Comparing Global Influence: China's and U.S. Diplomacy, Foreign Aid, Trade, and Investment in the Developing World

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Summary

This report compares the People's Republic of China's (PRC) and U.S. projections of global influence, with an emphasis on non-coercive means or "soft power," and suggests ways to think about U.S. foreign policy options in light of China's emergence. Part One discusses U.S. foreign policy interests, China's rising influence, and its implications for the United States. Part Two compares the global public images of the two countries and describes PRC and U.S. uses of soft power tools, such as public diplomacy, state diplomacy, and foreign assistance. It also examines other forms of soft power such as military diplomacy, global trade and investment, and sovereign wealth funds. In Part Three, the report analyzes PRC and U.S. diplomatic and economic activities in five developing regions—Southeast Asia, Central Asia, Africa, the Middle East, and Latin America.

China and the United States use tools of soft power in different ways and with varying effects. Since the mid-1990s, the PRC has adopted an increasingly active and pragmatic diplomatic approach around the world that emphasizes complementary economic interests. China's influence and image have been bolstered through its increasingly open and sophisticated diplomatic corps as well as through prominent PRC-funded infrastructure, public works, and economic investment projects in many developing countries. Meanwhile, some surveys have indicated marked declines in the U.S. international public image since 2002. Some foreign observers have criticized U.S. state diplomacy as being neglectful of smaller countries or of countries and regional issues that are not related to the global war on terrorism. According to some experts, U.S. diplomatic and foreign aid efforts have been hampered by organizational restructuring, inadequate staffing levels, and foreign policies that remain unpopular abroad.

Despite China's growing influence, the United States retains significant strengths, including latent reserves of soft power, much of which lie beyond the scope of government. Furthermore, by some indicators, China's soft power has experienced some recent setbacks, while the U.S. image abroad has shown signs of a possible renewal. The United States exceeds the People's Republic of China (PRC) in global trade, although the PRC is catching up, and far surpasses China in GDP and foreign direct investment. It continues to be the dominant external political and military actor in the Middle East and political and economic influence in Latin America. The United States maintains formal alliances in Europe and Asia, and far outweighs the PRC in military spending and capabilities.

The 110th Congress has held hearings and proposed measures that support U.S. public diplomacy, diplomatic efforts, and foreign aid. Relevant legislation includes the *Implementing Recommendations of the 9/11 Commission Act of 2007* (P.L. 110-53) and the *Public Diplomacy Resource Centers Act of 2007* (H.R. 2553).

This report will not be updated.

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PART ONE: OVERVIEW

Introduction[1]

In the past decade, China's "soft power"—global influence attained through diplomatic, economic, cultural, and other non-coercive means—has grown along with its international standing.[2] Despite this development, the United States remains the preeminent global force in many areas of soft power. The United States exceeds the People's Republic of China (PRC) in global trade, and far surpasses China in GDP and foreign direct investment. It continues to be the dominant external political and military actor in the Middle East and political and economic influence in Latin America.[3] It maintains robust, formal alliances in Europe and Asia, and far outweighs China in military spending and capabilities. However, many analysts contend that U.S. soft power has declined in relative terms, and some studies show a dramatic loss in global confidence in the United States' foreign policies. Some experts argue that China's rise poses serious challenges to U.S. interests, while others believe that its implications are limited and that U.S. strengths remain formidable.

Contrasting Diplomatic Styles

The PRC has captured the attention of many developing countries due to its pragmatic approach to diplomacy, the ways in which the government links diplomacy, commerce, and foreign aid, and the dramatic expansion of its global economic influence. Since the end of the Cold War and the acceleration of China's economic take-off in the mid-1990s, Beijing's "win-win" diplomatic style has featured greater accommodation and an emphasis on short-term, common economic interests. In the past several years, China's proliferating trade, investment, and foreign aid accords with other countries, made possible by its own rapid development, have stressed mutual benefits. Through these agreements, China has gained markets for its goods, access to raw materials, and international esteem while providing other countries with foreign investment and aid projects without imposing conditions such as political and economic performance criteria. China's style of diplomacy and its foreign policy principle of "non-interference" have been characterized as sensitive to local conditions rather than imposing standards. Many countries appear to appreciate this style.

China's Economic Attractiveness

Even without Beijing's new brand of diplomacy, many developing countries are attracted to China because of what its economy represents. In Southeast Asia and Latin America, the United States continues to dominate trade and foreign direct investment. However, the PRC, which is expected to rival the United States in terms of total trade by 2011, promises its economic partners

[1] Written by (name redacted), Specialist in Asian Affairs.

[2] For further detail on China's growing soft power, see Congressional Research Service, *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*, April 2008.

[3] The Latin America and the Carribean region is also referred to as Latin America or Western Hemisphere.

ever-growing opportunities for trade and investment.[4] China also is perceived as representing an alternative, non-democratic model of development. Finally, many developing countries are drawn to China's example of asymmetric power.

Although the U.S. government's projection of soft power has evolved to address new foreign policy challenges in the post-9/11 world, many experts believe it has been less adaptable than China to the changing needs of many developing countries. The U.S. emphasis on shared democratic values, considered to be a pillar of American soft power, can be perceived in other countries as an obstacle to arriving at solutions to international problems.[5] Foreign policy observers have raised several issues related to the U.S. use of soft power tools: Some experts argue that the United States has neglected public diplomacy, particularly in helping to shape foreign perceptions of American policy. Leaders in many developing countries assert that U.S. bilateral and regional diplomacy has lacked sensitivity toward the local conditions in their countries and regions. Others lament that U.S. foreign aid objectives and programs, which have focused upon counter-terrorism and democracy-building, have placed a low priority on development. Some countries have found U.S. criteria for foreign aid and free trade agreements to be too stringent.

PRC and U.S. Soft Power in Five Regions

Economics and diplomacy are the central, mutually reinforcing components of China's growing soft power in the regions discussed below. Trade, investment, and aid, particularly that which involves gaining access to raw materials for China's development, are behind much of the PRC's recent inroads throughout the developing world. Security and strategic concerns and goals also play prominent roles in China's soft power projections in Central Asia and Southeast Asia. Competition with Taiwan for diplomatic recognition has spurred PRC engagement with Latin America and Africa. For the medium-term, Chinese leaders appear to have accepted the military dominance of the United States in Southeast Asia and the strategic roles played by Russia and the United States in Central Asia. They also recognize the longer-term U.S. sphere of influence in Latin America and U.S. strategic role in the Middle East. Contrasting ideologies and diplomatic approaches between China and the United States may be starkest in the Middle East, where Beijing has openly supported Arab and Palestinian causes and engaged in military cooperation with Iran.

Diplomacy

The U.S. government public diplomacy and international military training programs aim in large part to cultivate shared democratic values among the professional and leadership classes of foreign countries. Despite cutbacks during the 1990s, U.S. public diplomacy programs, including educational and cultural exchange activities, continue to facilitate an understanding of American values and culture, the sharing of ideas, and access to many intellectual areas in which Americans are world leaders. The regions with the largest U.S. public diplomacy efforts in terms of funding are Europe/Eurasia and the Western Hemisphere (Latin America and the Carribean).[6]

[4] Global Insight.

[5] For further discussions of U.S. diplomacy, see Center for Strategic and International Studies, *CSIS Commission on Smart Power: A Smarter, More Secure America*, 2007.

[6] The U.S. State Department refers to the Latin America and the Carribean region as Western Hemisphere.

Likewise, the U.S. International Military Education and Training (IMET) program seeks to promote democratic values, mutual understanding, and professional and personal relationships in addition to military capacity. China's fledgling public diplomacy counterparts, such as the Confucius Institutes, place more emphasis upon teaching than intellectual exchange and upon imparting an understanding of China rather than seeking common values through dialogue. Furthermore, PRC foreign military training programs do not emphasize the building of personal or cultural rapport between Chinese and foreign military officers.

