviet-East European security alliance), because the Central Asian states cooperate militarily with the United States and participate in NATO's Partnership for Peace initiative. He also stressed that the United States has trade and investment ties with the Central Asian states. He stated that the United States hopes that China and Russia as members of the SCO are not colluding against a U.S. presence in Central Asia. Instead, he called for SCO members to help Afghanistan develop economically and to embrace an "open, market-based approach to global energy supply and security," rather than attempting to form an energy cartel.[212]

Several U.S. officials and analysts argue that the United States should continue to stress cooperation among Russia, China, the EU, and other outside powers in assisting the Central Asian states to develop and safeguard their independence and security.[213] Svante Cornell argues that the United States should attempt to assuage China's "alarmist" thinking that the U.S. military presence in Central Asia is aimed at containing China by stressing that the presence is part of the larger Global War on Terrorism, which aids

---

rope and Eurasia, U.S. Government Assistance to and Cooperative Activities with Eurasia, FY2002–FY2005 annual reports.

[211] Testimony by Assistant Secretary of State Richard A. Boucher, Bureau of South and Central Asian Affairs, Hearing, The SCO: Is It Undermining U.S. Interests in Central Asia? September 26, 2006.

[212] Evan Feigenbaum, Deputy Assistant Secretary of State for South and Central Asian Affairs, The Shanghai Cooperation Organization and the Future of Central Asia, The Nixon Center, September 6, 2007.

[213] The argument that world powers should cooperate rather than compete in the development of Central Asia was emphasized by former Deputy Secretary of State Strobe Talbott, A Farewell to Flashman: American Policy in the Caucasus and Central Asia, Address at the Johns Hopkins School of Advanced International Studies, July 1997.

China's security.[214] Among the Central Asian policies on which the United States and China diverge, the most prominent have been those on democratization goals and respect for human rights. Some observers suggest that the United States reduce the priority it places on these goals in order to emphasize cooperation with China and Central Asia on the GWOT and other common interests. Others, however, argue that uncritical U.S. relations with the region's authoritarian regimes undermine long-term U.S. interests in democratization and respect for human rights. The United States also diverges somewhat with China by stressing the development of multiple trade and transport links from the region to the outside world, including South Asian and trans-Caspian energy links, while China emphasizes its own links to the region.[215]

---

[214] Svante Cornell, "The United States and Central Asia: In the Steppes to Stay?," p. 251.

[215] Analyst Ariel Cohen of the Heritage Foundation urges that the United States seek cooperation with India, China, and Pakistan "to create alternatives to the Russian energy transit monopoly by establishing new energy transit routes (pipelines, shipping lines, and railroads) that head west and, in some cases, east and south." U.S. Interests and Central Asia Energy Security, Heritage Foundation, Backgrounder No. 1984, November 15, 2006.

SOUTHEAST ASIA[216]

OVERVIEW

For many analysts, China's growing influence or soft power in Southeast Asia is largely economic, stemming from its rapidly expanding role as a major source of foreign aid, trade, and investment. The PRC has also wielded power in the region through diplomacy and, to a lesser extent, admiration of China as a model for development and ancient culture, and an emphasis on "shared Asian values." In addition, overseas Chinese communities have long played important parts in the economies, societies, and cultures of Southeast Asian states. Along with offering economic inducements, China has allayed concerns that it poses a military or economic threat, assured its neighbors that it strives to be a responsible member of the international community, and produced real benefits to the region through aid, trade, and investment.[217]

China may be gaining on the United States in the areas of cultural and political soft power as well, at least in some countries in the region. A 2007 Pew Research poll found that only 29% of Indonesians and 27% of Malaysians polled had a favorable view of the United States as opposed to 83% of Malaysians and 65% of Indonesians who had favorable views of China. Americans themselves are more popular than their country, with 42% of Indonesians having a favorable view towards Americans in 2007. The figure for Indonesia is up slightly from a favorable view of only 15% in 2003 but remains well below the 2000 rate of 75%.[218] One striking exception to this trend is the Philippines, which ranks first in the world in trusting the United States to act responsibly in global affairs, according to a 2007 survey.[219] Such trends in polls led Joseph Nye to state that " . . . although China is far from America's equal in soft power, it would be foolish to ignore the gains it is making. ..It is time for the U.S. to pay more attention to the balance of soft power in Asia."[220]

China has sought to boost its economic and trade relations with the 10 countries that comprise the Association of Southeast Asian Nations (ASEAN).[221] According to U.S. and Chinese trade data, Chinese total trade (exports and imports) with ASEAN exceeded that of the United States in 2007 for the first time since ASEAN was established (1967). A free trade agreement (FTA) between China and ASEAN, signed in 2002, and currently being imple-

---

[216] Prepared by Bruce Vaughn, Specialist in Asian Affairs; Thomas Lum, Specialist in Asian Affairs; and Wayne Morrison, Specialist in International Trade and Finance, Foreign Affairs, Defense, and Trade Division, CRS.

[217] In the Southeast Asian context, Chinese "soft power" can include "economic benefits, shared norms and values, cooperation on nontraditional issues, infatuation with the new China, the mutual benefits of tourism and education, diplomacy and style, and networking and reciprocal obligations within ethnic Chinese communities." See Bronson Percival, The Dragon Looks South: China and Southeast Asia in the New Century, (Westport: Praeger Publishers, 2007), pp.111–112. See also Hugo Restall, "China's Bid for Asian Hegemony," *Far Eastern Economic Review,* May 2007.

[218] The Pew Global Attitudes Project, "Global Unease with Major Powers," June 2007.

[219] "Filipinos Rank High in Supporting the U.S. in World Affairs, According to 18-Nation Survey," Social Weather Stations (Manila), June 2007.

[220] Joseph Nye, "The Rise of China's Soft Power," *Wall Street Journal,* December 29, 2005.

[221] ASEAN members include Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar (Burma), and Vietnam. Note: Cambodia was not a Member of ASEAN until 1999. For the sake of consistency, we included data for Cambodia in the 1997 data.

mented (2005 2015), will likely boost economic ties further. Many U.S. analysts have expressed concern that China's growing economic ties will enhance its influence in the region at the expense of U.S. interests, and some have called on the United States to pursue an FTA with ASEAN or with more of its members.

DIPLOMACY

China's posture in Southeast Asia has undergone a transformation in the past decade. The PRC's support for various communist insurgencies in the region during the Cold War, its military response to Vietnam's incursion into Cambodia in 1979, and its forceful claims to disputed islands in the South China Sea during the 1990s, created strains with its neighbors in the region. However, since the Asian financial crisis of 1997, China increasingly has emphasized mutual benefits, or soft power over hard power or the threat of hard power, in its relations with Southeast Asian states. In 1997, during the Asian financial crisis, China won praise in the region when it refrained from devaluing its currency, which helped to stabilize the region's economy. In 2002, China and other claimants to disputed islands signed an agreement and a Declaration on the Conduct of Parties in the South China Sea, which greatly reduced tensions on this issue. While there is a general agreement that China's tactics have changed to a more accommodating posture with an emphasis on soft power, there is less certainty regarding its implications and whether China's goals have changed accordingly.

Bilateral and Sub-Regional Relations

An analysis of China's bilateral relations with Southeast Asia leads to a sub-regional division between its relatively more influential position with mainland Southeast Asian states, particularly Burma, Cambodia, and Laos, and its relatively less influential position with maritime Southeast Asian states (Indonesia, the Philippines, and Singapore).[222] Thailand, a major non-NATO ally of the United States, while more independent than Burma, Laos, and Cambodia, appears to be relatively more comfortable with close relations with China than other regional states. Muslims in the region (Indonesia, Malaysia) look not so much to China as they do to the rest of the Muslim world for models outside their national settings. Given that Muslims represent approximately half the population of Southeast Asia, and are concentrated in maritime Southeast Asia, this should place limits on the extent of Chinese influence there. Vietnam's unique historical relationship with China, which includes past domination by China and a more recent border war, will also place limits on the extent to which those two nations will likely come together. Singapore, the most strategic thinking and trade dependent state in the region, has promoted a balanced approach to the involvement of great powers in its region.

A core difference between China's and America's soft power in Southeast Asia is the organizing principle of their respective approaches. Both countries' foreign policy approaches to the region reflect an array of priorities including geopolitical, security, and trade

[222] Percival, *op. cit.*

interests. That said, the U.S. approach includes an emphasis on democracy and related objectives along with its main theme of promoting U.S. security interests. By contrast, China's "non-interference" policy is less intrusive in the domestic affairs of regional states. While this approach may not garner widespread admiration, it is more palatable to relatively authoritarian regimes in the region, and sometimes earns public appreciation because it appears respectful of national sovereignty.

China's changed bilateral relations with Australia are an interesting parallel to recent dynamics in Southeast Asia and demonstrate how the economic aspect of soft power can transform a bilateral relationship with a state that is a close treaty ally of the United States. Australia's strong economic growth in recent years has been to a large extent based on exports of raw materials to China. This has produced a reticence to adopt policies that could anger China. It has even led to some discussion of whether the Australia-New Zealand-United States (ANZUS) alliance pertains to potential future conflict over Taiwan. Australia clearly does not want to be forced to choose between its robust and important security alliance with the United States and its rapidly growing and lucrative trade with China.[223]

Regional Organizations

As discussed in the section on North East Asia, China has been an increasingly active player in multilateral organizations that include Southeast Asian states such as ASEAN plus three—ASEAN, China, Japan, and South Korea—and the East Asia Summit (EAS), which includes China, Japan, South Korea, India, Australia, and New Zealand, as well as the ASEAN states. The diplomacy surrounding the formation of the EAS in 2005 is particularly noteworthy. The lack of U.S. involvement with the EAS contrasts sharply with the central role that the United States has played in the Asia Pacific Economic Cooperation (APEC) group.[224]

The formation of the EAS also demonstrated the differing levels of comfort that ASEAN member states have with China. Some ASEAN states preferred bringing in India, Australia, and New Zealand as a non-American balance to Chinese influence. One factor that appears to be in China's favor is increased regional support for a "more Asia-oriented grouping." This reflects the desire on the part of some regional states for a more Asia-centered focus rather than a trans-Pacific group that would include the United States.[225] Movement in this direction can be traced back to former Prime Minister Mahathir Mohammad of Malaysia who, in the 1990s, advocated an Asian state-only grouping through the East Asia Economic Caucus.

---

[223] For further information, see: CRS Report RL33010, Australia: Background and U.S. Relations, by Bruce Vaughn.

[224] For further information, see: CRS Report RL33242, East Asia Summit (EAS): Issues for Congress, by Bruce Vaughn.

[225] Richard W. Hu "China and East Asian Community-Building: Implications & Challenges Ahead," The Brookings Institution, presentation on October 2, 2007.

A COMPARISON OF U.S. AND CHINESE ECONOMIC RELATIONS WITH ASEAN

Over the past decade, China's trade with ASEAN has expanded sharply in terms of trade volume, percentage increase, and size relative to U.S. trade levels. According to Chinese data, from 1997–2007, its exports to, and imports from, ASEAN countries grew by 642% and 777% respectively.[226] The importance of China to the economies of ASEAN in terms of trade, investment, and tourism has also increased sharply. These trends are expected to continue in the years ahead as economic ties continue to deepen as a result of the implementation of the China-ASEAN Free Trade Agreement (FTA) and other cooperative initiatives.[227] China's soft power in the region is expected to grow as Southeast Asian economies become more dependant upon or integrated with the PRC. While the United States remains an important partner for ASEAN in terms of trade, the relative importance of that trade to ASEAN has declined.

Comparing U.S. and Chinese Trade With ASEAN

According to PRC data, Chinese imports from ASEAN from 1997 to 2007 rose from $12.4 billion to $94.2 billion, while U.S. imports from ASEAN (according to U.S. trade data) grew from $71.0 billion to $111.2 billion (see Table 8, and Figures 19 and 20).[228] China's exports went from $12.7 billion to $94.2 billion, while U.S. exports increased from $48.3 billion to $60.6 billion. Total U.S. trade (exports plus imports) with ASEAN in 2006 was slighter larger than that of China's. However, in 2007, China's total trade with ASEAN was 17% larger than total U.S. trade ($200.6 billion versus $171.7 billion). China's exports to ASEAN in 2007 were 55.6% higher than those from the United States, while U.S. imports from ASEAN were 2.6% larger than China's imports.[229] Based on the fact that China's imports from ASEAN in 2007 grew by 21.1% (over the previous year), versus 12.4% for the United States, it is likely that China's imports from ASEAN will be larger than U.S. imports in 2008. China ran a $14.1 billion trade deficit with ASEAN, while the U.S. trade deficit totaled $50.6 billion.

Taken as a whole, ASEAN's rank as a destination for Chinese exports was 4th in 1997 and 2007, while ASEAN's rank for U.S. exports dropped from 4th in 1997 to 5th in 2007. As a source of Chinese imports, ASEAN's rank increased from 5th to 2nd, while its

---

[226] China's trade data often differ significantly with that of its trading partners, due in large part because of the way trade through Hong Kong is counted. China counts Hong Kong as the destination of its exports sent there, even goods that are then transshipped to other markets. By contrast, the United States and many of China's other trading partners count Chinese exports that are transshipped through Hong Kong as products from China, not Hong Kong, including goods that contain Hong Kong components or involve final assembly or processing in Hong Kong. See also CRS Report RS22640, What's the Difference—Comparing U.S. and Chinese Trade Data, by Michael F. Martin.

[227] In addition, both China and ASEAN continue to enjoy rapid economic growth. China's real GDP growth in 2007 was 11.4% and ASEAN's was an estimated 6.5%.

[228] China reports imports on a cost, insurance, and freight (CIF) basis, while the U.S. reports imports on a customs basis, which excludes the added cost of insurance, freight and other charges. If the U.S. reported imports on a CIF basis, it would raise the value of imports by about 10%.

[229] In comparison, in 1997, China's official reported exports to ASEAN were 26.3% as large as those by reported by the United States and its reported imports from ASEAN were 17.4% as large as U.S. imports.

rank for U.S. imports fell from 4th to 5th. The share of China's exports going to ASEAN grew from 7.0% to 7.7%, while the share of U.S. exports to ASEAN dropped from 7.0% to 5.2%. The share of China's imports from ASEAN rose from 9.0% to 11.3%, while the share of U.S. imports from ASEAN dropped from 8.2% to 5.7%.

Table 8. Chinese and U.S. Trade With ASEAN

	1997	2006	2007	2006–2007 Percent Change	1997–2006 Percent Change
China's Exports to ASEAN ($millions)	12,698	71,325	94,243	32.1	642.2
U.S. Exports to ASEAN ($millions)	48,468	57,307	60,560	5.7	35.3
China's Exports to ASEAN as a Percent of Total Exports (%)	7.0	7.4	7.7	—	—
U.S. Exports to ASEAN as a Percent of Total Exports (%)	7.0	5.5	5.2	—	—
China's Imports From ASEAN ($millions)	12,357	89,538	108,381	21.1	777.1
U.S. Imports From ASEAN ($millions)	70,981	111,201	111,171	12.4	56.6
China's Imports From ASEAN as a Percent of Total	9.0	11.3	11.3	—	—
U.S. Imports From ASEAN as a Percent of Total	8.2	6.0	5.7	—	—

Source: World Trade Atlas.
Note: Based on official Chinese and U.S. trade data.

