

# CHINA BALANCE SHEET

## DEVELOPING WORLD

The direction that China and U.S.-China relations take will define the world's future. For the United States, a rising China increasingly affects American prosperity and security, calling for some clear-eyed thinking and tough economic, political, and security choices. As the twenty-first century unfurls, the stakes have never been higher for getting U.S. policy toward China right. By untangling the complex, sometimes contradictory, strands of this vast and dynamic country, *China: The Balance Sheet* lays the foundation for informed and effective U.S. policy toward China, the world's emerging superpower.

### BACKGROUND

- Despite its substantial economic achievements over the past 25 years, China still refers to itself as the “world's largest developing country.”
- Developing world relations have risen in relative importance in Chinese foreign policy in recent years. In practical terms, China's engagement of the developing world serves several Chinese interests:
  - ensure access to critical natural resources, including energy, and overseas markets for its products;
  - secure its periphery to prevent cross-border challenges to its stability;
  - isolate Taiwan internationally;
  - promote a multipolar world to advance a more “equitable” international order and constrain U.S. global power.

### CURRENT SITUATION

- China has appealed to developing world sensibilities through:
  - provision of infrastructural and development assistance without conditions or lectures, consistent with emphasis on commitment to principle of non-interference in affairs of other nations;
  - regular attendance at, and sometimes hosting of, annual meetings with range of regional organizations from every continent;
  - affirmation of commitment to “win-win” solutions and equality among all states;
  - repeated public proclamation of its fealty to the interests of South-South (developing world) cooperation as the “world's largest developing nation”
- Decline in world opinion of the United States in recent years has contributed to China's relative attractiveness as an alternative source of financial support and leverage against unwanted external pressure.

For further information, see *China and the Developing World* by Derek Mitchell published in *The China Balance Sheet in 2007 and Beyond*, available online

*China: The Balance Sheet: What the World Needs to Know Now about the Emerging Superpower*

Authors: C. Fred Bergsten, Bates Gill, Nicholas R. Lardy and Derek Mitchell

[www.chinabalancesheet.org](http://www.chinabalancesheet.org)

[www.publicaffairsbooks.com](http://www.publicaffairsbooks.com)



# DEVELOPING WORLD

- Some have posited the emergence of a “Beijing Consensus,” in which nations follow China’s development model of maintaining tight political control while liberalizing economically, may supplant the 1990’s-era “Washington Consensus” of free markets and political reform. China’s model appeals to many authoritarian leaders seeking legitimacy for their rule; little concrete evidence exists, however, to suggest that Beijing is explicitly promoting its development model to others (aside from North Korea, which China seeks to stabilize through promotion of 1980s-era Chinese economic reforms)
- Likewise, Chinese soft power is nascent and limited
  - Little evidence exists that China’s attractiveness, rather than normal balance of power calculations in the face of China’s economic rise, has driven developing nations’ domestic and international policies
  - Future prospects for Chinese soft power will ultimately depend on whether China’s developmental model leads to a stable, secure, prosperous, and just nation over the longer term
- China has provided many tangible benefits to local communities in the developing world, including aid that has led to construction of schools, hospitals, roads, rail lines and other infrastructure
- Nonetheless, follow-through on China’s investment and aid pledges has often gone slowly, leading to suspicions that some of China’s high-profile pledges may prove more politically sensational than economically feasible
- Other frictions in China’s relations with the developing world have emerged, particularly at the popular level in subject countries, due to perceptions of:
  - economic policies and political principles that often buttress brutal dictatorships, and that benefit Chinese businesses and imported workers more than local citizens;
  - poor treatment of local labor, disregard for environmental degradation resulting from Chinese investments, and shoddy construction by Chinese firms;
  - competition from low-quality Chinese imports that may undermine local industries, enhancing concern that developing countries will be reduced over time to economies based on resource extraction rather than development of manufacturing and light industry;
- China is beginning to recognize the growing importance of monitoring the way its government and people interact with the world through its “go abroad” economic policy.