While U.S. public and military diplomacy programs have helped to build a social layer of professionals, academics, policy-makers, military leaders, and other opinion makers sympathetic to American ideals in many countries, China also has made strides in the area of state diplomacy. Beginning in the mid-1990s, Beijing's ideological and isolationist foreign policy became more engaged and pragmatic. The PRC began to promote its trade and security interests through bilateral and multilateral cooperation. In the past several years, many observers note, China's conduct of official bilateral exchanges has appeared to be more active than that of the United States, especially with smaller developing countries. Through these meetings, the PRC has asserted itself as a global leader. China also has played a prominent or leading role in new regional groupings that it has helped to establish, such as the East Asia Summit (EAS), the Shanghai Cooperation Organization (SCO) in Central Asia, the Forum on China-Africa Cooperation (FOCAC), and the China-Arab Cooperation Forum. By contrast, among leadership circles in some regions, particularly Latin America and Southeast Asia, Washington has been accused of neglecting regional concerns that are not related to the war on terrorism.[7]

Foreign Assistance

The United States continues to exert global foreign aid leadership and maintain a major, and much appreciated, aid presence in Central Asia, Africa, the Middle East, and Latin America. U.S. foreign assistance to Southeast Asia has increased markedly since 2001, although most new funding has been directed at counter-terrorism and related programs in Indonesia and the Philippines. Japan remains the dominant provider of official development assistance (ODA) in Southeast Asia. In 2004, the Bush Administration launched two significant development aid programs—the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Account (MCA)—which represent far more ambitious humanitarian and development goals than does PRC aid. The MCA promotes good governance, investment in health and education, and economic freedom by providing assistance to countries that satisfy performance criteria. The U.S. State Department's Middle East Partnership Initiative (MEPI) encourages reform in four areas—politics, economics, education, and women's empowerment—through grants to non-governmental organizations (NGOs), businesses, and universities. The U.S. Peace Corps, which has sent 190,000 American volunteers to serve in 139 countries since 1960, has no real counterpart in China. The PRC's six-year-old "youth volunteers" program has sent several hundred Chinese youth to about one dozen countries in Asia, Africa, and Latin America.

In terms of ODA grants, the United States is the world's largest foreign aid donor far exceeding China. According to some estimates, China's ODA ranges from $1.5 billion to $2 billion annually,

[7] Cynthia Watson, "U.S. Responses to China's Growing Interests in Latin America," in *Enter the Dragon? China's Presence in Latin America*, Cynthia Arson, Mark Mohr, and Riordan Roett eds., with Jessica Varat, Woodrow Wilson International Center for Scholars and SAIS, 2007; Diane K. Mauzy and Brian L. Job, "U.S. Policy in Southeast Asia," *Asian Survey*, Vol. 47, No. 4 (2007).

compared to the United States' core ODA budget of $19.5 billion in FY2007 (not including military assistance).[8] However, China's emergence as a major foreign aid provider has had a significant impact both in the developing world and among major foreign aid donors because of its size, growth, availability, and symbolic value. The PRC often offers concessional loans, trade deals, and state-sponsored investments as part of aid packages, and when these are included, PRC aid may far surpass U.S. ODA. According to one study using unofficial reports of both actual and *pledged* aid, Beijing provided or offered a total of $31 billion in economic assistance to Southeast Asian, African and Latin American countries in 2007, a threefold increase compared to 2005 and 20 times greater than 2003.[9]

Chinese foreign assistance is attractive to many developing countries because it generally does not require changes in the policies or performance of recipient countries' governments. Furthermore, PRC aid finances highly visible projects, such as infrastructure and government buildings, that provide immediate benefits and recognition of China. The PRC also is providing professional and technical training for people from developing countries, particularly in Africa.

A U.S. Resurgence?

By some indicators, China's rising soft power may have experienced some recent setbacks, while the U.S. image has shown signs of a possible renewal. China has received criticism from other major powers for its economic relations with many countries reported to have serious human rights problems. China's allegedly apolitical and mercantile foreign policy, lack of transparency, and absence of political conditions and social and environmental safeguards on PRC foreign investment and aid projects have brought some instances of public outcry against Chinese political and economic influence in some developing countries. Perceptions of Beijing's poor domestic human rights record, including its policies toward ethnic minorities, also have undermined its global image and influence. Many countries, particularly in Southeast Asia, remain wary of Beijing's intentions and doubtful of its sincerity even as they welcome PRC economic ties and aid.

The United States possesses latent reserves of soft power. Many aspects of U.S. social, economic, cultural, academic, technological, and other forms of influence, much of which emanate from the private sector or outside the scope of government, remain unmatched in the world. Many American ideals have long-term, universal appeal, while the United States continues to be a magnet for immigrants and foreign students. Despite a perceived lack of attention among elites, the United States has maintained favorable public image ratings in many African and Latin American countries as well as in the Philippines, a U.S. ally. According to a recent poll, Indonesians and Vietnamese regard U.S. and Japanese soft power as slightly greater than China's.[10]

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[8] Carol Lancaster, "The Chinese Aid System," *Center for Global Development Essay*, June 2007. http://www.cgdev.org; Lancaster; See also Phillip C. Saunders, "China's Global Activism: Strategy, Drivers, and Tools," *Institute for National Strategic Studies, National Defense University*, 2006.

[9] New York University Wagner School, "Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America," report prepared for the Congressional Research Service, April 25, 2008. Many countries have reported that PRC pledged aid was not fully disbursed. According to the Wagner School study, only about 3% ($93 million) is grant aid. By contrast, the United States provided a total of $6.65 billion in grant aid to the three regions in 2007 (actually disbursed).

[10] The Chicago Council on Global Affairs, *Soft Power in Asia: Results of a 2008 Multinational Survey of Public*
(continued...)

Globally, negative views toward the United States appear to be significantly correlated to the Iraq war. Attitudes can vary in response to changes in U.S. foreign policies, leadership, diplomacy, and other instruments of soft power. On the one hand, this suggests that attitudes toward the United States can change. On the other hand, in some cases, such as in the Middle East, U.S. public diplomacy has had little impact within the context of unpopular U.S. foreign policies. New foreign aid programs, such as PEPFAR and the Millennium Challenge Account, and U.S. disaster relief efforts, such as those in Indonesia and Pakistan in 2005, have helped to improve the image of the United States in some countries and regions.[11] In the past two years, public perceptions of the United States, particularly in Western Europe, Japan, South Korea, and India, have improved somewhat in comparison to those of China. Among the countries with the widest image gaps between the United States and China and that favor the United States are Poland, Japan, South Korea, and India. Those that strongly favor China include Pakistan, Egypt, Jordan, and Indonesia. While there are positive signs, the Pew Research Center suggests that much more work lies ahead, stating that, overall, the U.S. image "remains far less positive than it was before the war [in Iraq] and at the beginning of the century."[12]

Foreign Policy Interests and Implements of Power[13]

While the challenge of China's soft power does not alter vital U.S. interests, it affects the ways and means the United States uses to protect its interests and attain its strategic goals. The rise of China, political recidivism in Russia, and the war in Iraq give rise to concerns about what the international power structure will be as we move through the 21st Century. The United States still is the world's foremost military power, largest economy, technology leader, and cultural magnet. However, the pull of the "Chinese model," the rise of competing centers of power, the emergence of challenges not easily resolved using Cold War era implements of power, the decentralization of security threats, unfavorable trends in world public opinion, and burgeoning U.S. financial problems give pause to both scholars and policymakers.

The United States and China share the same vital national interests of security and prosperity, although each has a particular additional interest and each defines its interests somewhat differently. Each seeks freedom from fear and want and to preserve its territorial integrity. For the United States, its particular interest lies in value preservation and projection of those values. Many Americans view the spread of democracy and free markets as enhancing national security and often seek improvements in human rights as part of their negotiating goals. China has a particular existential interest in regime preservation or the survival of the Chinese Communist Party as the sole ruler of China. This dovetails back into the Chinese vital interest of economic prosperity. The Party needs economic growth in order to deliver a rising standard of living to the people and provide legitimacy for its one-party rule.

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Opinion.

[11] Favorable views of the United States in Pakistan, at 19% in 2008, rose from 13% in 2003 to 23% in 2005. Favorable views of the United States in Indonesia, now at 37%, rose from 15% in 2003 to 38% in 2005. The Pew Global Attitudes Project, "U.S. Image Up Slightly, But Still Negative," June 23, 2005; The Pew Global Attitudes Project, "Some Positive Signs for U.S. Image," June 12, 2008.

[12] The Pew Global Attitudes Project, 2008, ibid.

[13] Written by (name redacted), Specialist in Industry and Trade.