Figure 19. U.S. and Chinese Exports to ASEAN: 1997–2007

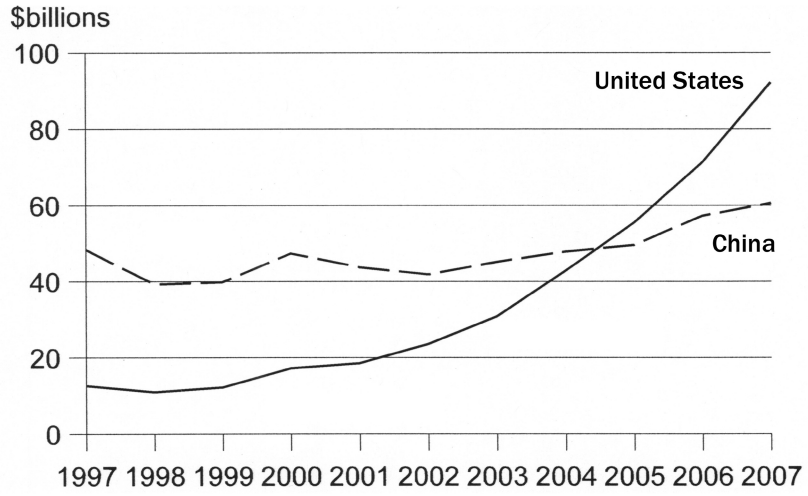
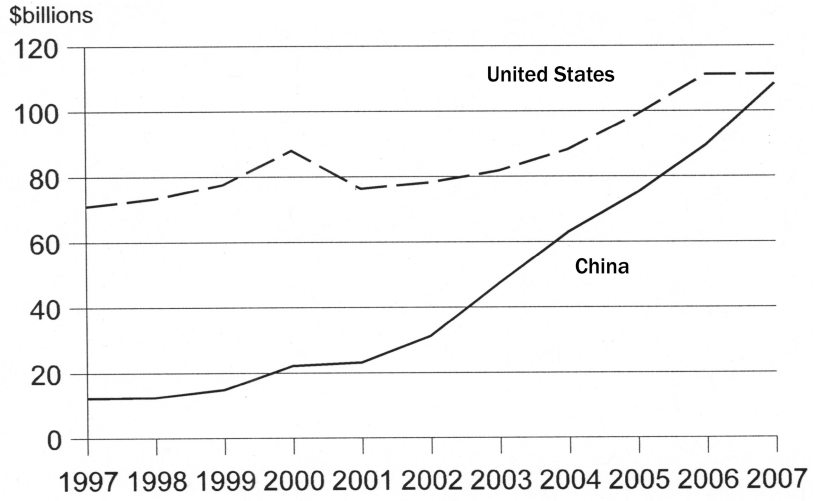


Figure 20. U.S. and Chinese Imports From ASEAN: 1997–2007



Energy

China's mineral fuel imports from ASEAN rose from $3.3 billion in 1997 to $8.3 billion in 2007. However, China's mineral fuel imports from ASEAN as a percent of China's total mineral fuel imports declined from 26.8% in 1997 to 7.7% over this period. Despite this drop, China has been active in developing ties with ASEAN countries on a number of energy related projects.[230] To illustrate:

- In January 2007, the Xinhua News Agency reported that China National Petroleum Corporation signed production sharing contracts with Myanmar's Ministry of Energy covering crude oil and natural gas exploration projects in three deepwater blocks off the western Myanmar (Burma) coast; Reuters reported that a Chinese oil company would join with two other foreign firms in investing $5.5 billion to produce biofuels in Indonesia; and Dow Jones Chinese Financial Wire reported that the Vietnamese government had recently authorized state-owned PetroVietnam to begin joint oil and gas operations with China National Offshore Oil Corporation in the Gulf of Tonkin.
- In April 2007, the Xinhua News Agency reported that China would build a pipeline from the Myanmar (Burma) port city of Sittwe to Kunming, China to transport natural gas.
- In May 2007, BBC Monitoring reported that two Chinese firms planned to invest $343 million in an oil refinery and a gas processing plant in Pahang, Malaysia.

[230] Although China has pursued a number of energy related activities with various ASEAN countries, the PRC is also engaged in territorial disputes with some ASEAN countries (such as Vietnam, Malaysia, and the Philippines) over territory in the South China Sea that may contain oil and gas deposits.

- In June 2007, the Xinhua News Agency reported that China's National Offshore Oil Corporation signed a production-sharing contract with the Cambodian National Petroleum Authority to explore for oil and natural gas.
- In July 2007, Interfax China reported that Chinese oil companies planned to invest as much as $14 billion in Indonesia's oil and gas exploration sectors; and the Vietnam News Brief Services announced that the government planned to jointly build a $360 million oil refinery with China in Vietnam.
- In September 2007, the Xinhua News Agency reported that China would build an oil pipeline from Myanmar (Burma) to Chongqing, China.
- In December 2007, the Xinhua News Agency reported that China and Singapore had signed an agreement to begin joint research into energy-intensive plant hybrids for biofuels.

The Importance of China and the United States to ASEAN's Trade

From ASEAN's perspective, China is becoming a major trading partner. Using ASEAN data, China ranked as ASEAN's 5th largest trading partner in 2005 (the U.S. ranked 2nd) its 5th largest export market (the U.S. was 2nd) and its 3rd largest source of its imports (the U.S. ranked 4th).[231]

ASEAN data show total trade with the United States and China in 2006 at $174.4 billion and $143.8 billion, respectively.[232] As Table 9 indicates, ASEAN exports to China as a share of total ASEAN exports rose from 2.1% in 1995 to 8.9% in 2006 (while the U.S. share fell from 18.5% to about 13.9%).[233] The share of ASEAN's imports from China rose from 2.2% to 11.4% (while the share from the U.S. fell from 14.6% to 10.3%).[234]

Table 9. ASEAN Trade with the United States and China for 1995, 2000, and 2006 as a Percent of Total Trade (percent)

	1995	2000	2006
ASEAN IMPORTS (percent of total)			
United States	14.6	14.0	10.3
China	2.2	5.2	11.4
ASEAN EXPORTS (percent of total)			
United States	18.5	18.0	13.9
China	2.1	3.5	8.9

Sources: ASEAN Secretariat, 2005 and 2006 ASEAN Yearbook and International Monetary Fund, Direction of Trade Statistics, June 2007.

Notes: Data for 2006 do not include Laos and Myanmar (Burma); ASEAN trade data differ from that reported by its trading partners.

[231] Rankings for 2006 were not available. Note: ASEAN trade data differ from data reported by China and the United States.

[232] 2006 data exclude Laos and Myanmar (Burma).

[233] ASEAN data indicate that its 2006 exports to the United States and China were $105.5 billion and $67.6 billion, respectively.

[234] ASEAN imports from the United States and China in 2006 were $68.8 billion and $76.2 billion, respectively.

Foreign Direct Investment

Although the importance of the United States to ASEAN trade has declined somewhat relative to China, it is still a major source of ASEAN's foreign direct investment (FDI). From 2002–2006, U.S. FDI flows to ASEAN were $13.7 billion (or 8.0% of total), making the United States ASEAN's 4th largest source for FDI. Over this period, China's FDI totaled $2.3 billion or 1.3% of total, making China the 10th overall source of ASEAN's FDI (see table 10).[235] In 2006, U.S. FDI in ASEAN totaled $3.9 billion versus $937 million for China.

Tourism

According to ASEAN tourist data, China was the 3rd largest for source of tourist arrivals from 2001 to 2005 at 13.8 million, accounting for 6.2% of total. The United States ranked 8th at 9.8 million, accounting for 4.4% of total. In 2005, arrivals from China were 3.0 million versus 2.3 million from the United States.[236]

China's Efforts to Boost Economic Ties With ASEAN

China entered into Dialogue relations with ASEAN in 1991 and obtained full ASEAN Dialogue Partner status in 1996.[237] In 2000, Chinese officials suggested the idea of a China-ASEAN FTA. In November 2002, ASEAN and China signed the Framework Agreement on Comprehensive Economic Co-operation to create an ASEAN-China Free Trade Area (ACFTA) within 10 years.[238] In November 2004, the two sides signed the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China, which included a schedule of tariff reductions and eventual elimination for most tariff lines (beginning in 2005) between the two sides.[239]

Table 10. Major Foreign Investors in ASEAN: 2002–2006
(millions and % of total)

	2006		2002–2006 (Cumulative)	
	Value	Percent of Total	Value	Percent of Total
European Union	13,362	25.5	44,956	26.3
Japan	18,803	18.0	30,814	18.0
ASEAN	3,765	11.9	19,368	11.3
United States	3,865	7.4	13,736	8.0

[235] China estimates cumulative FDI from ASEAN through 2006 at $41.9 billion.

[236] According to Chinese data, from January-November 2006, 3.5 million tourists from ASEAN countries visited China.

[237] Current ASEAN Dialogue Partners include Australia, Canada, China, the European Union, India, Japan, South Korea, New Zealand, the Russian Federation, the United States, and the United Nations Development Programme.

[238] The agreement included an "early harvest" provision to reduce and eliminate tariffs on a number of agricultural products (such as meats, fish, live animals, trees, dairy produce, vegetables, and edible fruits and nuts). The agreement called for both parties to begin implementing the cuts beginning in 2004. Thailand negotiated an agreement with China to eliminate tariffs for various fruits and vegetables, effective October 2003.

[239] The ACFTA would implement most tariff reductions between China and the ASEAN 6 nations by 2010. Cambodia, Laos, Burma, and Vietnam would be able to maintain higher tariffs, but these would be phased out and completely eliminated by 2015.

Table 10. Major Foreign Investors in ASEAN: 2002–2006—Continued
(millions and % of total)

	2006		2002–2006 (Cumulative)	
	Value	Percent of Total	Value	Percent of Total
China	937	1.8	2,303	1.3
Total FDI in ASEAN	52,380	—	170,822	—

Source: ASEAN Secretariat.
Note: Ranked according to cumulative investment for 2002–2006.

For example, for the relatively more developed "ASEAN6" nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), tariff lines of over 20% are to fall to 20% in 2005, 12% in 2007, 5% by 2009, and zero by 2010. Tariffs between 15% and 20% are to fall to 15% in 2005, 8% in 2007, 5% by 2009, and zero by 2010. Certain "sensitive" products have longer phase-out periods.[240] ASEAN—China cooperation covers a variety of areas, including agriculture, information and communication technology, human resource development, two-way investment, Mekong Basin development, transportation, energy, culture, tourism and public health."[241] In January 2007, China and ASEAN signed the Agreement on Trade in Services of China-A SEAN Free Trade Area which is intended to liberalize rules on trade in services.

In a 2005 speech to commemorate the 15th anniversary of the China-ASEAN Dialogue relations, Chinese Premier Wen Jiabao listed four main conclusions that he drew from the growth in bilateral relations:

- Peaceful development is the prerequisite for the growth of China-ASEAN relations. Both sides pursue a policy of good neighborliness and friendship, see each other as cooperative partners and take each other's development as an opportunity, not a threat.
- Equality and mutual trust are the foundation of China-ASEAN relations. Both sides treat each other as equals and endeavor to develop consensus by seeking common grounds while putting aside differences.
- Win-win cooperation is the goal for China-ASEAN relations.
- People's support is the driving force behind China-ASEAN relations, in part because cooperation helps reduce poverty, narrow [the] development gap, speed up growth and delivers a better life.[242]

In 2006 Ong Keng Yong, Secretary General of ASEAN, described growing ASEAN-China economic ties this way:

> ASEAN views China as a close neighbor and an important Dialogue Partner with tremendous potential to offer. With its rapid economic growth and a population of about 1.3 billion people, China is a huge consumer of ASEAN products and also a source of future FDI to the region. In addition,

[240] Bureau of National Affairs, International Trade Reporter, October 6, 2005, p. 1590.
[241] A listing of agreements and declarations can be found on the Asean Secretariat's website at [http://www.aseansec.org/].
[242] Chinese Premier Wen Jiabao's speech at the China-ASEAN summit, Join Hands to Create A Better Future for China-A SEAN Relations, October 30, 2006.

ASEAN is benefiting from the large number Chinese tourists visiting the region and vice-versa.[243]

U.S. Efforts to Bolster Trade With ASEAN

In October 2002, the Bush Administration launched the Enterprise for ASEAN Initiative (EAI), with a stated goal of seeking closer economic ties with ASEAN countries, including the possibility of bilateral free trade agreements with countries that are committed to economic reforms and openness. A potential FTA partner would need to be a member of the World Trade Organization (WTO) and have concluded a Trade and Investment Framework Agreement (TIFA) with the United States, a forum designed to resolve major trade and investment disputes. The United States has signed TIFA agreements with Brunei, Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. It has an FTA with Singapore (effective 2004) and is the process of negotiating one with Malaysia. FTA talks with Thailand were suspended in 2006, due to the political crisis there and public opposition. On August 25, 2007 USTR Susan Schwab signed a TIFA agreement with ASEAN. In September 2007, President Bush met with seven ASEAN leaders attending the APEC summit in Australia and announced that the U.S. would nominate an ambassador to ASEAN.

FOREIGN AID

China's foreign aid has had a growing, tangible impact in many countries in Southeast Asia, although it is difficult to quantify, due to a lack of data and to the unique characteristics of Chinese assistance. In comparison to major bilateral donors in the region, China provides relatively little official development assistance (ODA) and lacks a formal system fordetermining development goals and allocating aid.[244] The PRC administers a wider range of economic assistance that includes non-development aid and low-interest loans, as well as trade and investment agreements. According to some analysts, when these kinds of assistance are added, China becomes one of the largest bilateral aid donors in Southeast Asia.

Furthermore, because China offers assistance without the conditions that other donors frequently place on aid (i.e. democratic reform, market opening, and environmental protections), it often garners appreciation disproportionate to the size of its aid, and thus has a large impact on recipient governments.[245] China's policy of "non-interference in domestic affairs" often wins friends not only among Southeast Asian governments but also by many peoples in the region because it is regarded as respectful of their countries' sovereignty.

Although PRC assistance reportedly is often not carried out as pledged, such aid, announced at lavish receptions with toasts to the

[243] "ASEAN-China Relations: Harmony and Development," by Ong Keng Yong, Secretary General of ASEAN, at a Commemorative Symposium to Mark the 15th Anniversary of China's Dialogue with ASEAN, December 8, 2006.

[244] The United States differs from other major aid donors in Southeast Asia such as Japan, European countries, and Australia, in that it provides not only ODA but also considerable security and military assistance, particularly to Indonesia and the Philippines.