## Facts

- China-Africa trade \$55.5 billion (2006) [5-fold increase over 2000]
- China-Latin America trade \$70.2 billion (2006) [Six-fold increase over 1994]
- China-Middle East trade (League of Arab States) \$65.5 billion (2006) [27.7% increase over 2005]
- China-Central Asia trade \$13.9 billion (2006) [42.8% increase over 2005]
- China-Southeast Asia trade \$161 billion (2006) [Twenty times 1991 figure/ 23% increase over 2005]
- In 2004, China and the Gulf Cooperation Council began negotiations for a Middle East Free Trade Agreement
- In Africa, China is negotiating to create a FTA with the Southern African Customs Union
- Chile became the first and to date only of China’s FTA partners in the Western Hemisphere in 2005
- In Southeast Asia, China continues to work toward a free trade area with ASEAN by 2010
- China’s foreign minister has established a policy of visiting Africa as his first official overseas visit every year.
- China has launched Confucius Institutes to encourage Chinese language study worldwide; since establishing the first institute in Seoul in 2004, the number has increased to 123 in 49 countries and regions as of 2007, with 42 institutes throughout the developing world.

China will continue to wrestle with how to balance its self-identity as the “world’s largest developing country” with the reality of its status as a rising major power with increasing global influence and upon which expectations will grow to take on greater responsibility for the security and stability of the international system.

# DEVELOPING WORLD

## IMPLICATIONS

- U.S. and Chinese interests overlap substantially, and mutually benefit from:
  - Empowering developing nations to forestall the emergence of failed or failing states that could become breeding grounds for terrorism, infectious diseases, and international crime.
  - Maintaining free flow of energy, and developing alternative and cleaner fuels, and more efficient use of existing fuels, to promote sustainable international growth.
  - China's attention to infrastructure development, economic growth, and closing the wealth gap between the developed and developing worlds, and U.S. attention to good governance.
- At the same time, Chinese and U.S. interests in the developing world diverge in important areas:
  - China's aid policy has clashed with Western efforts to promote good governance, and sustainable economic reform and growth in developing nations with poor records in this regard.
  - China's "non-interference" principle serves as a direct counterpoint to U.S. attention to human rights and democracy promotion in the developing world.
  - China's political and economic relations with pariah regimes, such as Zimbabwe, Burma, and Sudan highlight this fundamental divergence in Chinese and U.S. perspectives.
- Developing nations in the future will likely play the two powers off one another to gain maximum advantage for themselves.
- In the end, fundamental disagreements between the United States and China on issues such as non-interference, good governance, and other principles, will neither lead to overt conflict nor dissipate substantially in coming years. Nonetheless, it is unlikely that China will seek to directly challenge the United States around the world in an aggressive or high-profile manner, at least in the near term.

### China's relations with pariah states

- China has remained one of Zimbabwe's president Robert Mugabe's staunchest supporters.
- In Burma, China has been the military junta's leading source of support, with China providing massive amounts of aid through grants and investment in government-run resource extraction industries, and more than \$1 billion in military hardware over the past two decades. In return, China has not only received critical natural resources for its development but also access to the eastern Indian Ocean for its military, including ports for docking its ships, and islands that offer listening posts to monitor activity along these critical sea lanes.
- Despite the horrific civil conflict and human rights violations in Darfur, China has provided Sudan's government with tanks, combat aircraft, and small arms, and investment funds for Sudan's national oil industry. China's relies on Sudan's light and low-sulfur crude for about five percent of its imported oil needs.
- President Hu Jintao reportedly urged Sudan's leadership during his January 2007 trip to the country to curb its excesses and accept a United Nations-African Union peacekeeping mission -- an apparent break with China's non-interference policy. In early March 2007, China for unspecified reasons took Sudan (as well as Iran and Nigeria) off its list of favored investment destinations. Some have been tempted to conclude that Beijing has now turned a corner in its strict adherence to its non-interference policy. It is too soon to determine whether China's recent actions are indeed a harbinger of change, a short-term demonstration of its concern about damage to its international reputation, or an anomaly that reflects the extraordinary nature of the Sudanese genocide.
- China convened an extraordinary meeting in August 2006 of senior officials from within China and from embassies around the world to discuss how to ensure its foreign policy and commercial outreach in the developing world do not interfere with its national goals, including safeguarding China's international reputation as a constructive player in the international system. While the outcome of the meeting was inconclusive, it set the stage for establishment of working groups to continue examining the subject in anticipation of the 17th Party Congress in late 2007, and beyond.