The means, goals, and strategies by which each country pursues its national interests differ in many important respects. Each country wields an array of hard and soft power that includes its military, diplomatic and political activities, economic and financial clout, and considerable cultural and informational appeal. Each country deploys its power, however, in different ways. In cases, the differences may be subtle, but some are glaring. As for strategic goals, arguably each country aims at maintaining internal and external stability and developing amicable and cooperative relations with the rest of the world. At times, though, the need for security trumps stability, and a country may undertake a destabilizing action (such a the invasion of Iraq). Each occupies a different position in world leadership. Even China recognizes that the United States is the only nation that has the will, stature, and means to mobilize the world community to undertake the great projects of the day.[14] China's philosophy has been characterized as "live and let live," a more nonconfrontational approach that eschews outside interference in "internal matters." China portrays itself as a benign, non-colonial power with influence, deep pockets, an ever expanding manufacturing base, and a nation that has lifted 300 million of its people out of poverty and, therefore, has become a potent model for other developing nations. The United States has long viewed itself as exceptional and a "shining city on a hill" for freedom-loving peoples all over the world. It too has deep pockets. China likely recognizes that it is not the center of the world, as its name in Chinese implies (often translated as Middle Kingdom), but it seems to be wielding its soft power in order to pursue its national interests in ways not unfamiliar, but at times anathema, to the United States. It appears that Beijing views its rise as a global force or at least a dominant factor in East Asia as only a matter of time.[15]

The Post-Cold War Interlude

The victory by the Western world in the Cold War brought triumph not only for the military strategists but also for those engaged in the great intangible battle for the hearts and minds of aspiring peoples everywhere. The American model reigned supreme: democracy; free markets; privatization; flows of international trade and investment; and a lifestyle of a home, car, and education for one's children. The model also placed the United States as an arguably benign global power with unquestioned military supremacy and which could marshal European and other resources to keep the peace. The Soviet model of socialist planning, one-party rule, satellite states, the hard hand of repression, and building a military machine far beyond that which government could afford collapsed with the Berlin Wall. Parallel with the American model was European unification. Intra-European conflicts had ended. The specter of another World War centered on Germany, France, and England faded as the European Coal Community evolved into the European Economic Community and finally into the European Union. Diplomatic fusion, economic integration, and the security umbrella provided by the North Atlantic Treaty Organization directed European energies from internecine strife toward building a Europe to be much more than the globe's greatest outdoor museum.

At hardly any time did countries aspire to adopt the Chinese model. Mao's disastrous Great Leap Forward, Cultural Revolution, collective farms, state owned enterprises, egalitarian poverty (except for Party insiders), and repressive government had little appeal except to other dictatorial regimes. True, communist insurgencies in Southeast Asia inspired by Maoist doctrine and assisted

[14] Scowcroft, Brent. "The Dispensable Nation?" *The National Interest*, July/August 2007, p. 4.

[15] Yevgeny Bendersky and Michael A. Weinstein, "The Coming World Realignment," *The Power and Interest News Report*, June 20, 2005.

by Beijing did gain some traction, but eventually most of them were suppressed. Now even Vietnam has turned toward the American economic model, although it has retained a political system more like that in China. Ironically, Beijing has been encouraging North Korea to follow a Chinese-type model of economic reform that includes opening its borders to more trade, allowing markets, and attracting foreign investments.[16]

The China Model?

Some observers believe that in the future, China could displace the United States in much the same way that the United States displaced England as the world's great power. This view is heard in many quarters: conservatives, liberals, nationalists, internationalists, and isolationists. Notable is the articulation of a view of the seeming "inevitability" of the proposition that the "East is back" with China leading the pack. For those espousing this view, the debate turns on when—not whether—this power shift will happen and what the United States can do about it.[17]

Others, however, warn of trouble down the road for China,[18] and others caution against linear projections into the future and extrapolating onto the globe a decade or so of Chinese successes.[19] One commentator writes that the Chinese threat or challenge is not likely to appear as another Soviet Union, straining to keep pace with America's military, but more likely to be an "asymmetrical superpower," one that manipulates a situation so effectively that the outcome favors Chinese interests.[20]

In many respects, China epitomizes what may be called a "new wave" of regional powers. The world is being confronted by a more ambitious China today, but not far behind are India and Brazil as well as a sprinkling of populous nations, such as Indonesia or Nigeria, who are in the ascendant and who feel that their time has been too long in coming. The concern over rising Chinese power today might apply to the power of India and Brazil tomorrow.

As this memorandum shows, except for exports, China still lags behind the United States in most metrics of power—both soft and hard. The rate at which China is closing the gap (commensurate with its national interests) certainly has been accelerating, but the country still has a long way to go. Further, the metrics belie what may be the real story of China's ascendency. The actual story may not be in who has the most guns, largest aid budget, or whose companies are trading with and investing the most in developing nations, but it could lie in which national model is able to capture the attitudes and actions (hearts and minds) of people, states, and non-state actors in the world.

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[16] See, for example: Wu. Anne. "What China Whispers to North Korea," *The Washington Quarterly*, spring 2005, pp. 43-44. Lim, Wonhyuk. "Kim Jong Il's Southern Tour: Beijing Consensus with a North Korean Twist?" The Nautilus Institute, c. February 2006.

[17] Menon, Rajan. "The Changing of the Guard," *The National Interest On-line*. January 2, 2008.

[18] Shirk, Susan. *China: Fragile Superpower: How China's Internal Politics Could Derail Its Peaceful Rise*, New York: Oxford University Press, 2007. 320 p. Gordon Chang. *The Coming Collapse of China*, New York : Random House, c2001. 344 p.

[19] See also, (name redacted), *China's Rise and U.S. Influence in Asia: A Report From the Region*, Issue Brief by the Atlantic Council of the United States, July 2006. Bandow, Doug, "Going Overboard on China," *The National Interest On-line*, May 19, 2008.

[20] Zakaria, Fareed, "Does the Future Belong to China?" *Newsweek*, May 29, 2005.

The model China is offering is partly similar but contrasts strongly with much of the Western model. Some have characterized this as the decline of the so-called "Washington Consensus"[21] among developing countries and the rise of the "Beijing Consensus."[22] The Beijing Consensus purports to represent the thinking of policymakers in China and underlies their approach to relations with countries of the developing world. The essence of the consensus is that China, India, and other countries that ignored the Washington Consensus have succeeded while those who followed American advice or underwent World Bank or International Monetary Fund (IMF) discipline have failed in many of their basic goals—such as lifting their populations out of poverty. The Beijing consensus is skeptical about adopting wholesale Western economic ideals of privatization and free trade, molding one's political system to conform to Western-style democratic institutions, and allowing markets to handle everything, even though China actually adopted many of these policies in the process of its development over the past quarter century. The Beijing consensus contends that nations can fit into the global system without abandoning their way of life or compromising their independence (viz. authoritarian government). Countries can choose the most useful aspects of the Western model and avail themselves of foreign investments and technology without themselves becoming "Western."

This Beijing Consensus is thought to have three primary principles:

- use of innovation and cutting edge technology to create change that moves faster than the problems that change creates;
- management of chaos caused by change; and
- self-determination or using leverage to hold away larger powers that may be tempted to tread on your toes.

In practice, the Beijing Consensus implies rejection of the usual notion that workers in developing economies must be consigned to sewing garments, working handicrafts, and assembling toys. Countries can start at the labor-intensive, traditional industries, but they also can move directly into high-technology both through foreign investment and by borrowing and localizing existing world technology. When American semiconductor makers first began operating in China in the early 1990s, they reportedly did so with the belief that the China market would be a place to unload out-of-date chips. But the Chinese only wanted the newest, fastest technology.[23] China's move directly into fiber optics rather than copper wire was driven partly by the difficulty of protecting copper wire from thieves, but it also reflected the policy to jump directly into 21st century telecommunications rather than languish in the leftovers from the labs of Alexander Graham Bell. Chinese State Councilor Chen Zhili reportedly wrote that the country is doomed unless Chinese society finds ways to innovate. She argued that science and technology and human resources talent are the two pillars of China's future. China's problems, she says, are simply too big for old solutions, too tremendous for anything but an army of great ideas and successful implementation.[24]

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[21] Williamson, John. "A Short History of the Washington Consensus," Paper commissioned by Fundación CIDOB for a conference "From the Washington Consensus towards a new Global Governance," Barcelona, September 24—25, 2004. The ten points of the Washington Consensus were: fiscal discipline, reordering public expenditure priorities, tax reform, financial liberalization, a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment, privatization, deregulation, and property rights.

[22] Ramo, Joshua Cooper, "The Beijing Consensus," The Foreign Policy Centre, Elizabeth House, London, 2004.

[23] Ibid, p. 17.

[24] Zhili, Chen, "Science & Technology and Talent: The Two Pillars of a Well Off Society" (Keji yu Rencai: Quanmian (continued...)