[245] China's conditions on aid are often international rather than domestic—requiring aid recipients to support the "one-China" principle regarding Taiwan and China's agenda in the United Nations.

recipient countries, often carries great symbolic value.[246] Many PRC aid projects, such as government buildings, infrastructure, and energy facilities, often funded by loans from the China Import-Export Bank and built by Chinese companies, are high profile efforts that primarily benefit capital cities or the governments in power. Many foreign aid experts, non-governmental organizations (NGOs), and local groups have criticized Chinese aid for failing to promote democracy, widespread sustainable development, and environmental conservation.

China has taken some tentative steps toward greater transparency in its foreign aid process and coordination with other providers of assistance while continuing to eschew the label of major ODA donor. China reportedly is gradually developing an official aid structure and considering creating a unified aid agency. In 2007, the PRC participated in the "Pacific Core Partners Meeting" which included discussions among ten countries and several multilateral organizations with an interest in reaching a consensus on goals for development aid in the South Pacific. During the same year, China for the first time provided aid to Cambodia through an international pledging process.

Aid to the Least Developed Countries in the Region

Many reports of PRC aid in the region focus on Burma, Cambodia, and Laos, the poorest countries in Southeast Asia and ones that have had relatively unfriendly relations with the United States. China is considered the "primary economic patron" of these countries and provides an "implicit security guarantee."[247] China also provides considerable assistance to Vietnam, although its influence upon its former adversary appears limited compared to other countries. The United States has a major aid presence in Cambodia and Vietnam.[248] However, according to data of official development assistance, which does not include China, Japan is the largest bilateral aid donor among these countries.

Many observers fear that China's unconditional and non-transparent aid efforts and growing economic integration in Southeast Asia negate efforts by western nations to promote political and economic reform, reduce corruption, and protect the environment in mainland Southeast Asia. Others counter that, on balance, Chinese aid promotes development in Southeast Asia and that it does not exclude other countries' aid programs and objectives. Furthermore, in many cases, China reportedly takes on aid projects that other donor countries have avoided due to difficulty or hardship. In recent years, China has financed many infrastructure and energy-related projects in Burma, Cambodia, and Laos that rely upon Chinese materials and technical expertise as well as labor. Often these projects help China access raw materials and oil. There are some

[246] Jane Perlez, "China Competes with West in Aid to its Neighbors," *The New York Times,* September 18, 2006.

[247] Catherin E. Dalpino, "Consequences of a Growing China," Statement before the Senate Committee on Foreign Relations Subcommittee on East Asian and Pacific Affairs, June 7, 2005; Heritage Foundation program, "Southeast Asia's Forgotten Tier: Burma, Cambodia and Laos," July 26, 2007.

[248] In FY2008, the United States is to provide development, economic, and security assistance worth an estimated $56 million and $102 million to Cambodia and Vietnam, respectively. Most U.S. assistance to Vietnam funds HIV/AIDS programs. For further information, see CRS Report RL31362, U.S. Foreign Aid to East and South Asia: Selected Recipients, by Thomas Lum.

indications that Chinese aid in this part of the region is diversifying, including support to counter-trafficking in persons and counter-narcotics efforts, programs involving Chinese youth volunteers (Laos), elections (Cambodia), and historical preservation (Cambodia).[249]

Burma.—According to some reports, China has been the largest source of economic assistance to Burma, including $1.4 billion to $2 billion in weaponry to the ruling junta since 1988 and pledges of nearly $5 billion in loans, plants and equipment, investment in mineral exploration, hydro power and oil and gas production, and agricultural projects.[250] China has helped the Burmese to build roads, railroads, airfields, and ports. Following the imposition of U.S. trade sanctions against Burma in 2003, China reportedly announced a loan to Burma of $200 million. In 2006, China promised another $200 million loan, although some experts say that such funds were never actually provided.[251] U.S. aid to Burma (an estimated $12 million in 2007), is restricted primarily to humanitarian, health, education, and democracy programs for Burmese migrants and refugees living along the Burma-Thailand border. In terms of official development assistance, Japan reportedly is the largest bilateral donor to Burma, providing a yearly average of $26 million (2004–05).[252]

Cambodia.—Japan, the United States, France, Australia, and Germany are the largest bilateral sources of ODA to Cambodia. Foreign aid to Cambodia is coordinated through the Consultative Group (CG) for Cambodia, a consortium of international financial organizations and donor countries under the auspices of the World Bank. Since 1996, the CG has met annually to extend aid packages averaging $500 million per year.[253] China provides relatively little development assistance but may be one of the largest sources of aid when including loans and support for public works, infrastructure, and hydro-power projects in the kingdom. In 2006, PRC Prime Minister Wen Jiabao pledged $600 million in aid and loans to Cambodia.

In 2007, for the first time, China offered aid through the Consultative Group's pledging process. The CG pledged $689 million in assistance to Cambodia, including $91.5 million from China.[254] For the 2007 09 period, China pledged $236 million in unspecified aid compared to Japan's $337 million and the EU's $215 million.[255] Cambodia is a relatively large recipient of U.S. assistance. The United States provided approximately $55 million annually in 2006–07 for health care, HIV/AIDS programs, basic education, civil society, de-mining, counter-terrorism efforts, and other activities,

---

[249] "China ranks No. 2 in Aiding Cambodia's Town, Sub-district Elections," *BBC Monitoring Asia Pacific,* October 12, 2006.

[250] Jeffrey York, "The Junta's Enablers," International News, October 6, 2007; David Steinberg, "Burma: Feel-Good U.S. Sanctions Wrongheaded," *Yale Global Online,* May 19, 2004; [http://www.narinjara.com/Reports/BReport.ASP].

[251] Testimony of Jared Genser, "China's Role in the World: The China-Burma Relationship," U.S. Economic and Security Review Commission, August 3, 2006.

[252] Organization for Economic Cooperation and Development (OECD). See: [http://www.oecd.org/home/].

[253] *Kyodo News,* June 21, 2002.

[254] Ker Munthit, "Donor's Pledge $689 million in Aid for Cambodia," Associated Press Newswires, June 20, 2007.

[255] Economist Intelligence Unit, Country Report: Cambodia, September 2007.

mostly through non-governmental organizations (NGOs) in Cambodia.

Laos.—Laos receives approximately $250 million in foreign aid per year (20% of GDP), including loans from the Asian Development Bank (ADB) and the World Bank worth $80 million and $40 million, respectively.[256] According to one report, in 2001–02, China was the second biggest aid donor to Laos.[257] The top sources of official development assistance to Laos, on an average annual basis (2004–05), are Japan ($65 million), France ($21 million), Sweden ($19 million), Germany ($15 million), and Australia ($12 million).[258] Since the late 1990s, China has provided Laos with critical grants, low-interest loans, high profile development projects, technical assistance, and foreign investment. Development and other forms of aid include transportation infrastructure, hydro power projects worth $178 million, youth volunteers engaged in medical and educational programs, and agricultural training. In 2006, Chinese President Hu Jintao visited Vientiane and offered $45 million in economic and technical cooperation and debt forgiveness. The United States is a relatively small aid donor, providing an average annual total of approximately $4.5 million between 2005 and 2007.

Vietnam.—According to some reports, China may be the second largest source of foreign aid to Vietnam (including grants and loans). In 2005, the PRC reportedly offered nearly $200 million in grants and loans.[259] In 2006, Beijing provided loans to Vietnam for railways, hydro-power development, and ship building facilities. Japan and France are the largest donors of ODA to Vietnam, providing an annual average of $670 million and $116 million, respectively (2004 05).[260] According to some experts, compared to Burma, Cambodia, and Laos, China's influence in Vietnam is relatively limited. In December 2006, Beijing halted aid to Vietnam in response to the Vietnamese government's formal invitation to Taiwan, a major investor in the country, to attend the APEC November 2006 summit in Hanoi.[261]

China's Aid to the More Developed Southeast Asian Countries

China also has provided significant aid to the large and more developed countries in the region, such as Thailand, Indonesia and the Philippines. However, these countries also have extensive security, economic, and aid ties with the United States. Since 2001, the United States has dramatically increased development, security, and military assistance to Indonesia and the Philippines as part of the global war on terror. Furthermore, Japan likely far surpasses both the United States and China in foreign aid to these countries, particularly Thailand. China has few reported aid projects in Thailand. However, after the United States government imposed sanc-

[256] Asia & Pacific Review World of Information, July 30, 2007.

[257] Joshua Kurlantzick, "China's Charm: Implications of Chinese Soft Power," Carnegie Endowment Policy Brief no. 47 (June 2006). This measurement of PRC aid likely includes loans. By contrast, U.S. foreign assistance, with the exception of food aid, is predominantly grant-based.

[258] OECD data.

[259] "Vietnam to Borrow Nearly 200 Mln U.S. Dollars from China: Report," *People's Daily Online* [http://english.people.com.cn], October 30, 2005.

[260] OECD data.

[261] Roger Mitton, "Beijing Refuses Aid to Hanoi after Rebuff over Taiwan," *Straits Times,* December 22, 2006.

tions on military and security-related assistance to Thailand worth approximately $29 million following the September 2006 military coup, China reportedly offered $49 million to Thailand in military aid and training.[262]

Indonesia.—According to the Organization for Economic Cooperation and Development (OECD), the largest bilateral donors to Indonesia, on an average annual basis (2004–05), are Japan ($963 million), Germany ($191 million), the United States ($163 million), Australia ($145 million), and the Netherlands ($128 million). Between 2002 and2007, annual U.S. assistance to Indonesia totaled about $136 million.[263] According to one expert, in 2002, China's aid to Indonesia was roughly twice that of the United States.[264] In 2005, PRC President Hu Jintao and Indonesian President Susilo Bambang Yudhoyono signed a declaration proclaiming a "strategic partnership" that was accompanied by a promise of preferential loans worth $300 million. Some foreign aid experts criticized China's relatively limited offers of disaster relief following the 2004 Indian Ocean earthquake and tsunami. The PRC pledged $63 million to Indonesia compared to Taiwan's $50 million and the United States' $405 million.

The Philippines.—The top five bilateral ODA donors to the Philippines, on an average annual basis, in 2004–05 were Japan ($706 million), the United States ($114 million), Germany ($60 million), Australia ($38 million), and the Netherlands ($20 million).[265] In 2006, the United States extended $115 million in development, security, and military assistance to the Philippines. According other sources, the PRC has become a major source of financing for development projects in the Philippines, and in 2003, China's aid to the Philippines, including loans reportedly was roughly three times U.S. assistance.[266] In January 2007, PRC Premier Wen Jiabao and Philippines President Gloria Macapagal-Arroyo signed 20 economic agreements, including a contract for a Chinese company to build and renovate railroads, investment in agriculture, and loans for rural development.[267]

U.S. POLICY IMPLICATIONS

Trends, Effects, and Implications for the United States

According to some analysts, China's rising influence has coincided with a period of episodic and inconsistent U.S. attention toward Southeast Asia, or even a developing power vacuum, during the past decade.[268] Since September 11th, 2001, the United States government has become somewhat more diplomatically engaged in the region and has increased foreign aid funding, but with a focus

[262] Alan Dawson, "A 'Win-Win' Situation for Beijing, Washington," Bangkok Post, February 21, 2007; "Current Thai-China Ties Seen as 'More Resilient and Adaptable' than U.S. Ties," *BBC Monitoring Asia Pacific,* February 12, 2007.

[263] United States Agency for International Development (USAID).

[264] Kurlantzick, "China's Charm," op. cit.

[265] OECD data.

[266] "China Loans to RP to Hit $2 Billion in 3 Years ," Manila Standard, February 6, 2007; Kurlantzic, "China's Charm," op. cit.

[267] "Philippines, China Sign 20 Agreements to Boost Trade,"*Xinhua Financial Network,* January 16, 2007.

[268] Robert G. Sutter, China's Rise in Asia: Promises and Perils (New York: Rowman and Littlefield, 2005).

largely limited to counter-terrorism. The perception of U.S. inattentiveness to the region has been reinforced by recent U.S. decisions. In 2007, Secretary of State Condoleezza Rice bypassed the annual ASEAN Regional Forum (ARF) gathering, and instead traveled to the Middle East, while President Bush postponed the U.S.-ASEAN summit, set for Singapore in September, and left the APEC summit a day early reportedly because of commitments related to the Iraq war, renewing "concerns about the U.S. commitment to the region."[269]

Despite a possible decrease in relative influence, however, the United States continues to exert both hard and soft power in Southeast Asia. In terms of soft power, for example, the United States maintains multi-faceted foreign aid programs with clear objectives and large development and humanitarian components. The United States was also a major contributor to countries hit by the 2004 Indian Ocean tsunami, which affected several Southeast Asian countries. The United States remains ASEAN's 2nd largest trading partner (China ranks 5th) and its 4th largest source of foreign direct investment (China ranks 10th), and has sought free trade agreements with several countries in the region.

While there is a general agreement that China's tactics have changed to a more accommodating posture with an emphasis on soft power, there is less certainty regarding its implications and whether China's goals have changed accordingly. According to one view, China is pursuing a zero sum game where expansion of its influence is, or will be, at the expense of the United States. Joshua Kurlantzick writes that "China may want to shift influence away from the United States to create its own sphere of influence, a kind of Chinese Monroe Doctrine for Southeast Asia [where] countries would subordinate their interests to China's, and would think twice about supporting the United States."[270]

By contrast, some analysts argue that, on balance, China's growing economic influence of the past decade has been beneficial to the region and not detrimental to U.S. interests. Regarding China's goals, some observers contend that China's most pressing concerns, at least in the medium term, are likely to be domestic (focusing on economic growth and social stability) and that Beijing favors a stable periphery and appreciates the dominant U.S. role in helping to maintain regional security. These observers maintain that regional stability serves as a foundation for Southeast Asian and Chinese economic development. Further, they hold that China may seek to isolate Taiwan and to increase its influence in the region, but only to forestall the possible "containment" of China rather than to replace the United States.[271]

---

[269] Sheldon Simon, "U.S. Southeast Asia Relations," Comparative Connections, October, 2007; Ralph Cossa and Brad Glosserman, "Regional Overview," *Comparative Connections,* October, 2007.

[270] Joshua Kurlantzick, "China's Charm Offensive in Southeast Asia," *Current History,* September 2006.

[271] See: Percival, *op. cit.*; Richard W. Hu "China and East Asian Community-Building: Implications & Challenges Ahead," The Brookings Institution, presentation on October 2, 2007; Robert G. Sutter, China's Rise in Asia, *op. cit.*

Another view suggests that regardless of China's intentions in Southeast Asia, the PRC's capabilities often are exaggerated, its soft power is limited, tensions in its relationships in the region remain, and its friendships are transient. In some instances, national governments welcomed PRC aid and cooperation while citizens outside the government opposed them. In 2007, as concerns rose throughout many parts of the world regarding the safety of Chinese products, officials in Indonesia, Malaysia, and the Philippines reportedly complained that the PRC government was pressuring them not to raise the issue, even when such imported goods were found to be dangerous. When they banned the sale of unsafe items from China, the PRC government reportedly threatened and/or imposed retaliatory actions, causing consternation among many Southeast Asian leaders.[272] In March 2008, some Philippine lawmakers and policy analysts sharply criticized the Arroyo Administration's agreement with China in 2004 to undertake a joint seismic study in the disputed South China Sea for the purpose of possible oil and gas exploration. They argued that the agreement weakened Philippine territorial claims and undermined the role of ASEAN in mediating joint activities in the area.[273]

Even some of the main beneficiaries of China's largesse in Southeast Asia remain wary of the PRC or seek to dampen its growing influence in the region. For example, many Cambodians, mindful of the PRC's former support of the Khmer Rouge, reportedly feel antagonistic towards China. The Lao government maintains close ties with both China and Vietnam, while the Vietnamese government reportedly has quietly encouraged Lao leaders to cultivate better ties with the United States as a means to counteract Chinese power. Vietnamese citizens held anti-China demonstrations, likely with the encouragement of the Vietnamese government, in Hanoi and Ho Chi Minh City in December 2007, to protest Chinese military exercises simulating invasions of the disputed Spratly Islands in the South China Sea and the creation of a new PRC administrative unit that would include the islands.

[272] Ariana Eunjung Cha, "Asians Say Trade Complaints Bring out the Bully in China," *Washington Post,* September 5, 2007.

[273] Barry Waine, "Manila's Bungle in the South China Sea," Far Eastern Economic Review, Jan/Feb 2008; "In Brief," South China Morning Post, March 14, 2008; Mark J. Valencia, "The Philippines' 'Spratly Bungle': Blessing in Disguise?" *Policy Forum Online,* March 18, 2008.

Figure 21. Southeast Asia and Surrounding Countries

SUB-SAHARAN AFRICA[274]

OVERVIEW

Historical Background

China's economic growth priorities also have redefined its relations with sub-Saharan Africa ("Africa" hereafter). From the formative period of Sino-Africa relations in the 1950s until the late 1970s, China offered African countries politically-motivated aid. Much of it consisted of infrastructure projects, such as railroads—notably the famed Tanzania-Zambia (TAZARA) railway of the early 1970s—stadiums, government buildings, and party headquarters, as well as sectoral economic development projects. Until the late 1970s, when China began a broad internal economic modernization process, its engagement in Africa was primarily defined by a shared interest in colonial liberation, developed vs. developing policy goals, Cold War rivalries, and other political factors. China's subsequent rapid economic growth in the early to mid-1980s prompted it to gradually redefine its international relations policy goals. Increasingly, it began to pursue bilateral ties defined by pragmatic economic and trade-related ends, rather than political or ideological ones. In Africa, China continued to support aid projects, but its engagement on the continent was generally less prominent than previously. China increasingly began to use cost-benefit analyses in making decisions about these projects, and sought to ensure that they included contributions from recipient countries or were pursued as joint ventures.

Renewed Chinese interest in and ties with Africa were sparked in the late 1980s and 1990s by China's rapidly expanding domestic economy and export-focused manufacturing sectors, which spurred trade ties with other countries, including many in commodity-rich Africa. In Africa, as elsewhere, China also advocated international norms of political neutrality and state sovereignty, particularly with respect to non-interference with respect to countries' internal affairs. This was notably the case following a rise in international criticism of China prompted by the 1989 Tiananmen Square crackdown on democracy activists. As in earlier decades, Africa played an important role in China's strategy for achieving its policy goals within and through the U.N. system and in other international forums, where Africa's many member governments represented an important potential block of allied votes.[275] Many of China's goals during this period were amenable to African governments, which wanted to boost their own trade and tap often under-exploited natural resource reserves. Many also firmly espoused principles of non-interference in the affairs of sovereign states, in some cases because, like China, they were targets of foreign criticism regarding undemocratic governance and poor human rights records. China's outreach took various forms. In Africa, it increasingly centered on development investments and business deals, often underpinned by PRC soft loans or development aid. As remains the case today, PRC

[274] Prepared by Nicolas Cook, Specialist in African Affairs, Foreign Affairs, Defense, and Trade Division.

[275] African votes had proved crucial in bringing about the transfer of the Chinese seat on the U.N. Security Council from Taiwan to the People's Republic of China (PRC) in 1971.

assistance was typically conditioned on the recipient country's cutting of ties with Taiwan.

Current Motives and Objectives

The types of economic and political cooperation that defined the Chinese-Africa relationship in the 1990s remain, albeit with some variation, keystones of China's relations with Africa. China's voracious appetite for resources, especially energy resources, is widely viewed as the primary motive for its expanding outreach to Africa, though Africa's current economic growth and future potential as a consumer market also spurs such ties. China's current political efforts to foster allies among Africa's many states are motivated by its perennial and increasingly successful efforts to internationally isolate Taiwan[276] and efforts to curry African votes within U.N. and other international forums in order to achieve diverse policy goals.[277] Chinese diplomatic engagement also seeks to ensure that future Chinese investment and trade remains welcome in Africa. Due to its political history and economic success, the PRC views itself as a developing country leader and natural African ally in the search for a "new, just and rational economic order," providing African states with a development model with which they can identify, should they see fit. China strongly insists on the right of African countries autonomously to define their own developmental paths, based on their unique circumstances and needs, as it does for itself.

Challenges

While the breadth, diversity, and extent of Chinese involvement in Africa are rapidly growing, these developments are also causing Sino-African relations to become increasingly complex and more politically challenging to manage. China's African undertakings are increasingly affected by diverse international events, politics, and policy trends, with origins both in Africa and extrinsic to it. Examples include international responses to the conflict in Darfur, Sudan; western support for universal good governance and fiscal transparency; and globalized economic competition. Ongoing changes on the continent, such as the growth of an increasingly diverse media, an increase in electronic communications, and the development of a large non-governmental sector also pose challenges to Chinese officials and firms active in Africa—as well as their African counterparts. Sino-African ties take place in a dynamic sociopolitical environment; they are no longer pursued only within the staid confines of official state-to-state relations and cannot be controlled as tightly as in the past. They are becoming an object of popular African political consideration and civic debate, in part because African and foreign media and civil society groups are increasingly voicing their views over both the positive and negative implications for Africa of these ties.

---

[276] As of January 2008, only four African countries, Burkina Faso, Sao Tome and Principe, Gambia, and Swaziland maintained diplomatic ties with Taiwan.

[277] Including a desire to counter putative U.S. hegemonic aspirations; minimize Taiwanese participation in international forums, and to shape international policy-making decisions that may affect countries, such as Sudan, in which Chinese interests may be at stake.

Concern among some observers is growing over the prospective impact that China's efforts to gain and ensure access to African energy and mined primary commodities might have on global energy markets. Similarly, rising Chinese investment in Africa suggests to some analysts that China presents a competitive threat to developed country investment on the continent. Many African and foreign observers are also concerned about growing PRC political clout in Africa. Sino-African bilateral investment agreements are the focus of criticism because they often fuse business, political, aid, and sometimes military considerations. These allow China to offer integrated "package" deals. These may be more attractive to African governments than those offered by western country governments, which exercise much less control over their private sectors than the PRC, and often operationally separate their aid, military, and diplomatic initiatives. In some cases, according to critics, PRC-African deals contain provisions that may potentially conflict with international human rights, transparency, or environmental norms, or promote economic activities that do little to develop—or compete with—the African private sector.[278]

Other analysts, however, point to potential benefits to Africa resulting from China's involvement on the continent. Most often cited are rising levels of Chinese investment in Africa, particularly in infrastructure, increases in African earnings due to rises in African exports to China, and Chinese fulfillment of unmet African consumer demands. China is also seen as providing African countries with a new source of business credit and finance, and as spurring global commercial interest in African resources and markets. China may also allow African countries to maintain more autonomy in international politics by lessening their dependence on official aid and credit from Western donor countries. China may also represent an alternative locus of global power with which African countries can ally in order to balance their ties with the West, particularly when faced with political conditionalities demanded by Western countries in return for aid, credit, or political cooperation.

CHINA'S CURRENT AFRICA POLICY

China's political-economic bilateral goals and relations in Africa are defined in a formal document released in early 2006, entitled China's African Policy.[279] It outlines the PRC goal of creating "a new type of strategic partnership with Africa" consisting of diverse types of cooperation grounded in long-standing "guiding" Chinese foreign policy principles.[280] It explicitly conditions official PRC relations with African states on their adherence to the PRC's "one-

[278] Examples commonly cited include PRC sales of military materiel to governments accused of human rights abuses by Western governments, e.g., Sudan and Zimbabwe; the use of imported Chinese labor to build infrastructure in African countries where manual labor is plentiful and jobless rates are high; the rapid growth of small-scale Chinese retail sectors that compete with indigenous African entrepreneurs; the unsustainable harvest of African timber stocks and fisheries by or for sale to Chinese firms; and financing of construction and extractive industry projects that reportedly will have adverse environmental impacts.

[279] Online text: [http://www.fmprc.gov.cn/eng/zxxx/t230615.htm].

[280] These arise from a series of policy frameworks laid out by successive PRC premiers, beginning in the 1950s. They include mutual respect for territorial integrity and sovereignty; non-aggression and non-interference in other countries' internal affairs; equality and mutual benefit; and peaceful coexistence.

China principle," calling this the "political foundation" of such bilateral relations.

The document seeks to increase high-level reciprocal leadership visits and diverse lower level bilateral learning exchanges and economic and technical cooperation committees, and pledges PRC cooperation with Africa in international forums. In the economic sphere, the policy seeks to boost Sino-African trade, including through potential increased PRCduty-free treatment for some African exports, the negotiation of Free Trade Agreements, and the provision of export credits for PRC investment and business activities in Africa—notably in infrastructure and utilities contracting. It seeks enhanced dispute settlement, investment protection, and double taxation accords, and seeks enhanced joint business promotion efforts. It pledges PRC support for African development, especially in agriculture, raises the possibility of PRC debt cancellation for some African countries, and urges increased international official debt relief and "economic assistance . . . with no political strings attached" for Africa. It also seeks increased science and technology, cultural, and environmental cooperation, and offers increased Chinese human resource training and PRC scholarships for Africans, among other education support efforts.[281] China also pledges increased health sector assistance, including through the dispatch of PRC medical teams to Africa (a long-standing, largely successful PRC "health diplomacy" tradition). Media, civil service, and disaster relief training are also planned.

PRC Outreach to Africa

Among the most notable of China's efforts to foster closer ties with Africa, both bilaterally and at the continental level, is the Forum on China-Africa Cooperation (FOCAC). FOCAC is a comprehensive effort initiated by China to build mutually beneficial economic development, trade cooperation and political relations with Africa and is rooted in principles of "South-South Cooperation." It was formed in October 2000 in Beijing during a summit of PRC and 45 African country leaders. Founding participants agreed to meet triennially, alternatively in China and Africa. Subsequent FOCAC activities provided the basis for many of the key goals outlined in China's African Policy. The second FOCAC gathering in Ethiopia in 2003, held alongside a Sino-African business conference, adopted an "Action Plan." In it, China promised to cooperate with Africa in the areas of infrastructure development, healthcare, human resource development, and PRC private sector investment in African agriculture.

[281] PRC officials assert that China has reportedly provided as many as 18,000 government scholarships to students from 50 African countries since 1949 and has sent more than 700 teachers to 33 African countries. See Liu Guijin, "China's Role in Meeting Africa's Developmental Needs," [conference speech], China in Africa in the 21st Century, October 16, 2006.

Chinese Pledges Under FOCAC

At each FOCAC gathering, the PRC has made a concerted effort demonstrate the concrete benefits that Africa is deriving from China as a result of the forum's creation. The PRC spurred African participation in the first gathering by pledging forgiveness of about 10 billion yuan (about $1.21 billion) to poor indebted African countries and to expand PRC foreign aid to Africa. At the 2003 FOCAC meeting in Ethiopia, China also announced that it had exceeded its year 2000 debt forgiveness pledge by offering 10.5 billion yuan (about $1.27 billion) to 31 African countries. To boost Chinese investment in Africa, forum participants agreed to simplify regulatory requirements for Chinese firms operating in Africa, and China urged African adoption of the various pro-business accords later outlined in its African Policy. China also agreed to negotiate zero-tariff treatment for some African countries' exports to China; pledged to support accession to the WTO of African applicants; and announced substantial progress in meeting its earlier debt forgiveness offer. China also offered to train 10,000 African personnel over three years, beginning in 2004, and to increase scholarships for African exchange students in China. A total of 20 contracts worth $460 million were reportedly signed by 17 PRC firms in such areas as engineering construction, pharmaceuticals, industrial chemicals, and textiles.

At a meeting just prior to the November 2006 FOCAC Summit in Beijing, China's ambassador to South Africa outlined a series of substantive FOCAC achievements. He stated that China had completely fulfilled its 31-country debt relief pledge, made in 2000; provided tariff exemptions covering 191 items for 30 African countries since 2005; approved 17 African countries as PRC tourist destinations; trained almost 10,000 African personnel from 2004–2006; and deployed a PRC youth volunteer team to work in Ethiopia, the first of several planned for various African countries. He also stated that China would prioritize African policy goals and interests in the U.N. Security Council. At the summit, PRC officials also set a goal of more than doubling Sino-African trade, from $40 billion in 2005 to $100 billion by 2010. Fourteen agreements between 11 Chinese enterprises and African governments and firms worth $1.9 billion were signed at the Summit, and participants produced a near-term road map for cooperation, the Beijing Action Plan (2007–2009). The deals centered on infrastructure, communications, technology and equipment, energy and resources development, finance and insurance, including expressways in Nigeria, a telecom network in Ghana, and an aluminum smelter in Egypt. A new China-Africa Joint Chamber of Commerce and Industry was also formed. The plan largely mirrors but also expands on aims of the 2003 Action Plan, in part as reflected by President Hu's pledges. Notable was an increased focus on support for the AU; increased bilateral cooperation in the areas of judicial and rule of law strengthening, agriculture, and environmental protection; a Chinese endeavor to urge Chinese banks to establish branches throughout Africa; and PRC offers of media training assistance for African journalists. The two sides also agreed to further technical cooperation in diverse areas.

The most recent FOCAC Summit took place in Beijing in November 2006, and was held alongside related ministerial and business conferences. It reportedly was the largest international event ever held in China, drawing China's top leaders as well as 48 high-level African government delegations, including 41 heads of state. At the summit, PRC President Hu Jintao announced eight major new PRC

efforts to strengthen the Sino-African "strategic partnership" under FOCAC, pledging that China would:

- Double its level of year 2006 assistance to Africa by 2009.
- Provide $3 billion in "preferential loans" and $2 billion in "preferential buyers' credits" targeted at poor African countries by 2009.
- Establish a China-Africa Development Fund worth an eventual $5 billion to encourage Chinese companies to invest in Africa and provide support to them.
- Build a headquarters for the African Union in aid of African unity and integration.
- Cancel all the interest-free government loans due at the end of 2005 owed by those poor African countries maintaining diplomatic relations with China.
- Increase the number of items subject to Chinese duty-free treatment exported by poor Africa countries with diplomatic ties with China from 190 to 440.
- Create three to five trade and economic cooperation zones in Africa by 2009.
- By 2009 deploy 100 top Chinese agricultural experts to Africa; establish 10 agricultural technology centers; build 30 hospitals; provide about $40 million in grants for anti-malaria drugs, prevention, and construction of model treatment centers; deploy 300 PRC Peace Corps-like volunteers to Africa; build 100 rural schools in Africa; train 15,000 African professionals; and double the number of PRC government scholarships for African students from 2,000 per year to 4,000 per year.