The second principle of "managing chaos" recognizes that once an economy "takes off" with double-digit growth rates, society becomes an unstable stew of hope, raw ambition, fear, misinformation, corruption, competing interest groups, and politics. Traditional society quickly can give way to chaos (another term for political instability). In order to manage such chaos, policies aimed at sustainability and equality—particularly for those left behind—become important. When an economy doubles in size every seven years (growth rate of 10% per year), governments really do not know beforehand what exactly will emerge from the rough and tumble ruckus caused by economic transformation. No magic prescription exists that will both sustain rapid economic growth and maintain stability. The Washington Consensus says to "leave it to the market" and everything will work out eventually. Beijing's approach is to recognize that since the government has no previous experience to fall back upon, the Chinese people have to "wade across the stream by feeling the way with one's toes." Policymakers can stay ahead of the chaos only if they pursue policy innovations as problems occur. Central governments have to be strong, and at times autocratic, in order to both implement innovative policies and to reverse those that go bad before they cause too much damage.

One allure of this approach is that some countries are concluding that they can go their own way without following prescriptions that seem designed primarily to benefit advanced industrialized economies. Measures such as restricting life-saving medicines because of intellectual property rights, exposing infant industries to global competition, saving old growth forests similar to those cut down long ago in developed nations, or accepting macroeconomic strictures prescribed by international financial institutions seem avoidable under the Chinese model. Human rights also are not an issue, at least not in the legal sense. The primary attribute in the Chinese model today is for people to be brought out of poverty, not necessarily to have legal freedoms. Developing nations may well view this as an alternative to the economic reform requirements often imposed by international lenders (such as the International Monetary Fund during various financial crises). Rather than taking funding from the World Bank or IMF, they can simply "receive" Chinese aid with no strings attached. (Of course, the rude awakening may come later when not all promised aid is forthcoming.)

The third principle is self determination and using leverage to keep the great powers at bay. Although China's nuclear powered military resembles that of other military powers, Beijing recognizes that not everyone can be a superpower, and not everyone needs to be. Every nation, however, can be a power in its own right—perhaps not powerful enough for domination, but at least strong enough for self-determination. China's message to other countries may be that a country does not have to win an arms race; it only needs to build enough asymmetric power to keep hegemonic powers at water's edge. A nation's military exists primarily to deter conflict, since in Chinese military thinking, armed conflict is usually an indication of failure. China's leverage stems partly from deterrent effect of its military but also from the strength of its economic position and growing reliance of other countries on the web of trade and investment relations with businesses in China. Trading partners now have a stake in the success of the Chinese economy (and vice versa). The Chinese model also insists on national sovereignty (in China's case the one-China policy).

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Jianshe Xiaokang Shihui de Liang Da Zhongyao Zhizhu), *QiuShi*, 2004, No. 374. Cited in Ramo, Joshua, "The Beijing Consensus," op. cit., p. 13.

Implications for the United States

To many analysts in the United States, the rise of China and the allure of its model for development is an indicator of the need for adjustment in U.S. foreign policy. The hard lessons of Iraq combined with a deteriorating image of the United States in world public opinion also have caused many in both the Pentagon and State Department to go back to the drawing board and think creatively about the use of U.S. military, diplomatic, economic, and cultural power. Secretary of Defense William Gates recently stated that the new thinking in overall U.S. defense strategy is to build partner-nation capacity so friends can better defend themselves, and while preserving U.S. conventional military deterrence abilities, to become more attentive to both "hard" and "soft" elements of national power.[25] Meanwhile, Secretary of State Condoleezza Rice has proposed "Transformational Diplomacy" (working with other nations to build democracies that respond to the needs of their people and conduct themselves responsibly in the international system) and is attempting to create a Civilian Reserve Corps to assist in reconstruction efforts following military action.[26] Another aspect of soft power is to keep weak and failing states from actually failing, descending into chaos, and becoming an incubator of or safe haven for terrorist groups.[27]

Some analysts have devised the concept of "smart power," a combination of hard and soft power. Others, however, say the use of the word "smart" is elitist and condescending or that the use of the phrase "soft power" seems politically untenable for those who already are being accused of being soft on defense.[28] A U.S. ambassador refers to an "all elements of power" strategy in combating terrorism.[29]

Whatever name is used, the essence of the argument is that U.S. implements of power must be used in an articulated, coordinated, and concatenated way in order to be more effective. Whether the power be called hard or soft, the objective seems to be for U.S. military, diplomatic, economic, or cultural power to be employed and combined in ways that cut across government agencies and better protect and enhance U.S. interests.

The U.S. experience since 9/11 also has suggested certain considerations and constraints in wielding U.S. power. These include the following:

- large international tasks are most effectively tackled with large international coalitions for financial, physical, as well as political support;
- future wars involving the United States may well be asymmetrical and involve soft power—a combination of military operations (against conventional as well

[25] Robert M. Gates, Speech before the International Institute for Strategic Studies (Singapore), May 31, 2008.

[26] Richard G. Lugar and Condoleezza Rice, "A Civilian Partner for Our Troops, Why the U.S. Needs A Reconstruction Reserve," *Washington Post*, December 17, 2007, P. A21. Condoleezza Rice, "Transformational Democracy," speech at Georgetown University, January 18, 2006.

[27] Galvin, Thomas P. "Extending the Phase Zero Campaign Mindset," *Joint Force Quarterly*, Issue 45, Second Quarter, 2007. pp. 48-51.

[28] Goldenberg, Ilan. "It's Time to Stop Talking About Soft Power," *The American Prospect* (on-line version), May 29, 2008.

[29] Dailey, Dell, "An 'All Elements of Power' Strategy for Combating Terrorism." Policy Watch #1321, The Washington Institute for Near East Policy, December 18, 2007.

as insurgent forces), reconstruction, governance, and winning the hearts and minds of people;

- threats to U.S. security have become "democratized"—whether a single person, a group, or an international network, all can potentially damage American people or assets;
- budget constraints are real both in terms of opportunity costs and for financing foreign operations;
- countries are placing more emphasis on national sovereignty—not just guarding against outside incursions but, for some nations, rigidly controlling humanitarian interventions or opposing foreign assistance to local non-governmental organizations for political reasons;
- as democratic institutions and societies become more entrenched (particularly in developing nations), public opinion, nationalism, and attitudes become large moving forces for governments (even autocratic governments use nationalism to bolster public support);
- international relations requires dealing not only with governments but with the perceptions and attitudes of people under those governments;
- globalization and technology have shrunk geographical distances among countries and created more economic interdependence;
- communications networks have so linked people of the world that everything seems to have a public face; that face often can be distorted according to the interests of those in the network; and
- the rise in prices of commodities (particularly petroleum) and the U.S. trade deficit are redistributing wealth away from the United States and other industrialized nations toward commodity exporting nations (many are either politically unstable or located in unstable regions) and toward China.

Given the above and other considerations, the question becomes where and how to exercise U.S. soft and hard power in the post-9/11 world. As for the question of where, soft power naturally flows everywhere, but it also can be channeled to particular countries or regions.

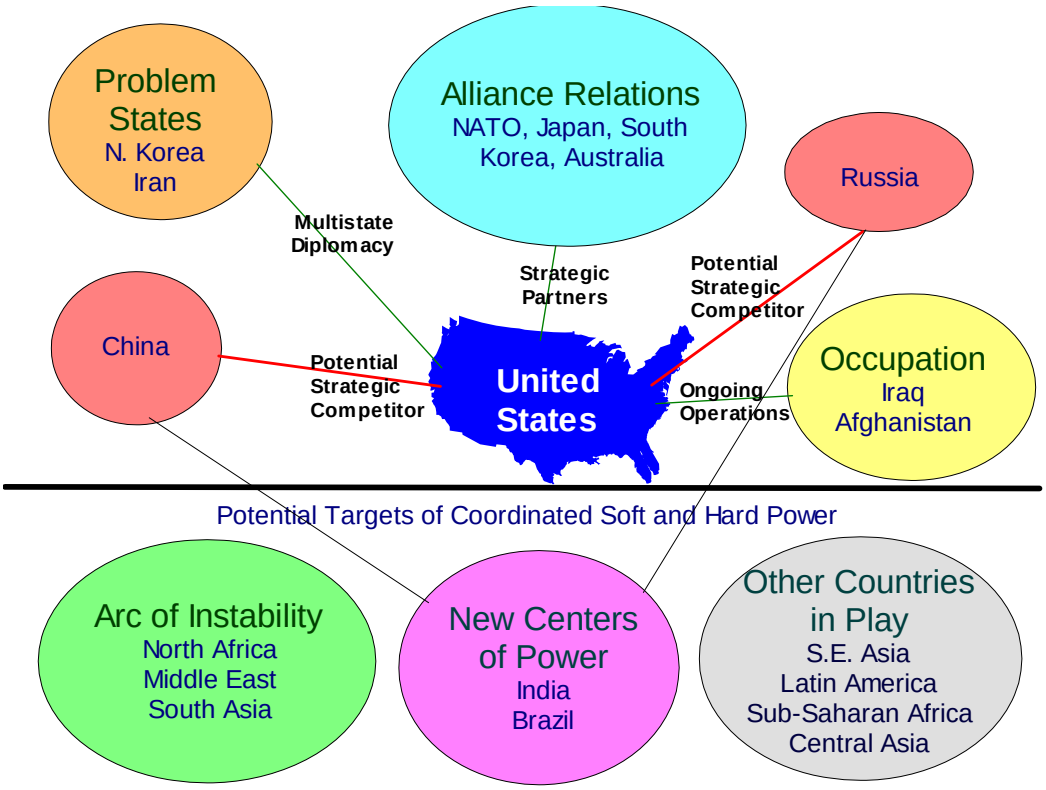
Figure 1 depicts a simplified view of the various countries and regions of the world with characterizations of basic U.S. relations with those countries or regions. With allied nations (NATO, Japan, South Korea, and Australia), relations are fundamentally sound although they may need adjustment at times. Shared strategic visions, military commitments, economic interaction, cultural affinity, and wide communication channels draw these nations together. Even with these nations, however, government-to-government relations often have to be combined with public diplomacy and building perceptions of trust and confidence to garner support for U.S. policies.