Vehicles for Diplomacy

The wide-ranging exchange and cooperation activities laid out under the FOCAC framework and in *China's African Policy* are implemented by an extensive network of PRC diplomats in Africa. China maintains embassies in every African country (apart from Somalia) with which it has diplomatic ties, i.e., 43 of 48 Sub-Saharan countries.[282] It also maintains commercial counselor offices in 40 of these countries and seven consulates-general in five of them. These posts are manned by teams of diplomats who are reportedly increasingly conversant in local languages. Another mechanism for its bilateral engagement are frequent, high level leadership exchange visits, notably including regular annual trips to Africa by top PRC authorities. In 2006 and 2007, such trips included visits by President Hu Jintao, who made similar visits in recent prior years, and other key leaders such as Premier Wen Jiabao. China's foreign ministers, including the current incumbent, Yang Jiechi, have undertaken annual visits to Africa since 1990.[290] Such leader-

[282] There is no embassy in Somalia due to insecurity associated with the on-going armed conflict there.

[283] He Wenpin, "Moving Forward with the Time: the Evolution of China's African Policy," China-Africa Links Workshop, Center on China's Transnational Relations, Hong Kong University of Science and Technology (CCTR/HKUST), November 2006; testimony of Michael Ranneberger, then-State Department Deputy Assistant Secretary for African Affairs, before the Subcommittee on Africa, Global Human Rights and International Operations of the House International Relations Committee on at a July 28, 2005 hearing entitled China's Influence in Africa; and Paul Simao, "China Keen to Strengthen Ties in Africa-foreign Min," *Reuters,* Jan 7, 2008.

ship visits are used to build personal leadership ties and cement bilateral relations in diverse areas. Visiting PRC political VIPs, typically accompanied by large delegations including business representatives, sign major agreements that underpin and structure such ties and announce or witness the signing of large commercial commodity or construction contract deals, many financed by PRC state agencies at preferential rates. African heads of state, also often accompanied by large retinues of political, trade, and business leaders, make frequent reciprocal visits. A range of lower-level exchange visits also occur, and often include training for African officials such as senior and mid-level diplomats, economic officials, business professionals, and other key decision-makers and policy implementers. Such training programs began in the mid-1990s. There are also exchanges between legislative bodies, the PRC Communist Party and African political parties, and local governments, to which China periodically provides in-kind material assistance.[284] Most of these activities are PRC-funded.

Regional Ties

China is also reaching out to Africa at the continental level. China is a small contributor to the African Development Bank (AfDB), but in May 2007 it hosted the bank's annual meeting. The event, attended by Premier Wen Jiabao, featured various events highlighting PRC investment and development relations with Africa and related PRC undertakings, including:

- China's approval of an initial $1 billion capitalization of the China Development Bank (CDB)-administered China-Africa Development Fund, which is slated to be expanded to $5 billion in total and is designed to fund PRC firm equity investments and business deals in Africa in the areas of natural resources, infrastructure, agriculture, manufacturing and industrial parks.
- A pledge by China's Export-Import (ExIm) Bank to provide $20 billion in loan funding for diverse projects in Africa from 2007 through 2009.
- China's membership in the West African Development Bank and the CDB's signing of cooperative "framework agreements" with the East African Development Bank and the Eastern and Southern African Trade and Development Bank.[285]

In press interviews made during the meetings, African officials praised Sino-African ties, but also cautioned that PRC investment in Africa needs more heavily to emphasize African development and investment diversity. They also stated that PRC bilateral investment and loans must not recreate colonial-era export-oriented,

[284] "China to Further Strengthen Press Cooperation with Africa, Says Senior CPC Official," PRC Ministry of Commerce, September 13, 2007; and Joshua Eisenman, "The Communist Party of China's Outreach to Political Parties in Sub-Saharan Africa" [conference paper], "Rethinking Africa's 'China Factor': Identifying Players, Strategies, and Practices," University of California, Los Angeles (UCLA), April 27, 2007.

[285] The China Development Bank also reportedly has entered into a cooperative agreement with the East African Development Bank to which the former has extended a $30 million line of credit. "East Africa: EADB, China Sign $30 Million Credit Line," *East African Business Week* (Kampala), October 16, 2006.

extractive, non-developmental patterns of trade, and not result in new unsustainable African debt.[286]

African Union

China has also stepped up diplomatic engagement with the African Union (AU), attending key AU summit meetings in 2006 and 2007. Beijing is an observer with several African sub-regional economic integration organizations. In May 2007, after appointing its first Special Representative on African Affairs and Darfur, Liu Guijin, China agreed to finance the construction of a $100-$150 million African Union headquarters, fulfilling President Hu Jintao's pledge at the 2006 FOCAC summit.[287] The PRC has also provided funding for the AU peacekeeping missions in Sudan's Darfur region and in Somalia, and occasionally provides limited humanitarian assistance in Darfur and elsewhere. China also has expressed rhetorical support for the New Partnership for Africa's Development (NEPAD), the Africa Union's (AU) continental development plan, and supports its aims and objectives.[288]

Military and Security Issues

Beijing provides training in China for African military officers, technical aid related to its donation or sale of military equipment to African countries, and other capacity-building help for African militaries, although public information on the scope and content of such activities is lacking. In China's African Policy, the PRC pledged to boost such aid, as well as help Africa fight crime by offering judicial and police training and cooperation, and by setting up a channel for intelligence and information exchange.[289] Military-to-military exchanges underpin ties with a reported 25 African countries. Only nine of a global total of 107 Chinese military attache offices are located in Sub-Saharan Africa, however, and no African states have to date participated in joint military exercises with the PRC.

China has long sold arms to Africa. In recent years, arms deals with Sudan, Nigeria, countries in the Horn of Africa, and Zimbabwe have drawn attention. In some cases, such deals have included shipments of military aircraft. From 2003–2006, China is estimated to have been the third largest exporter of conventional and small arms to Africa, after Germany and Russia, having provided about 15.4% ($500 million) of a $3.3 billion total in global sales to the region during that period. It was the second largest supplier from 1999–2002, when it is estimated to have provided 13.2% ($500 million) of $3.8 billion in global flows to Africa of such arms.[290] Experts point out that PRC military vehicles and equip-

[286] Benjamin Morgan, "AfDB boss hits out at China," AFP via www.fin24.co.za, May 14, 2007; and "African Development Bk Affirms China's Growing Role," Dow Jones Commodities Service, May 17, 2007.

[287] Liu, China's former ambassador to South Africa and Zimbabwe, respectively, is also the former head of China's Foreign Ministry Department of African Affairs.

[288] "Interview: NEPAD secretariat gives China thumbs up for investment in Africa," Xinhua, March 13, 2007; and U.N. Office of the Special Adviser on Africa (OSAA), "China: Support to NEPAD" (period June 2002-June 2003), N.D., *inter alia.*

[289] Such assistance targets "non-traditional security threats," including terrorism, small arms smuggling, drug trafficking, and transnational economic crimes.

[290] Apart from small arms, PRC conventional arms exports to Africa consisted mostly of artillery, armored personnel vehicles, minor naval surface vessels, supersonic combat aircraft, and

ment tend to be simple and rugged, making them attractive in African markets, and China is believed to be a key supplier of a variety of inexpensive small arms in Africa, notably including generic versions of the AK-47 and related assault rifles and police equipment.

International peacekeeping is an emerging area of Chinese engagement in Africa.[291] Chinese military or police personnel have been seconded to all but one of the current U.N. peacekeeping operations (PKO) in Africa, including large contingents in the U.N. peacekeeping operations in Liberia, the Democratic Republic of the Congo, and southern Sudan. China has reportedly begun to deploy a unit to the emergent U.N. PKO in Darfur, Sudan. Most PRC PKO contingents are made up of military observers or functional units (e.g., engineering, transport and logistics, and medical groups). China has also donated equipment for peacekeeping purposes to the Economic Community of West African States and has aided the African Union Mission in Sudan.[292]

PRC "AID" AND TRADE FINANCE IN AFRICA

There are numerous signs that PRC official development assistance (ODA) and finance for bilateral trade and PRC foreign direct investment in Africa (FDI) are growing rapidly.[293] Independently verifiable, accurate data on the absolute amount or rates of increase of these resource flows are lacking, however, and estimates of such flows vary widely. In part, this is because PRC assistance to Africa consists of a mix of grants, interest-free loans bilateral state loans, and concessional low-interest loans that are often partially commercial in character.[294] While grants and interest-free loans may be classifiable as ODA, other resource flows that the PRC views as bilateral assistance may have characteristics of both conventional ODA and for-profit business finance. As a result, many analysts contend that it is difficult to differentiate between PRC ODA to Africa and Chinese Africa-related business credit, especially given that the latter may benefit both Chinese firms, in many cases substantially, and African countries. Even internal PRC state accounting systems are reportedly largely unable to distinguish between these various types of resource flows.

State subsidization of many of the partially privatized, for-profit PRC state-owned enterprises (SOEs) that pursue business deals in

---

other aircraft. See CRS Report RL34187, Conventional Arms Transfers to Developing Nations, 1999–2006, by Richard F. Grimmett.

[291] Drew Thompson, "Beijing's Participation in UN Peacekeeping Operations," China Brief, Jamestown Foundation, (5: 11), May 10, 2005.

[292] Philippe D. Rogers, "China and United Nations Peacekeeping Operations in Africa," Naval War College Review, (60:2), Spring 2007

[293] ODA is conventionally defined as official (government) grants, technical co-operation (in-kind training or education and advisory or consultative services for recipient countries), or loans to countries primarily intended to promote economic development and welfare in the recipient country, exclusive of all military purposes and payments to individuals. Under Organization for Economic Co-operation and Development (OECD) the definition, it must be offered on a grant (i.e., gratis) or concessional loans containing a grant element of at least 25%. See OECD Development Assistance Committee (DAC), DAC's Glossary.

[294] In OECD terminology, "official sector" transactions and bilateral financial flows that are not categorizable as ODA or "Official Aid" because they are not primarily development-focused or contain a grant element of less than 25% are known as "Other Official Flows." See DAC's Glossary and DA C Statistical Reporting Directives http://www.oecd.org/dataoecd/36/32/31723929.htm and Chinese Aid in Africa [Deborah Brautigam].ppt and http://english.eximbank.gov.cn

Africa also makes it difficult to assess the nature and value of such projects, which are in many cases tied to official PRC bilateral loans to African countries. The fact that many of the African partners to these deals are themselves for-profit parastatal firms also makes it difficult to characterize Chinese "assistance" that may flow to them. Because of the mixed public-private nature of these deals, Chinese "assistance" to Africa does not necessarily support the general socio-economic development goals and public goods that would define it as ODA, but it is also often not purely commercial or profit-driven. Furthermore, while China is increasing its grant-based development aid to Africa, much of its loan-based aid is "tied," i.e., recipient countries must agree to use the loans to buy or accept goods, services, or credit from China. The bulk ($10 billion) of initiatives for Africa announced by President Hu in 2006 are tied.[295]

PRC Aid: Criticisms and Chinese Responses

China's merger of aid and trade, and its tendency to portray PRC commercial and soft loan projects as "assistance" to Africa have been widely criticized on the basis that PRC aid to Africa is primarily driven by self-interest, and not the "mutual win-win" cooperation that China asserts defines its relations with Africa. Critics worry that China's "no strings attached" aid offers may undermine political goals that have increasingly become an integral part of Western foreign aid strategies. These include conditions that, in return for aid or loans, recipients comply with various international norms relating to good governance, the rule of law, transparency, anti-corruption measures, environmental standards, and human rights. Critics also fear that China's increasing provision of new loans to Africa, even at low concessionary rates, may both undermine western donor governments' recent large national debt write-offs in Africa and saddle poor countries with new indebtedness.

To address criticisms of its foreign aid system and to better administer and coordinate increasing levels and types of "assistance" to Africa, China is gradually developing an official aid structure.[296] A single, functionally specialized PRC aid agency, like those of Western donors, is reportedly under consideration. China is also more carefully defining what it labels as "development assistance"

---

[295] The commitments that he announced consist of "preferential loans," "preferential buyers' credits," and a "China-Africa Development Fund" created to "to encourage Chinese companies to invest in Africa and provide support to them." "Address by Hu Jintao at the Opening Ceremony of the Beijing Summit of the Forum on China-Africa Cooperation," Beijing, November 4, 2006; Jamil Anderlini, "China insists on 'tied aid' in Africa," Financial Times, June 25, 2007; and "Companies have "central role" in growth of China-Africa economic relations," Macauhub.com, September 3, 2007, inter alia. It is important to note that tied loan-based aid was long a common feature of U.S. and European aid to Africa. In recent years, however, many Western donor governments, with some exceptions, have increasingly or already largely provide assistance to Africa in the form of grants.

[296] Deborah Brautigam, *China's Foreign Aid in Africa: What Do We Know?,* Conference on China in Africa: Geopolitical and Geoeconomic Considerations, September 16, 2007 (Revised) and Joshua Kurlantzick, "Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance," Policy Outlook, Carnegie Endowment China Program, November 2006. This section also draws from Bates Gill and James Reilly, "The Tenuous Hold of China Inc. in Africa," *The Washington Quarterly,* 30:3, Summer 2007; V. Maurice Gountin, "China's Assistance to Africa, A Stone Bridge of Sino-African Relations," China-Africa Links Workshop, CCTR/HKUST, November 2006; Kenneth King, "Aid within the Wider China-Africa Partnership: A view from the Beijing Summit," China-Africa Links Workshop, CCTR/HKUST, November 2006; and Michelle Chan-Fishel, *Time to Go Green: Environmental Responsibility in the Chinese Banking Sector,* Banktrac, May 2007, *inter alia.*

in public in order to ensure policy coherence (e.g., to assert that its aid is unconditional yet tie it to PRC commercial contracts) and to allow for better comparisons with Western aid. It is also scaling up its in-kind grant aid (e.g., goods, services, and technical assistance). Apart from its growing debt cancellation to Africa (a type of grant), however, PRC grant aid is believed to represent a small portion of what PRC officials describe as "assistance" to Africa. The bulk of Chinese assistance continues to flow though trade promotion mechanisms.

Structure.—Much PRC "assistance" in Africa is controlled by the state-owned Export-Import (ExIm) Bank of China, established in 1994 as the lead vehicle for official PRC bilateral concessional loans, export credits, and international loan guarantees. The Aid to Foreign Countries Department of the Ministry of Commerce (MOC) manages and executes PRC bilateral foreign aid policy, budgeting, and project implementation. It does this primarily by controlling the bidding and vetting processes for soft loan-backed contract projects undertaken by PRC firms, which it also loosely regulates and assists in the field. Another key entity is the China Development Bank (CDB). Founded in 1994 as a "development-oriented financial institution" under the direct jurisdiction of the State Council (the supreme administrative decision-making organ of the PRC), the CDB is the funding source of the new China-Africa Development Fund. Functional ministries (e.g., Health, Education, Agriculture) also deploy technical advisory and training teams to Africa under MOC guidance. A variety of other finance and export agencies and provincial or urban organizations, such as chambers of commerce, and export promotion and foreign training entities, also play a role in foreign assistance project implementation in Africa. Ministry of Foreign Affairs (MOFA) and MOC officials advise top policymakers on assistance to Africa, but political and policy decisions relating to these activities are reportedly made by the State Council in coordination with the Leading Group on Foreign Affairs of the Communist Party, and in concordance with the economic goals of the State Development and Planning Commission (SDPC).

PRC assistance project proposals for Africa are reportedly suggested by PRC ambassadors to Africa, sometimes at the request of African governments, after their submissions have been vetted by other MOFA officials. When large or costly projects are proposed, the Finance Ministry and/or MOC units also play a vetting role. PRC energy policy, including strategic PRC energy investments in Africa, is laid out by the Office of the National Energy Leading Group, the SDPC, and the MOC with advice from China's three key state-owned oil companies, which also implement such policy goals.[297] China signed 238 bilateral treaties with foreign countries or multilateral entities in 2006 and 158 such treaties in 2005. About 30% of these accords were with African countries. Most relate to economic and technical cooperation, PRC medical aid, or the

[297] China National Petroleum Corporation (CNPC), the China Petroleum and Chemical Corporation (Sinopec), and the China National Offshore Oil Corporation (CNOOC).

provision of PRC loans or aid, but an increasing number pertain to mutual legal, tax, and diplomatic ties.[298]

Country aid programs are reportedly designed and managed on a country-by-country basis, with attention to the key generic goals of PRC policy objectives in Africa, but largely in the absence of cohesive, unitary, or pan-regional program plans or uniform guidelines. One common pattern, however, is that project aid is often offered as part of or contingent upon the sealing of larger, integrated bilateral commercial, military, and/or political package agreements. This somewhat piecemeal approach may change in response to efforts to bring increased coherence to PRC aid strategies. At present, however, it appears to be driven by the substantial challenge of coordinating the actions of China's large, operationally autonomous and sometimes rival ministries and by China's stated policy of not interfering in countries' internal affairs. PRC policy makers also claim that a country-by-country approach allows China to avoid imposing a monolithic Chinese model of socio-economic development on individual African countries. Chinese officials reportedly claim that PRC bilateral cooperation assistance packages are crafted to respond to the needs and priorities of each recipient country, even though patterns of official PRC resource flows to Africa suggest that PRC assistance mainly targets countries that are important to the PRC as trade partners or political allies. Another indication that China's assistance strategy is defined primarily by its own economic and political priorities is that Chinese assistance programs generally do not reflect the design paradigms and program patterns of other countries' assistance. Many other donors allocate assistance in response to objective country-level socio-economic characteristics, such as rates of poverty or disease, and coordinate aid among themselves to ensure that various development challenges are met and duplication of effort is avoided. By contrast, with a few exceptions, China does not coordinate its aid in Africa with other donor governments, although it is beginning to consult with them in an apparent effort to draw on their experience. China is also offering some aid to Africa through the IMF and World Bank.

China's nascent rationalization of its foreign aid system is reportedly being prompted by two key factors, among others. One is the dramatic increase in aid and loan outflows, and the need to better coordinate them for policy purposes. Another is potential tension between PRC foreign policy goals and the incentive structure and actions of the state agencies and numerous Chinese firms that execute PRC policy in Africa. These firms, many of them SOEs, along with the agencies that partially own or control a reported 88% of them, operate on the basis of profit and business efficiency in geographically dispersed operations. As a result, their activities in some instances may be at odds with policy goals or harmonious bilateral relations. Chinese firms' labor practices are a prime example of business-related activities that may conflict with PRC foreign

[298] See Ministry of Commerce (MOC), "The Main Bilateral Treaty List China and Foreign Countries Signed in 2006" and" The Main Bilateral Treaty List China and Foreign Countries Signed in 2005"; and Hong Yonghon, "Legal Cooperation of China and African States: Past, Present and Future," China-Africa Links Workshop, CCTR/HKUST, November 2006.

policy goals.[299] Others include direct competition with African firms; environmental abuses by timber, fishery, and other firms; smuggling of endangered species parts; and occasional allegations that contracted outputs, such as roads or other infrastructure, are of poor quality. To address such problems and due to criticisms of China's own environmental record, the CDB and ExIm have both reportedly created environmental impact loan policies, although little information about how these policies are implemented is available. Similarly, in 2006 the MOC adopted measures to ensure Chinese corporate and contractual responsibility. It set up an office to deal with the grievances of Chinese workers in Africa and issued guidelines requiring PRC businesses in Africa to hire locally when possible, respect African laws and customs, and abide by international safety standards. In late 2006, the MOC also barred Chinese firms' transfer of officially authorized PRC foreign assistance contracts to firms not specifically authorized to execute them, as well as unauthorized subcontracting of foreign aid projects.[300]

The MOC's ability to enforce compliance with these regulations may be limited, however, because it lacks both a field presence in Africa and the authority to order that MOFA officers in Africa carry out enforcement actions on MOC's behalf. MOFA and MOC officials may also find it difficult to challenge politically powerful transgressing firms. It also does not exercise direct authority over state-owned Chinese firms in Africa, which make up a significant portion of more than 800 Chinese firms, both state-owned or and wholly or partially privatized, that reportedly operate in Africa. That role is held by the State-owned Assets Supervision and Administration Commission (SASAC), an administrative coequal of MOC. It officially "owns" these firms and is motivated by profit-making goals in Africa that may conflict with MOC and MOFA policy objectives there. Moreover, the MOC itself may lack the motivation to vigorously implement its regulatory writ because it may conflict with its core role as a promoter of Chinese investment and business interests.[301]

In some cases, however, political and economic goals may dovetail. State subsidies of Chinese firms, for instance, may provide them with the incentive to pursue projects in Africa that may not be individually economically efficient, but which accomplish long-term strategic PRC investment and commodity access goals. For instance, state-backed PRC firms have reportedly paid above-market prices for shares in African state energy firms to guarantee access to oil supplies, or have entered unprofitable bids on projects in order to pave the way for future contracts and closer bilateral ties.

---

[299] For instance, use of low-wage, unskilled Chinese labor in Africa in place of African labor; poor adherence to safety standards or and other working conditions; and low pay offerings, which have generated public worker protests by Chinese and African workers in Africa. See Kenneth King, Aid within . . . .; and Gill and Reilly, "The Tenuous Hold . . . ," *op cit. inter alia.*

[300] Gill and Reilly, "The Tenuous Hold . . . ,". *op cit.* and Bates Gill, Chin-hao Huang, and J. S. Morrison, "Assessing China's Growing Influence in Africa," *China Security,* (3:3), Summer 2007.

[301] In addition, some PRC policy makers may wish to rely on market mechanisms rather than regulation to prompt responsible PRC corporate behavior overseas. In January 2007, a top PRC legislator warned that "irresponsible practices" by some Chinese firms overseas have reduced their foreign growth and profits and that firms employing such practices "will be kicked out of the market." See "China's Senior Legislator Criticizes Companies for Shirking Social Responsibility," *Xinhua,* January 29, 2007.

China's very large foreign exchange reserves fund such activities. There are also tax incentives for out-bound Chinese investment.

All of these activities in Africa are part of a quasi-mercantilist PRC policy known as "going out" or "going global," in which strategic, government-mediated foreign investment by large state-supported PRC firms is undertaken to boost China's long-term growth.[302] Its quasi-mercantilist nature arises from the fact that the PRC actively promotes the interests of SOEs and seeks to accumulate reserves of resources and hard currency to fund national growth and wealth creation—rather than by accessing such resources exclusively through markets or letting such firms prosper or fail purely as a result of market forces. It is also quasi-mercantilist in that China's activities often involve the use of a loose barter system, in which access to natural resources by SOEs is gained in exchange for cheap or no interest loans for the construction of infrastructure and other activities.

PRC African Aid Levels

For reasons previously stated, accurate data on specific levels of PRC resource flows to Africa are not publicly available. Educated guesses as to the total annual level of PRC foreign aid, based mostly on a growing body of anecdotal and piecemeal published information, range widely; one researcher cited a range for the year 2005 of between $970 million and $1.5 and $2 billion or higher worldwide, with Africa receiving between a third to a half of such totals.[303] Another source reports that all PRC economic support to all of Africa totaled $1.8 billion in 2002.[304] Such estimates generally do not break out ODA and non-ODA components. Africanist scholar Deborah Brautigam reports that China's foreign aid totaled $1.4 billion for 2007, up from about $450 million a year a decade earlier, and that in the beginning of the present decade, 44% of that aid went to Africa. She uses the latter figure to estimate China's African aid budget at about $462 million in 2006 and $616 million in 2007, and notes that President Hu's 2006 FOCAC pledge to double the PRC's year 2006 level of assistance to Africa by 2009 would raise China's grant aid to Africa to the level of $1 billion per year.[305] Total outstanding ExIm loans to Africa, both concessional and non-concessional, in the infrastructure sector alone reportedly totaled $12.5 billion as of mid-2006, and have grown rapidly in recent years. Of these, a reported 80% went to Angola, Nigeria, Mozambique, Sudan, and Zimbabwe, and were heavily weighted toward infrastructure construction.[306] In May 2007, China's State Council approved the China Development Bank's (CDB) initial $1 billion capitalization of the eventual non-ODA $5 billion China-Af-

[302] Harry Harding, Ian Bremmer, Thomas Stewart, David Lipton, et al., "China Goes Global: Implications for the United States," The National Interest, September/October 2006; and Margot Schuller and Anke Turner, "Global Ambitions: Chinese Companies Spread Their Wings, Im Fokus," *China Aktuell,* 34: 4, 2005.

[303] Carol Lancaster, "The Chinese Aid System," Center for Global Development, June 2007.

[304] Harry G. Broadman, et al., *Africa's Silk Road: China and India's New Economic Frontier,* World Bank, 2007.

[305] Brautigam , *China's Foreign Aid.*

[306] Broadman, et al., *Africa's Silk Road, op cit.* By September 2006, 79% of a total of 259 PRC ExIm projects in 36 African countries supported infrastructure development projects. See Linden J. Ellis, "China Exim Bank in Africa: Opportunities for Strengthening Environmental Standards for Hydropower in Sudan," March 22, 2007 (China Environment Forum/Woodrow Wilson Center presentation summary.)

rica Development Fund. As of early 2007, the CDB had $1 billion in current loans outstanding in Africa and was considering funding up to 30 projects in Africa, mostly in agriculture, manufacture, and infrastructure, worth about $3 billion.[307]

As previously discussed, Chinese ODA to Africa currently cannot be compared directly to ODA flows to Africa from other donors. However, an indicative sense of the overall magnitude of all types of PRC bilateral cooperation funding for Africa compared to ODA flows to Africa from other donors may be useful. In contrast to the Chinese resource flows described above, the OECD has estimated the 2005–2006 average annual amount of gross bilateral ODA going to Africa from the leading OECD donors as follows: United States, $4.939 billion; United Kingdom, $4.669 billion; European Community, $3.464 billion; and Japan, $2.567.[308]

CHINA-AFRICA TRADE AND INVESTMENT

In addition to political motives, most researchers attribute China's state, public-private, and commercial business dealings with Africa and other developing regions to China's growing appetite for raw materials and global markets. In general, China has run a trade deficit with Africa that, while slowly declining, is much larger than the very minor trade deficit that it ran with the sub-continent at the beginning of the present decade. In 2001, the value of its imports from Africa were roughly 2.3% more than those of its exports. By 2004, this proportion had risen to 46.5%, but has since declined somewhat; it stood at 38.4% in 2006. In addition to the goods trade, Africa is seen by China as a small but growing construction and technical projects contracting market, and as a small but rapidly growing market for Chinese manufactured goods. There are some potential structural limitations on prospects for Africa's relative gains from trade ties with China, since the current balance of trade is strongly weighted in China's favor: China imports from Africa raw, non-value-added commodities, while it exports finished, value-added goods to Africa. Officially, China also welcomes African investment in China, but African investment in China is small. It represents about 1.5% of total global foreign investment in China in recent years, and is limited to a few countries. In 2004 and 2005, Mauritius and South Africa accounted for an aggregate of 82% and 12%, respectively, of all African investments in China.[309]

From 2001–2006, the absolute value of U.S. goods trade with Africa, at $71 billion, was greater than that of Sino-African trade, but Chinese-African trade grew at a much faster rate than U.S.-African trade. China's total trade with sub-Saharan Africa rose from $8.92 billion to $45.35 billion in that period, an increase of 409%, as compared to a 152% rise in total U.S.-African trade during the same

[307] See "China approves China-Africa Development Fund," *Xinhua,* May 14, 2007 and "China-Africa Economic and Trade Cooperation Takes An Important Step Forward," CDB, June 26, 2007.

[308] Richard Manning/OECD DAC, "Development Co-operation Report 2007," OECD Journal on Development (9:1), 2008.

[309] The next largest African investor in China was Nigeria, with a 1.3% share during the same period. All other countries' individual investments in China each amounted to 0.6% or far less of African investments in China in 2004 and 2005. CRS calculations based on data in "Chapter 18 Foreign Trade and Economic Cooperation," Table 18-16 Actual Foreign Investment by Countries or Regions, China Statistical Yearbook 2006, [http://www.stats.gov.cn/tj sj/ndsj/2006/indexeh.htm].

period. Chinese-African trade also grew at a rate 166% higher than that of total Chinese-world trade (see Table 11).[310] While some of these trade trends may pertain to China's rapidly growing export of services and contracting work to Africa, they do not reflect the value of trade in services and other intangibles. Accurate information on the volume and value of such trade flows is limited. One indication of trends in this area is the officially reported value of China's "economic cooperation" with Africa, which reflects almost all Chinese investment in Africa. In 2005, such cooperation totaled $4.68 billion, comprising $4.53 billion in "Contracted Projects," $136.1 million in "Labor Cooperation," and $18.6 million in "Design Consultation." The latter two categories decreased slightly compared to those for 2004, but the amount for Contracted Projects increased 61.5% over that in 2004. Net Chinese overseas "domestic investor" (private capital) flows to all of Africa, including North Africa, were relatively minor in comparison. They reportedly totaled $317.42 million in 2004 (5.8% of global investments by Chinese domestic investors) and $391.7 million in 2005 (3.2% of global investments), while the cumulative, multi-year total of such annual investments was $1.60 billion (2.8% of global investments), with most concentrated in Sub-Saharan Africa.