Russia and China are often considered to be potential strategic competitors, although the United States engages heavily with each. The question with these two nations is how much hard power is necessary to hedge against a possible future strategic confrontation.[30] Some warn of a return to

[30] See, for example: Barma Naazneen, Ely Ratner and Steven Weber, "A World Without the West," *The National Interest*, July/August 2007. P. 23.

totalitarianism in Russia, but the probability of open hostilities with Russia seems remote. Even Russian experts consider nuclear and large-scale wars with NATO or other U.S.-led coalitions no longer probable and see cooperation with the United States and other industrialized countries growing.[31]

Figure 1. U.S. Relations with Countries and Regions and Potential Targets of Coordinated U.S. Soft and Hard Power



Source: Congressional Research Service.

As for a possible military confrontation with China, some experts point to China's growing military budget and the possibility of a conflict over the Taiwan Strait. These fit well into a Cold War mentality. The perceived security threat from China is magnified by Beijing's lack of transparency in clarifying its motives for its rising arms budget as well as its rumblings and warnings about Taiwan independence.[32] However, Dennis Blair, the former Commander-in-Chief of U.S. Pacific Command, has written, "In evaluating China's military actions, it is most important to make judgments based on real military capabilities, not on blue-sky projections of individual Chinese actions." He argues that although China has raised suspicions that it may be developing military force for use in the East Asia region and further, the PLA (People's Liberation Army) has not developed nor demonstrated even the rudiments of the actual capabilities to do so.[33] Since China's intentions are unknown, the strategy of the Defense

[31] de Haas, Marcel. "Russia's Military Strategy; Preparing for the Wrong War? *Power and Interest News Report*, April 24, 2006.

[32] For details, see U.S. Department of Defense. *Military Power of the People's Republic of China, 2008*, Annual Report to Congress. 56p.

[33] Blair, Dennis. "China's Military Modernization on Land and Sea and in the Air and Space: Relevance to U.S. (continued...)

Department has been to pursue a balanced approach by shaping the choices of major and emerging powers in a way that seeks cooperation but also creates prudent hedges against the possibility that cooperative approaches by themselves may fail. The strategy is also to induce China to become a constructive actor and stakeholder in the international system[34] and to strive to ensure that preparing for a possible military confrontation does not in itself trigger one.

There are other ways, however, in which China could threaten U.S. power. One would be a Chinese alignment with autocratic energy exporting countries to collaborate strategically to limit U.S. power.[35] Another one would be an "Eurasian Entente," a loose alliance between Russia and China aimed at thwarting the interests of the United States.[36] China and Russia have stepped up their strategic cooperation, but such countervailing alliances still seem far from being realized, and historical Sino-Russian enmities will likely limit how far that relationship can go. (The Shanghai Cooperation Organization is a fledgling attempt at drawing China, Russia, and three countries of Central Europe into an organization addressing security, economic, and cultural concerns.)

For North Korea and Iran, relations are dominated by nuclear concerns. Interaction with these states is primarily through multinational diplomacy. With North Korea, both China and South Korea have used a considerable amount of economic, diplomatic, and cultural soft power in dealing with the Kim Jong-il regime, but progress has been slow.

As for operations in Iraq and Afghanistan, these are large problems where both hard and soft power are being used to the maximum. The United States dominates in decision making here, and the Chinese model has little relevance.

The countries in which Chinese soft power competes most directly with that of the United States fall into three categories: the arc of instability stretching from North Africa through the Middle East and into South Asia, other countries in play (Southeast Asia, Latin America, Sub-Saharan Africa, and Central Asia), and new (and re-emerging) centers of power, the so-called BRICs (Brazil, India, as well as Russia and China, for U.S. soft power). There is some overlap in the categories, but in essence these mainly are countries of the developing and newly industrializing world. Some are democratic, some autocratic, and each represents a potential power node. The United States is in competition for the hearts and minds of citizens of these countries. Some have *de facto* chosen sides, and others are following development paths that may or may not bring them into conflict with American values and interests.[37]

Instruments of Hard and Soft Power

The tool kit of U.S. hard and soft power includes the military, diplomacy, economics, and culture [38] along with several intangibles that result from U.S. actions. These include credibility, trust, and

(...continued)

Policy," in The Aspen Institute, *U.S.-China Relations*, Vol. 23, No. 2, March 24-30, 2008, pp. 25-26.

[34] U.S. Department of Defense. *Quadrennial Defense Review Report*, February 6, 2006, p. 10.

[35] Leverett, Flynt. Black Is the New Green," *The National Interest*, January/February 2008, p. 44.

[36] Wilson, Peter A., Lowell Schwartz and Howard J. Shatz. "Eurasian Invasion," *The National Interest*, May/June 2008, p. 43.

[37] Barma Naazneen, et al., "A World Without the West," op. cit., p. 30.

[38] Law enforcement is another means for wielding power.

general amicability. Military forces include not only those actually engaged in combat but the threat of their use in offensive, defensive, and retaliatory operations. Diplomacy includes political forces, a nation's system of governance, alliances, and international relationships. The economy includes a nation's economic power, economic assistance, trade, foreign investment, financial position, and preferential trading arrangements. Cultural resources include the media, information, public diplomacy, communications, and traditional propaganda.

Figure 2 depicts these tools of power and illustrates various combinations of them that typically are used in accomplishing ends or goals in international affairs. The percentages are not based on actual metrics but attempt to depict various combinations of the tools of power that can be used in different activities aimed at wielding power to change the behavior of other nations. The figure begins with the least forceful ways by which implements of power may be used—co-optation—and proceeds through increasingly forceful ways until countries reach open warfare and occupation.

Co-opting other nations refers to a process of bringing them into international groupings or ways of thinking in order to align their interests with yours. It is primarily a non-aggressive strategy that relies heavily on the use of information, economics, and diplomacy, although military considerations are always in the background. It is the fundamental premise behind many of the world's alliances, country groupings, the World Trade Organization, and other international institutions. Co-optation also works at corporate and individual levels. Corporations engage in international trade and investment, and individuals work in businesses owned by foreign companies. In these cases, corporate and worker interests on particular issues can align more with foreign than domestic interest groups. It also is the theory behind the democratic peace hypothesis: democracies tend not to fight each other because of shared values.

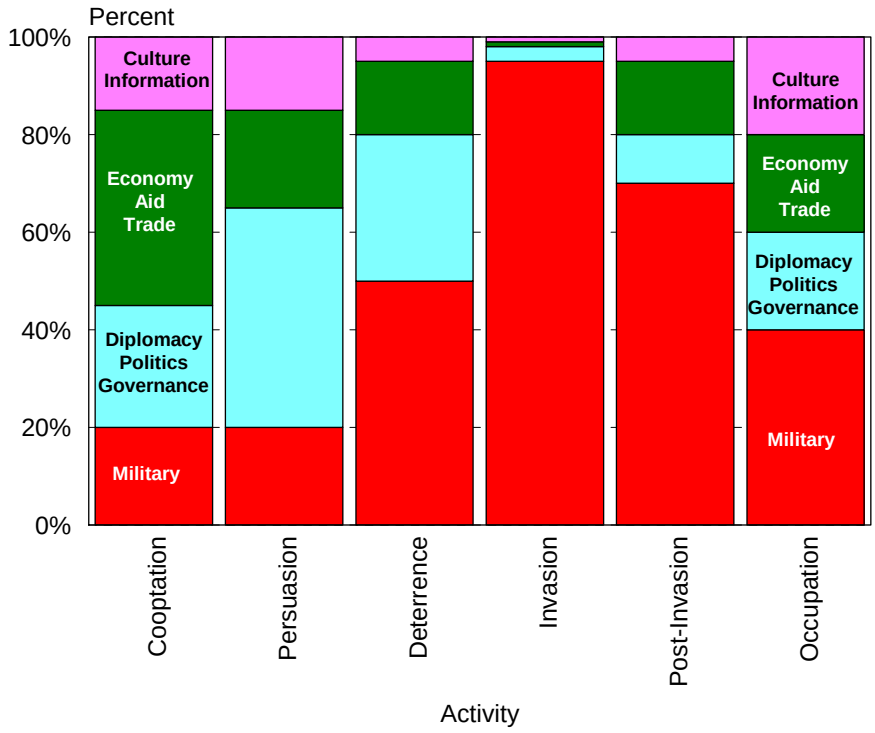
Co-optation is particularly important given the democratization of security threats, particularly terrorism. If anyone in the world can pose a potential security threat, then any security strategy must include winning the hearts and minds of people who might opt to engage in such activity (or those around them who might either support or report such activity to appropriate authorities).

Persuasion refers to a process by which an entity is induced to behave in a particular way primarily because of changes in its own interests or because of specific concessions offered by other nations. Here diplomacy plays a key role along with economic enticements, political pressures, information, and the military in the background. A country may be persuaded to behave in a more positive way without an overt external threat of use of military force.

For deterrence, the military plays a greater role by changing the target nation's perception of the costs and benefits of taking or not taking certain actions. The credibility of the military force becomes key, but the issues usually are resolved through diplomacy. Threats of a pre-emptive strike or trade sanctions may be used. So far, China has been deterred from taking Taiwan by force partly because of the negative military and political consequences that likely would ensue.

If deterrence by threat fails, overt military action can be employed either to preempt or deny. If that also fails, war may ensue, and the military may be used to retaliate—in order to deter any similar adverse actions in the future.

Figure 2. Combinations of Hard and Soft Power Used in Various Activities Aimed at Wielding Power



Source: Congressional Research Service

The next three activities are included to illustrate how the mix of hard and soft power changes in a sequence of military invasion, post-invasion, and occupation. The Chinese model has little relevance here. The chart depicts a rough symmetry with reliance on soft power declining as the use of hard power rises but then soft power increasing as hard power operations wind down. Changes in the mix of U.S. power prior to overt military action also may affect how both hard and soft power may be used after the battles end.[39]

In summary, many voices in policy circles in Washington are calling for the United States to wield its hard and soft power in a more coordinated and articulated way. This has arisen partly from the perceived successes of China in its attempts to win the hearts and minds of people in the developing world, but perhaps more from the complications of the Iraq War, the threat of

[39] While an invasion is primarily a military activity, the immediate post-invasion period requires a combination of military and civilian authorities. A prolonged occupation, depending on the extent of local resistance, requires less and less military action and more political, economic, and informational activity. A policy issue for the United States may be to determine the proper mix of instruments of power for each activity and to ensure that the appropriate resources are available to accomplish each task. Should the military be more involved in nation building, or should the State Department provide more for its own security? How best can the military, diplomatic, and economic tools be combined to pursue certain U.S. objectives? Are there things China does well that the United States needs to account for or emulate? Some of this policy debate already is being implemented. The efforts of the U.S. Central Command's Combined Joint Task Force-Horn of Africa is a case in point. Here the military is attempting to prevent conflict through humanitarian assistance that includes building health clinics, renovating schools, and providing fresh water sources—tasks usually done by aid agencies or non-governmental organizations. The provincial reconstruction teams in Iraq are another example. They consist of civilian-military teams intended to help provincial governments with governance, economics, infrastructure, rule of law, and public diplomacy.

terrorism, and the problems of globalization. However appealing this developing "consensus" appears on the surface, though, it faces the "devil in the details." It includes the long-running debate over the size of various means used to project U.S. power, particularly the budget of the Pentagon, the specific capabilities of the various instruments of power, the appropriate mix of hard and soft power, and whether new institutions are necessary to cope with the challenges of the 21st century.

Assessing China's Soft Power[40]

Although Beijing has adopted a more accommodating and multilateralist foreign policy and has not challenged the global "status quo," many experts disagree about the PRC's capabilities and long-term intentions and as well as the implications of China's rise. Some analysts warn that China's growing soft power reflects a set of well-funded, integrated foreign policy goals, developed to secure and advance China's economic and security interests at the expense of the United States. Others argue that China's rise is limited in scope, vulnerable to domestic shocks and public backlash in foreign countries, and represents a trend toward greater integration in the global community. Furthermore, this argument goes, U.S. military might, foreign aid resources, trade and foreign direct investment, and intellectual and cultural influences remain formidable. Many countries continue to seek strong diplomatic, economic, and security relations with the United States even while cultivating ties with China.

Regarding China's goals, some observers contend that China's most pressing concerns, at least in the short- to medium-term, are domestic (focused on economic growth and social stability). Furthermore, they argue, Beijing favors a stable periphery and knowingly benefits from the U.S. role in helping to maintain global security. To the extent that China may exploit its soft power for strategic ends, it is to forestall possible "containment" rather than to pursue expansion.[41]

Many analysts believe that economic development rather than military supremacy is the primary objective for China's international engagement 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.[42] This rapid and sustained economic growth has created voracious domestic appetites for resources, capital, and technology. At the same time, Chinese growth has been driven by the development of overseas markets for its goods. These twin developments have served as powerful drivers of China's international trade and investment agreements as well as foreign aid, key components of its soft power.

[40] Written by (name redacted), Specialist in Asian Affairs.

[41] For a look at the debates on the implications of China's growing "soft power," see (name redacted), *China's Rise in Asia: Promises and Perils* (New York: Rowman and Littlefield, 2005); Bronson Percival, *The Dragon Looks South: China and Southeast Asia in the New Century* (Westport: Praeger Publishers, 2007); Joshua Kurlantzick, *Charm Offensive* (New Haven: Yale University Press, 2007).

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

In energy sources alone, for example, China became a net importer in 1995 (it became a net importer of oil in 1993). Its energy demands are expected to continue increasing at an annual rate of 4%-5% through at least 2015, compared to an annual rate of about 1% in industrialized countries.[43] China steadily and successfully has sought trade accords, oil and gas contracts, scientific and technological cooperation, and de-facto multilateral security arrangements with countries both around its periphery and around the world. Access to energy resources and raw commodities to fuel China's domestic growth has played a dominant role in these relationships. Many of these activities are tied to PRC pledges of foreign aid.

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, and with other countries and regions. 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 and other countries to strengthen their alliances or form other groupings to counterbalance and deter China's international outreach. Such a development in turn could fetter China's economic growth.

Limitations on Chinese Soft Power

China's "win-win" approach to international interactions often is considered more symbolic than substantive. Easy things are taken care of first, while inconvenient and difficult things are postponed, possibly indefinitely. 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, many believe, pales next to the national capacity and willingness of the United States to take on costly and difficult global tasks such as international disaster aid. To date, they contend, nothing in Beijing's current soft power approach suggests that it is willing to embrace such altruism. Moreover, China's 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.

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 misunderstandings, resentment, and repercussions. Cultural backlash may be heightened by the style that PRC foreign investments and construction projects have pursued to date—involving the import of Chinese workers instead of using the local population or providing substandard labor conditions for local workers. 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 Asian 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. As China's international activities expand, tensions along these lines are likely to increase, possibly garnering unfavorable publicity for the PRC and putting stress on the "win-win" approach.

Foreign entanglements also could raise political problems at home for PRC policymakers. The increasing availability of Internet and cell phones—China now has the world's largest numbers of

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

Internet and cell phone users—assures that growing numbers of Chinese citizens have more access to information, including information about China's international activities. Confirmation that China is investing millions of dollars in overseas projects, while at home unemployment grows 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.

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 and uncoordinated, and at times triggers anti-American feelings, it nevertheless leaves a substantial global footprint. This wealth of U.S. influence may provide resources for U.S. soft power strategy.

PART TWO: COMPARISONS OF U.S. AND PRC INSTRUMENTS OF HARD AND SOFT POWER

Diplomacy and Foreign Assistance

The following section examines three aspects of non-economic soft power—public diplomacy, state diplomacy, and foreign assistance. It compares U.S. and PRC efforts in a range of areas, including educational and cultural exchanges, bilateral and multilateral diplomacy, and foreign aid funding and approaches. In the past decade, Beijing has emphasized relatively short-term, economic "mutual benefits" while using these tools of soft power. This approach, on balance, has had a positive impact on elite and public perceptions of China in many countries.