Chinese sectoral investments in Africa are concentrated in the energy sector, in which trade-related finance is tied to another major area of investment, infrastructure construction (mostly public and commercial buildings, water delivery networks, roads, railroads, electrical power systems, and dams). Turnkey manufacturing plant installation and operations, commercial technical service contracting, banking, and telecoms are other key areas of investment. Projects in all of these areas are often very large, in the multi-million to multi-billion dollar-sized range. Africa is also an increasing market for Chinese consumer and capital goods exports, which are retailed both by African traders and a growing number of Chinese retailers.

Table 11. Total U.S. and Chinese Goods Trade With Africa by Value and Share in Global Perspective: 2001–2006

($ billions)

	China Trade			U.S. Trade		
Year	World: Value	Africa: Value	Africa's Share of Chinese World Trade (percent)	World: Value	Africa: Value	Africa's Share of U.S. World Trade (percent)
2001	510.0	8.9	1.8	1,407.4	28.2	2.0
2002	620.9	10.1	1.6	1,487.0	23.9	1.6
2003	851.6	15.4	1.8	1,695.6	32.5	1.9
2004	1,154.5	24.5	2.1	2,063.4	44.3	2.2
2005	1,422.6	32.7	2.3	2,435.8	60.7	2.5
2006	1,761.1	45.4	2.6	2,823.3	71.2	2.5

[310] Except where noted otherwise, the import and export value and quantity data in this section are from China Customs and the U.S. Commerce Department, as compiled in the World Trade Atlas online database. Calculations of relative changes or proportions of such data were made by CRS.

Table 11. Total U.S. and Chinese Goods Trade With Africa by Value and Share in Global Perspective: 2001–2006—Continued
($ billions)

Year	China Trade			U.S. Trade		
	World: Value	Africa: Value	Africa's Share of Chinese World Trade (percent)	World: Value	Africa: Value	Africa's Share of U.S. World Trade (percent)
Totals & Share Average by Percent, 2001–2006	6,320.6	136.9	2.0	11,912.4	260.9	2.1
Percentile Change, 2001–2006	245.3	408.4	47.2	100.6	152.2	25.7

Source: U.S. Dept. of Commerce and China Customs data as compiled in the World Trade Atlas Internet Edition as of November/October 2007 and CRS calculations using these data.

Imports

From 2001 to 2006, Chinese imports from Africa rose by 485%, from $4.5 billion to $26.31 billion, compared to a 178% jump—from $21.29 billion to $59.09 billion—in U.S. imports from Africa during that period (see Table 12). The share of China's imports from Africa as a proportion of its total global imports grew from 1.9% in 2001 to 3.3% in 2006, a pattern closely mirrored in the share of U.S. imports from Africa as a proportion of all U.S. imports; these grew from 1.9% to 3.2%.

From 2001 to 2006 Chinese imports from Africa were primarily made up of raw commodities. In rank order, these were: crude oil; iron ore; raw timber; raw cotton; rough diamonds; re-imports of previously exported goods (e.g., repaired, used, and re-shipped goods); and metals.[311] Together with bulk stainless steel supplies and raw tobacco, these products made up just under 90% of the value of all Chinese imports from Africa during that period. Chinese demand for such commodities is expected to grow, in some cases exponentially. Chinese demand for agricultural products is also growing. If it continues, this trend may be particularly beneficial to the large number of African economies that rely heavily on the farm sector, especially those that lack oil or mining resources or industries.[312]

In addition to being highly concentrated in form, China's imports from Africa are also highly concentrated geographically. From 2001 to 2006, about 89% of its African imports came from seven countries, whose share of such imports were primarily made up of oil except in the case of South Africa; its exports to China were primarily made up of metals.[313]

[311] Unprocessed and—to a lesser extent—semi-processed metals are key components of Africa's exports to China. Chief among these are iron ore, platinum, manganese, cobalt, aluminum, nickel, copper, niobium, tantalum, vanadium, zirconium, chromium, and lead.

[312] Deutsche Bank Research, "China's Commodity Hunger: Implications for Africa and Latin America," *Current Issues,* June 13, 2006.

[313] The seven countries were: Angola (which contributed 33.8% of the value-based share of Chinese imports from Africa), South Africa (19.0%), Sudan (12.6%), Republic of Congo (10.2%), Equatorial Guinea (8.1%), Gabon (3.0%), and Nigeria (2.2%).

Table 12. U.S. and Chinese Goods Imports From Africa by Value and Share in Global Perspective: 2001–2006
($ billions)

Year	PRC Imports			U.S. Imports		
	World: Value	Africa: Value	Africa's Share of All Chinese Imports (percent)	World: Value	Africa: Value	Africa's Share of All U.S. Imports (percent)
2001	243.6	4.5	1.9	1,141.0	21.3	1.9
2002	295.3	5.1	1.7	1,161.4	17.9	1.5
2003	413.1	7.9	1.9	1,257.1	25.6	2.0
2004	560.8	14.5	2.6	1,469.7	35.9	2.4
2005	660.2	19.3	2.9	1,673.5	50.4	3.0
2006	791.8	26.3	3.3	1,853.9	59.1	3.2
Percentile Change, 2001–2006	225.1	484.5	79.5	62.5	177.6	70.6

Source: U.S. Dept. of Commerce and China Customs data as compiled in the World Trade Atlas Internet Edition as of November/October 2007 and CRS calculations using these data.

All other African countries contributed under 2% of Chinese imports from the sub-continent. While oil and metals are likely to continue to predominate among Chinese imports from Africa in the short to medium-term, diversification across countries may grow moderately, as large mining operations come online or increase production in countries like Guinea, the Democratic Republic of Congo, Sierra Leone, and elsewhere.

Oil

China is now the world's second largest consumer of oil products after the United States, consuming a reported 7.88 million barrels per day. This level is projected to nearly double to 13.4 million barrels per day by 2025.[314] Calculations based upon data from China's General Administration of Customs indicate that African countries provided about 29% of China's crude oil imports by quantity in 2006, up from about 22% in 2001. The share rise for U.S. imports was comparatively moderate; it increased from 15.5% in 2001 to 18.1% in 2006 (see Table 13).[315] The value of Chinese oil imports from Africa rose over sevenfold between 2001, when it totaled $2.5 billion, and 2006, when it totaled $19.2 billion. By contrast, U.S. oil imports from Africa rose from $13.7 billion in 2001 to $45.1 billion in 2006, a growth rate less than half as much as large as that for China (see Table 14). The rate of growth in Chinese imports of African oil in comparison to that of the United States is also growing rapidly, even though the absolute value of U.S. oil imports from Africa remains substantially larger than that of China.

[314] Global Insight, Global Petroleum Outlook Forecast Tables (Long-Term), January 2005 and Global Petroleum Monthly, September 2007. Other projections show a much larger increases in Chinese demand.

[315] Import trends as measured by value are similar but differ slightly, due to variations in average world prices and changing mixes of the types of oil that China imports. Various grades of oil are priced differently, due both to their relative scarcity and based on their role in refining. General Administration of Customs of China data reported by World Trade Atlas.

Table 13. African Oil as a Proportion of All Chinese and U.S. Imports of Oil
(Percentage share of quantity)

	2001	2002	2003	2004	2005	2006
China	22.1	22.8	24.0	27.1	27.8	29.1
United States	15.5	12.7	15.3	16.7	18.4	18.1

Source: U.S. Dept. of Commerce and China Customs data as compiled in the World Trade Atlas Internet Edition as of November/October 2007 and CRS calculations using these data.

Table 14. Value of Chinese and U.S. Imports of Crude Oil from Africa
($ billions)

	2001	2002	2003	2004	2005	2006
China	2.5	2.9	4.8	9.4	13.3	19.2
United States	13.7	10.9	17.0	25.0	37.8	45.1

Source: U.S. Dept. of Commerce and China Customs data as compiled in the World Trade Atlas Internet Edition as of November/October 2007 and CRS calculations using these data.

Table 15. Chinese and U.S. Oil Imports from Africa as a proportion of All Imports from Africa
(Percentage share of value)

	2001	2002	2003	2004	2005	2006
China	56.5	56.8	60.5	65.0	69.0	72.9
United States	64.3	61.0	66.5	69.7	75.1	76.4

Source: U.S. Dept. of Commerce and China Customs data as compiled in the World Trade Atlas Internet Edition as of November/October 2007 and CRS calculations using these data.

In 2001, China's imported only 18.6% as much oil by value as the United States; by 2006, it was importing 42.5% as much. The value of oil as a percentage of the value of all exports from Africa has also grown faster for China than for the United States (see Table 15 above). Such trends indicate that Africa is becoming an increasingly important source of oil for China, and suggests that Chinese-U.S. competition for African oil is likely to grow.

From 2001 to 2006 there were sharp increases in Chinese imports of crude oil from most of its top African oil suppliers. By 2006, the top five Africa oil exporters to China were: Angola (China's second largest source of oil globally); Congo (6th); Equatorial Guinea (7th); Sudan (8th); and Mauritania (22nd).[316] Angolan export trends are particularly notable, as Angola became China's second largest source of crude oil in 2004, surpassing Iran, and in 2006 its oil exports to China trailed those of Saudi Arabia by a slim 1.8% margin.

In part to secure future oil supplies from Africa, China has invested in a number of oil drilling, refining, pipeline, tanker facility, and power generating projects in Africa, mainly through wholly or partially government-owned PRC firms. While such investments

[316] Nigeria, China's fourth African largest source of oil in 2001, had by 2006 dropped to being its eighth-largest African supplier, having been surpassed by Mauritania and Chad, both new oil producers, as well as Gabon. Rankings based upon General Administration of Customs of China data reported by World Trade Atlas and CRS calculations.

may decrease the number of investment opportunities of these types for western energy firms, some observers believe that in the short- to medium-term, major western oil production firms will maintain a competitive technological edge over Chinese firms in the area of deep water exploration and production. Such a competitive edge could be significant because some of the largest and highest quality untapped reserves of crude oil in Africa are believed to lie under the deep waters of the Gulf of Guinea. Some experts, however, believe that PRC firms could overcome the deepwater challenge by contracting for specialized underwater drilling services.[317] In addition, China's control of equity oil is at present largely limited to Sudan, though fields to which it holds recently acquired equity rights in Angola and several other countries are slated to begin production soon.[318]

Exports

From 2001–2006, China's total exports to Africa rose by nearly 331%, from $4.42 billion to $19.04 billion, compared to a much smaller, nearly 75% rise—from $6.94 billion to $12.12 billion—in U.S. exports to Africa during the same period (seeTable 16). The share of China's exports to Africa as a proportion of all of its exports grew from 1.7% in 2001 to 2% in 2006. The rate of growth of the share of U.S. exports to Africa as a portion of all U.S. exports during that period was slightly more rapid; these grew from just under 1% to just over 1% of all U.S. exports.

In contrast to China's imports from Africa, its top exports to the region were diversified, and there was limited overlap between its top African export destinations and import sources, as well as substantial differences between top African exporters' percentage of the Chinese import trade.

Table 16. U.S. and Chinese Goods Exports to Africa by Value and Share in Global Perspective: 2001–2006
($ billions)

	China Exports			U.S. Exports		
Year	World: Value	Africa: Value	China Exports to Africa as Percent of All Exports	World: Value	Africa: Value	U.S. Exports to Africa as Percent of All Exports
2001	266.4	4.4	1.7	729.1	6.9	1.0
2002	325.6	5.0	1.5	693.1	6.0	0.9
2003	438.5	7.5	1.7	724.8	6.9	1.0
2004	593.7	9.9	1.7	818.8	8.4	1.0
2005	762.3	13.4	1.8	906	10.3	1.1
2006	969.3	19.0	2.0	1,036.60	12.1	1.2

[317] Equity oil is defined as that obtained by control of rights to a given proportion of output from an oil concession in exchange for oil field exploration, development, or extraction services and investments, as opposed to trade or purchase-mediated access to oil. Glossary, Energy Information Admin. (EIA), Energy Dept. and Glossary of Energy Terms, Gardner Energy MacroIndex [both online].

[318] Jonathan Holslag, et al, "Chinese Resources . . . *op cit., inter alia.*

Table 16. U.S. and Chinese Goods Exports to Africa by Value and Share in Global Perspective: 2001–2006—Continued
($ billions)

Year	China Exports			U.S. Exports		
	World: Value	Africa: Value	China Exports to Africa as Percent of All Exports	World: Value	Africa: Value	U.S. Exports to Africa as Percent of All Exports
Percent Change, 2001–2006	263.9	330.9	18.1	42.2	74.5	23.2

Source: U.S. Dept. of Commerce and China Customs data as compiled in the World Trade Atlas Internet Edition as of November/October 2007 and CRS calculations using these data.

There was also substantial diversity in types of Chinese exports to Africa. The largest single export product category, woven cotton fabrics, made up 6.3% of China's exports to Africa, and the top ten products together made up 26.3% of the total export value, but the vast majority of products made up a fraction of a percent of export values. In addition to woven cotton fabrics, China's top 10 export products to Africa were: motorcycles (3.6%), footwear, (3.4%), synthetic fabrics (2.6%), batteries, (2.5%), broadcasting equipment (1.8%), telephone equipment (1.7%), tires (1.6%), embroidery (1.4%), and mixed component fabrics (1.4%). While this product mix predominated in the period from 2001 to 2006, in general the mix of Chinese exports to Africa vary greatly from year to year.