By contrast, the United States, particularly since 2001, has focused upon longer-term goals of combating terrorism as well as promoting democratic governance and market-oriented economic development. The Bush Administration's five-year, $15 billion President's Emergency Plan for AIDS Relief (PEPFAR) reportedly has helped to bolster public opinion in favor of the United States in Africa while humanitarian assistance in places such as Indonesia also have helped to boost U.S. standing.[44] However, many countries have not benefitted from counter-terrorism, PEPFAR, or Millennium Challenge Account (MCA) assistance. In 2007, over three-fourths of

[44] CSIS, op. cit. In a 2005 Pew survey, 79% of Indonesians polled said that they had a more favorable view of the United States because of its relief efforts in their country after the 2004 tsunami. Pew Global Attitudes Project, "U.S. Image Up Slightly, But Still Negative," June 23, 2005.

U.S. assistance to the Middle East consisted of military assistance. In the past decade, U.S. public diplomacy has faced serious challenges to its effectiveness, including the elimination of the U.S. Information Agency (USIA), inadequate staffing, and widespread global opposition to the U.S.-led war in Iraq.

The U.S. government administers a wide array of educational and cultural exchange programs, emphasizing research, values, and ideas that may transcend national boundaries. U.S. research universities continue to rank among the world's top educational centers and attract foreign students, many from India and China. By contrast, China's most prominent counterpart, the Confucius Institutes, which teach students in other countries about Chinese history and culture, have less universalistic appeal. Nonetheless, they represent a new component in China's strategy to merge its economic influence with efforts to promote an understanding of its view of the world.

The 110th Congress has held hearings and proposed measures that support U.S. public diplomacy, diplomatic efforts, and foreign aid. The House Committee on Foreign Affairs held two hearings on reforming foreign assistance and diplomacy. (March 8, 2007 and June 25, 2008) The *Implementing Recommendations of the 9/11 Commission Act of 2007* (P.L. 110-53), includes provisions supporting greater communication of U.S. policies and promotion of U.S. values. The *Public Diplomacy Resource Centers Act of 2007* (H.R. 2553), passed by the House and reported favorably by the Senate Committee on Foreign Relations, would provide for the establishment of new, and maintenance of existing, libraries and resource centers at or in connection with U.S. diplomatic or consular missions.

U.S. Public Diplomacy[45]

Public diplomacy is the promotion of America's interests, culture and policies by informing and influencing foreign populations. The Department of States proclaims that the goals of U.S. public diplomacy strategy include promoting democracy and good governance and marginalizing extremist leaders and organizations.[46] The U.S. government first officially acknowledged its use of public diplomacy activities in the early years of the 20th century when President Woodrow Wilson created the Committee on Public Information to disseminate information overseas during World War I.

Background

In 1941 during World War II, President Roosevelt established the Foreign Information Service to conduct foreign intelligence and propaganda. The next year President Roosevelt created the Office of War Information (OWI) which aired the first Voice of America (VOA) program on February 24, 1942 in Europe. These activities were carried out without any authority or recognition provided by Congress.

The U.S. Information and Educational Exchange Act of 1948 (P.L. 80-402), popularly referred to as the Smith-Mundt Act,[47] provided the first overarching legislation authorizing broadcasting and cultural activities, although they had already been going on throughout the 1940s.

[45] Written by Susan Epstein, Specialist in Foreign Policy, and (name redacted), Specialist in Asian Affairs.

[46] Department of State, "Budget in Brief: Fiscal Year 2009."

[47] Named for the two primary sponsors of the legislation, Representative Karl Mundt (Republican from South Dakota) (continued...)

Throughout the 1990s, both Congress and the executive branch, in the post-Cold War climate, reduced public diplomacy activity funding, and in 1999 abolished the primary public diplomacy agency, the U.S. Information Agency—USIA, altogether. During the 1990s, public diplomacy often was viewed as less important than political and military government functions and, therefore, was seen by some legislators as a pot of money that could be tapped for other government activities. Many U.S. policymakers now recognize the importance of how America and its policies are perceived abroad. At the same time, some observers believe that there are limits to what public diplomacy can do when the problem is not foreign misperceptions of America, but rather disagreements with specific U.S. foreign policies. A major expansion of U.S. public diplomacy activities and funding cannot change that, they say.

According to a Pew survey, in 2000, more than 50%, and as high as 83%, of foreign populations around the world held favorable views of the United States.[48] A number of decisions early on by the Bush Administration including refusing to sign onto the Kyoto Treaty, the International Criminal Court, the Chemical Weapons Ban, and the Anti-Ballistic Missile Treaty, lessened foreign opinion of the United States. After the September 11, 2001 terrorist attacks, people around the world expressed shock and support for the U.S. government. Since then, however, negative attitudes about America have increased. After the decision to go to war with Iraq, foreign opinion of the United States fell sharply, not only in the Arab and Muslim world, but even among some of America's closest allies. Many suggest that, ongoing issues, such as prisoners held at Guantanamo Bay and the Abu Ghraib prison torture situation, continue to exacerbate a poor world view of the United States.

U.S. Educational and Cultural Exchange Programs

The United States government sponsors a broad array of cultural and educational exchange programs for the purpose of "increasing mutual understanding." The State Department's Bureau of Educational and Cultural Exchange administers a number of programs, including the Fulbright Program, English language programs, an American speakers program, citizen exchange programs, student leader programs, and English language programs. There are approximately 30,000 participants each year.[49] U.S. embassies also oversee the U.S. Speakers Program, in which American subject-matter experts address selected audiences in foreign countries on a range of policy issues and various aspects of American society. The largest regional beneficiaries of U.S. exchange programs in terms of funding are Europe and Eurasia and East Asia and the Pacific.

Funding

Public diplomacy consists primarily of three categories of activities: (1) international information programs (IIP), (2) educational and cultural exchange programs, and (3) international nonmilitary broadcasting. The Under Secretary of State for Public Diplomacy and Public Affairs administers the Bureau for International Information Programs and the Bureau for Educational and Cultural Affairs, while the Broadcasting Board of Governors manages and oversees international broadcasting. **Table 1** below shows that total public diplomacy spending nearly doubled between

(...continued)

and Senator Alexander Smith (Republican from New Jersey).

[48] Views of a Changing World, The Pew Global Attitudes Project, June 2003.

[49] http://www.cap-aed.org/index.php?id=166.

FY1999 and FY2007 (the most recent actual data). (See **Figure 3**.) The regions with the largest funding for public diplomacy (FY2007) are Europe/Eurasia and Western Hemisphere (Latin America and the Caribbean). (See **Figure 4**.) For FY2009, the Bush Administration requested $395 million for International Information Programs "to influence foreign opinion and win support for U.S. foreign policy goals."[50]

Table 1. Major Public Diplomacy Activities, Current and Constant Dollars, FY1999-FY2009 Request

($ million)

Fiscal years	Int'l Info Programs (IIP)	Int'l Exchanges	Int'l Broadcasting	Total (current $)	Total (constant $)
FY1999	n.a.	200.5	397.0	597.5	597.5
FY2000	234.3	204.2	420.2	858.7	837.1
FY2001	246.1	231.6	450.4	928.1	884.0
FY2002	280.3	238.7	551.9	1,070.9	1,001.4
FY2003	298.8	243.7	533.8	1,076.3	980.3
FY2004	300.1	316.6	591.6	1,208.3	1,069.5
FY2005	315.7	355.9	598.8	1,270.4	1,084.5
FY2006	334.7	431.3	680.1	1,446.1	1,194.0
FY2007	351.2	465.7	656.8	1,473.7	1,190.7
FY2008 est.	358.0	501.3	682.0	1,541.3	1,212.5
FY2009 req.	394.8	522.4	699.5	1,616.7	1,243.4

Source: State Department Congressional Budget Justifications, FY2001-FY2009 and the Broadcasting Board of Governors. Constant $ are CRS calculations based on a 1999 deflator.

Note: The Department of State includes other smaller activities, such as the National Endowment for Democracy, U.S.-Israeli Scholarship Program, the East-West Center, and Eisenhower Exchange Fellowship Program which combined total less than $100 million and are not included in this table.

[50] Department of State, "Budget in Brief: Fiscal Year 2009."