SINO-AFRICAN ENGAGEMENT: IMPLICATIONS

China's burgeoning economic and political engagement with Africa has elicited a range of reactions from African, U.S., and other policy makers and analysts. These range from enthusiastic or guardedly optimistic responses to growing concern over what some perceive to be an actual or potential Chinese strategic and economic threat to western or African interests. Such concerns primarily relate to the state-centric, political-commercial mode of PRC engagement in Africa; to its potential negative impacts on U.S. and Western public policy goals and engagement in Africa; to the competitive impact of increased PRC imports of raw materials from Africa and, to a lesser extent, to Chinese competition for current and future African market demand; and to the implications for U.S. political interests and influence of the PRC's undertakings in Africa.[319]

Economic Effects

Despite concern by some analysts regarding the manner in which Sino-African economic relations are pursued, such ties are clearly producing benefits for many African economies. Many countries are

[319] Chis Alden, "China in Africa," *Survival*, (47:3), 2005; Philippe D. Rogers, "Dragon with a Heart of Darkness? Countering Chinese Influence in Africa," *Joint Forces Quarterly* (47), 2007; Peter Brookes and Ji Hye Shin, *China's Influence in Africa: Implications for the United States,* Heritage Foundation, (1916), February 22, 2006; Joshua Kurlantzick, "Beijing's Safari: China's Move into Africa and Its Implications for Aid, Development, and Governance," *Policy Outlook,* Carnegie Endowment China Program, November 2006; Akwe Amosu, "China in Africa: It's (Still) the Governance, Stupid," *Foreign Policy in Focus Discussion Paper,* March 9, 2007; and Human Rights Watch, "China-Africa Summit: Focus on Human Rights, Not Just Trade," November 2, 2006, *inter alia.*

enjoying rapidly rising earnings due to Chinese demand for their exports; in the case of Angola, for instance, IMF data indicates that bilateral exports to China rose from $1.68 billion in 2000 to $9.94 billion in 2006. Similar trends are true of multiple other countries. During the same period, South Africa's exports rose from $336 million to $2.09 billion, while Equatorial Guinea's rose from $238 million to $2.31 billion in 2006. Chinese involvement in Africa is also leading to investment in infrastructure and the financial services, manufacturing, consumer retail, various other sectors, and in specialized market niches that non-Chinese foreign investors have generally long ignored. Agricultural development and other technical assistance is also increasing, and African access to cheap credit and diverse, inexpensive consumer goods is growing. Infrastructure construction is widely seen as one of the most positive benefits of PRC investment in Africa, given the widespread lack or poor condition of such facilities in Africa. Similarly, to the extent that China provides credit to Africa without conditions, such resources may help African governments to autonomously fulfill their sovereign, self-defined development goals in the absence of what some view as the paternalistic or self-interested imposition of policy requirements by Western donor governments.[320]

Many analysts, however, also contend that China's increasing engagement poses serious challenges for Africa. While growth in many of the sectors targeted by PRC finance and investment is likely to benefit Africa, gains from investment in some areas may be limited. Vertical and horizontal growth in Chinese-backed African manufacturing, for instance, may quickly hit a ceiling, since Chinese factories in Africa often rely on inputs from China and commercial relations with other Chinese firms, rather than African ones. Similarly, industries in much of Africa are unlikely to easily be able to gain a competitive advantage over those of China or other Asian countries, where cheap goods and highly-developed factor markets typically outperform African manufacturers, and put some out of business. Claims that Asian investment in Africa may boost African development or provide useful models for growth may be overly optimistic.

Some analysts assert that due to Asian manufacturing strength, Africa is unlikely to be able to successfully pursue the kind of export growth and diversification process that spurred economic growth and development in much of Asia. Some also view potential gains from Chinese investment in Africa as unlikely to result in the growth of indigenous African manufacturing sectors, given that many Chinese loans that fund business activities in Africa are directed to PRC firms active there, rather than African-owned firms. Such loans, as well as other types of preferential treatment, also give many of these Chinese firms a competitive advantage over African firms—as well as other foreign competitors. As previously noted, Africa's relative potential gains from trade ties with China may be limited by the fact that China primarily imports raw com-

[320] Andrew Bounds, "African States Refuse to Join EU Trade Deal," *Financial Times*, December 4, 2007; Ignacio Ramonet, "Africa Says No—and Means it," *Le Monde Diplomatique,* December 31, 2007; Thandika Mkandawire and Charles C. Soludo, *Our Continent, Our Future: African Perspectives on Structural Adjustment,* CODESRIA, 1998.

modities from Africa, while it exports finished, value-added goods to Africa.

This trade pattern, along with frequent PRC investment in outward-bound, export-facilitating transportation projects, has spurred some critics to label Chinese involvement in Africa "neo-colonial." Critics allege that such trade and investment reproduces the same kinds of extractive, basic commodity export-oriented development that was common in colonial times in Africa, and which is often seen as having contributed to low growth rates and lackluster post-colonial economic development in Africa generally. Chinese officials vehemently reject such charges, citing the diverse types of complementary "win-win" political, cultural, and developmental non-trade cooperation that they say characterizes Sino-African relations. They also compare Europe's history of slave-taking and colonial era abuses in Africa to the record of Chinese engagement with the continent.[321]

China's desire for African commodities could potentially provide leverage to African countries regarding the conditions that they may impose on Chinese investment, an argument that is bolstered by China's insistence that trade with Africa provide "win-win" outcomes for both sides. For instance, African countries might require that larger portions of Chinese loans be channeled to services or goods purchases from African firms or that Sino-African joint business ventures employ Africans in managerial and decision-making roles. Investment projects could require increased technology transfer components, local secondary processing of resources prior to export, or be renegotiable following an initial designated period. Similarly, large Chinese plants or mining center investment deals might require PRC investors to fund more extensive "corporate responsibility" projects, such as schools or clinics for project employees. While a few oil countries, such as Angola and Nigeria, appear to be employing such leverage, such demands may be difficult to impose for countries that are not rich in natural resource commodities, in part due to intra-African competition. Such countries may lose out to other African countries that offer better terms in exchange for similar types of deals with Chinese firms. Similarly, countries may be loathe to pay the relative opportunity costs of foregoing very low-cost PRC financing, given higher interest rates and conditions that may accompany other sources of finance, and may thus be willing to strike deals with Chinese entities that are not very beneficial to the country involved. They may also possess social needs so great that even limited PRC business project social investments may be perceived as adequate quids pro quo. Limited African human and business sectoral capacities, poor infrastructure, and small market national sizes may also constrain the extent to which local firms can exploit Chinese loan shares that are reserved for them or effectively adopt Chinese technologies.

Transparency and Governance Issues

Other concerns expressed by critics of Chinese activities in Africa relate to fears that the same kinds of corrupt practices and flouting

[321] See Liu Guijin, "China's Role . . . *op cit.*; and Craig Timberg, "Hu Defends China's Role in Africa," *Washington Post,* February 8, 2007.

of the rule of law that reportedly are common in some sectors of Chinese business and within some elements of the state will be brought to Africa by Chinese operating there.[322] They also worry that the lack of political conditionality associated with PRC bilateral loans will undermine African and Western efforts to implement various good governance and anti-corruption initiatives in Africa. There is little hard evidence to suggest that corrupt Chinese business practices in Africa are systemic or widespread, however, although there are periodic reports of PRC illicit business practices in Africa.[323] The rankings of countries that have received the bulk of Chinese investment during the past half-decade or so, as measured by the monitoring group Transparency International, reportedly have not changed much during this time period.[324] Furthermore, some see the PRC as supportive of efforts to strengthen the rule of law in Africa, since that goal is likely to benefit China in the long run, given that many PRC activities in Africa are contract-based and subject to potential legal dispute. Indeed, China's African Policy states that China is prepared to promote cooperation between Chinese and African judicial and law enforcement departments and jointly prevent and combat crime.

Given data limitations, the effect that Chinese bilateral loans may have on transparency in Africa is difficult to assess. Loan opaqueness, however, may create incentives for the misuse of funds by Chinese or African elites who control access to them. It may also help to entrench democratically unaccountable, corrupt, or simply non-developmental or poorly performing governments, or simply reduce their motivation to reform in these areas, by eliminating their readiness to accept conditional external finances. Furthermore, to the extent that loan proceeds are used for unintended or illicit purposes by those who control them, their intended beneficiaries, such as the African public and the PRC firms through which loans are channeled, will not realize the benefits that they are intended to generate.[325]

To the extent that this occurs, such policies may conflict with another key tenet of PRC policy toward Africa: that it does not interfere in the internal affairs of states and is agnostic with regard to a given government's record on such matters as good governance,

---

[322] For more on rule of law and corruption issues in China, see CRS Report RL33416, Social Unrest in China, by Tom Lum; Minxin Pei, "Corruption Threatens China's Future, *Carnegie Endowment Policy Brief,* (55), October 2007; and numerous press reports.

[323] Examples include illegal labor practices; unsustainable exploitation of African timber and fish stocks; trade in endangered species; and payments to avoid regulatory compliance requirements.

[324] See Andrea Goldstein, Nicolas Pinaud, Helmut Reisen, and Xiaobao Chen, "The Rise of China and India: What's In It for Africa?," *Development Centre Studies,* OECD, 2006. While the absence of such an increase may be taken as an indication that Chinese firms in Africa are not contributing to a rise in corruption in Africa, it does not prove such a finding. Corruption levels in some African countries may be so high that any Chinese contributions to such trends may be marginal. Similarly, in some countries, the level of Chinese foreign direct investment may not be large enough to affect national corruption trends.

[325] At least one major PRC state-backed loan to Angola has allegedly been manipulated for political and corrupt ends, although Angolan officials reject such reports as false. As a result, projects funded by the loan have reportedly been delayed. Past Western credit dealings with Angola have also been criticized as lacking transparency. Alec Russell, "Angolan Loan Casts Light on Ties with China," *Financial Times,* October 19, 2007; and" Angola: Chinese Firecrackers," *Africa Confidential,* (46:3), February 4, 2005; "Finance Ministry Denies Irregularities in China Credit Use," Angola Press Agency, October 18, 2007; David Pallister, "Alarm Bells Sound over Massive Loans Bankrolling Oil-rich, Graft-tainted Angola," *The Guardian,* June 1, 2005; Paul Hare, "China in Angola: An Emerging Energy Partnership," China Brief, Jamestown Foundation, (7:18), November 8, 2006

human rights, or environmental protection.[326] This policy suggests that the PRC does not does not view itself as responsible for the actions that its bilateral assistance may subsidize. As previously suggested, many critics disagree with this claim, even though empirical evidence establishing a causative link between Sino-African official bilateral engagement and the incremental undermining of democratic accountability may not be clear-cut. It may be argued, for instance, that undemocratic practices may have been likely to occur even in the absence of such engagement.

What many critics do believe is that China's business, aid, credit relations with, and military equipment exports to the governments of countries like Zimbabwe and Sudan directly abet these states' systematic and well-documented internal human rights abuses and authoritarian rule, which are the targets of harsh criticism by Western governments and civil society groups and are targets of U.S. and European Union sanctions.[327] In African countries where governments face vocal public opposition or armed rebellions, Chinese projects that are pursued in partnership with such governments are often viewed by their political opponents as direct interventions in favor of the governments that they oppose. As a result, Chinese personnel working on projects in diverse areas in Africa (e.g., oil exploration, uranium mining, and telecom installation) have repeatedly become targets of political kidnappings and violent attacks, some fatal, by armed ethnic rebel movements demanding that Chinese mining firms halt their activities in their zones of operation.[328] Chinese engagement in Africa has also occasionally become the subject of intense, sometimes xenophobic political debate.[329] Some critics also worry that the PRC's political engagement with and training of African state officials will result in the transferral to Africa of undemocratic, state-centric PRC governance practices, potentially leading to such outcomes as a rise in state media controls in Africa, resulting from such things as the commer-

---

[326] The *Beijing Declaration of the Forum on China-Africa Cooperation* (October 12, 2000), states in part that the "universality of human rights and fundamental freedoms should be respected" but that *"the politicization of human rights and the imposition of human rights conditionalities on economic assistance should be vigorously opposed to as they constitute a violation of human rights."* (Emphasis added.)

[327] Danna Harman, "How China's Support of Sudan Shields a Regime Called 'Genocidal'," *Christian Science Monitor,* June 26, 2007; Ronan Farrow and Mia Farrow, "The 'Genocide Olympics'," *The Wall Street Journal,* March 28, 2007; and Nat Hentoff, "Khartoum's enablers in Beijing; Chinese Communists and Islamist genocide," *The Washington Times,* April 16, 2007; Paul Eckert, "China's Zimbabwe Embrace Seen as Rights Challenge," *Reuters,* July 28, 2005; and "China and its Chums: Mugabe in Beijing," *The Guardian,* July 28, 2005, *inter alia.*

[328] In October and December 2007, for instance, fighters of the Sudanese, Darfur-based rebel Justice and Equality Movement (JEM) reportedly attacked Chinese-run oil well sites in the states of South and West Kordofan. In July 2007, a Chinese executive of a uranium mining subsidiary of the China Nuclear Engineering and Construction Corporation was kidnapped by Tuareg rebels of the Niger Movement for Justice (MNJ) demanding that Chinese mining firms halt their activities in the desert region. In April 2007, nine Chinese oil workers were killed and seven were kidnapped during an attack by ethnic Somali Ogaden National Liberation Front (ONLF) rebels on a Chinese drilling exploration site guarded by an Ethiopian military contingent that resulted in 74 non-rebel fatalities. The rebels, whose reported target was the contingent, has warned foreign firms against working with the Ethiopian government. Earlier in 2007, 16 Chinese oil workers were kidnapped in the restive Delta Region of Nigeria by ethnic militants who made similar demands, as were 12 Chinese telecom workers. Other attacks on Chinese nationals, most not overtly political in nature, have occurred elsewhere in Africa.

[329] This was notably the case in the Zambian election of 2006, when the main opposition candidate, a populist, incited his followers with vitriolic anti-Chinese rhetoric alleging state favoritism to PRC firms' mining concessions, related mine safety abuses, and concessions to Chinese retailers. Miles Larmer and Alastair Fraser, "Of Cabbages and King Cobra: Populist Politics and Zambia's 2006 Election," *African Affairs,* (106:425), 2007.

cial sale of Chinese Internet filtering technologies to Zimbabwe and other repressive governments in Africa.

U.S. Policy Implications

As discussed in previous sections, the breadth and diversity of China's engagement with Africa present numerous potential issues for consideration by U.S. policy makers. These range from its impact on democratization, good governance and transparency, and adherence to universal norms of civic and human rights and the rule of law in Africa to the potential for a renewed rise in African indebtedness to China, fast on the heels of recent substantial U.S. and Western government write-downs of past unsustainable African debt. Nascent and prospectively rising U.S.-Chinese economic competition in Africa, notably in the national energy security-related oil sector and strategic metals and minerals trade, also present key policy questions. Some are concerned that China's rising textile production and export of goods to Africa are negating U.S. efforts to strengthen Africa's apparel and other productive sectors through the African Growth and Opportunity Act program (AGOA), which seeks to bolster Africa production by providing duty-free access for diverse U.S. imports from Africa. The potential for the growth of a pro-China voting block within United Nations agencies and other multilateral organizations is also a concern for some.

Others worry that Africans may be attracted to China's respect for African state sovereignty and its policy of non-interference in states' internal affairs, especially with respect to issues of human rights and democracy, particularly in contrast to Western donor governments' imposition on Africans of political conditionalities in return for credit, which some Africans see as paternalistic. Some African states, when subjected to sustained or vocal Western policy pressure, have already turned to China. While such realignments may not be firm or permanent, Angola's spurning relations with the IMF in favor of access to Chinese economic ties, Zimbabwe's ties to China, and periodic rhetorical threats by countries such as Ethiopia to look toward China as an ally when faced by Western pressure to democratize or undertake other policy actions all raise the possibility that other countries might make similar choices. A similar concern relates to the possibility that rapidly expanding Sino-African economic cooperation and the perceived relevance to Africa of China's rapid economic development process may cause Africans to increasingly view China as a more relevant political-economic model for Africa than Western democracies.[330]

[330] Stephanie McCrummen, "Struggling Chadians Dream of a Better Life—in China," *Washington Post,* October 6, 2007.

Figure 22. Map of Sub-Saharan Africa