Figure 3. Public Diplomacy Funding, FY1999-FY2009

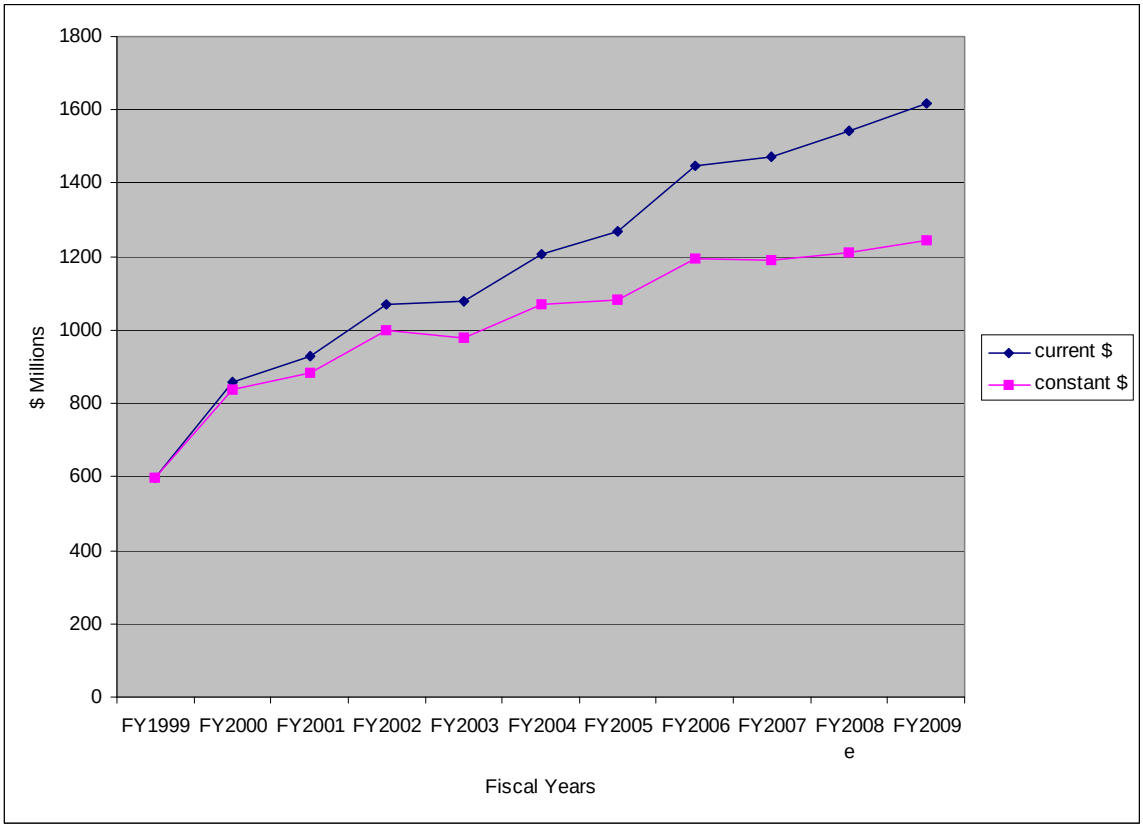
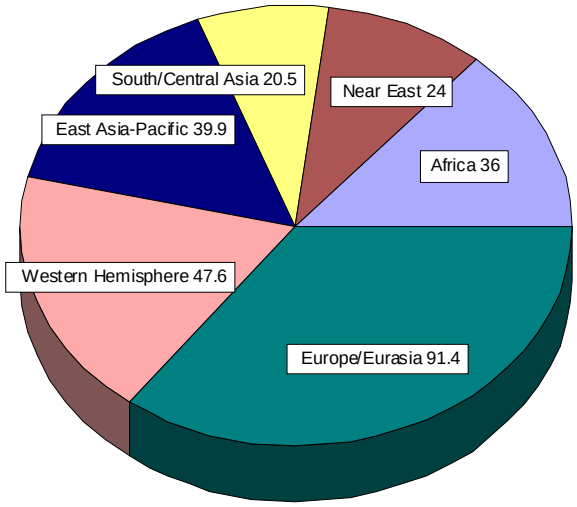


Figure 4. Funding for Public Diplomacy by Region, FY2007 ($million)



Source: U.S. Department of State

PRC Confucius Institutes and Language Training[51]

The PRC government has established an office for promoting Chinese language and culture as part of a global public diplomacy effort. China's National Office for Teaching Chinese as a Foreign Language, or *Hanban*, reportedly has established 210 Confucius Institutes worldwide in 64 countries and regions since 2004 to teach Chinese language and culture. Some observers assert that these centers will help China to cultivate friendships and promote an understanding of China throughout the world. They typically are located in colleges and universities in host countries under cooperative arrangements with Chinese educational institutions. More than 200 educational institutes in 61 countries and regions reportedly have applied to open up Confucius Institutes, while China has trained more than 300 teachers and spent $26 million on textbooks and audio equipment for this purpose.[52] Other PRC efforts include hosting overseas scholars in programs similar to U.S. government-sponsored scholarly exchanges and attracting and expanding facilities for foreign students.[53]

According to the PRC government, in 2005, more than 30 million people outside China were studying Chinese, although the vast majority of them were not sponsored by the Chinese government.[54] The PRC National Office for Teaching Chinese as a Foreign Language predicted that by 2010, 100 million persons around the globe will be learning Chinese.[55] However, the attraction to Chinese language often reflects more an interest in Chinese economic opportunities than a desire to emulate Chinese politics, society, or culture.[56]

Foreign Students

The United States, with its first-rate universities, continues to attract far more foreign students than does China. In 2007, the U.S. Department of State issued more than 600,000 student and exchange visitor visas, an increase of 10% over 2006, following several years of decline. The second and third largest centers for foreign students are the U.K. and Germany, each with less than half the U.S. number.[57] In 2007, 195,000 foreign students reportedly were studying in China.

China has ambitious plans to enroll more foreign students. The U.S. government tightened its visa policies following the September 11, 2001 terrorist attacks, leading to cases of bureaucratic bungling, perceptions that the United States no longer welcomed foreign students, and three years of declining enrollment. During this time, China not only loosened its own requirements, but announced goals to attract more students from abroad. Other countries in Europe, Oceania, and Asia also launched recruitment efforts to attract foreign students, including those from China,

[51] Written by (name redacted), Specialist in Asian Affairs.

[52] "Chinese Education Minister Vows to Maintain Sound Development of Confucius Institute," *China Economic Information Service, Xinhua News Agency*, December 12, 2007.

[53] Joshua Kurlantzick, "China's Charm Offensive in Southeast Asia," *Current History*, September 2006; "Beijing's 'Soft Power' Offensive," *Asia Times*, May 17, 2007. http://www.atimes.com; Gareth Powell, "Building Confucius Institutes into a 'World Brand'," *China Economic Review*, December 18, 2007.

[54] "China to Double Foreign Student Intake by 2020," *People's Daily Online* http://english.people.com.cn, August 8, 2006.

[55] "Year 2010 to See 100 Mln Foreigners Learning Chinese: Government," *People's Daily Online* http://english.people.com.cn, September 19, 2006.

[56] Juan Forero, "Across Latin America, Mandarin Is in the Air," *Washington Post*, September 22, 2006.

[57] Sam Dillon, "U.S. Slips in Attracting the World's Best Students," *The New York Times*, December 31, 2004.

many of whom were discouraged from applying to U.S. universities due to the restrictive visa process.

State Diplomacy

While U.S. exchange programs may have a long-term impact on public opinion, some experts argue that they are overshadowed by China's official exchanges. China reportedly has been investing in the "best of the brightest" for recruitment into its increasingly sophisticated diplomatic corps and lengthening their assignments in order to foster improved language skills, cultural understanding, and diplomatic effectiveness. One report suggests that in many countries, PRC diplomats have a busier schedule and are more accessible than their American counterparts.[58] By contrast, since 2005, the U.S. government reportedly has frozen staffing levels at many diplomatic posts. Budget constraints and the diversion of human resources to Iraq and Afghanistan have created not only shortfalls in staffing but also cuts in language and other training.[59]

After long shunning or passively participating in what it perceived as U.S.-dominated multilateral organizations, in the past decade, China has joined, taken on more active roles in, and created new international groupings. In doing so, Beijing has aimed to achieve several key foreign policy objectives, including enhancing its global stature, defending and promoting its own interests, constraining the United States, enhancing its "win-win" diplomacy, and creating diplomatic and economic partnerships and blocs.[60] By contrast, the Bush Administration's appointment of John Bolton, a long time critic of the United Nations, as the country's U.N. representative (2005-2006), was seen by some foreign observers as a rejection of multilateralism.[61]

China has adopted a more assertive role in the United Nations, the World Bank, the Asian Development Bank, and other global and regional entities. The PRC has become more engaged and assertive in the U.N. and deploys a greater number of personnel than the United States to U.N. peacekeeping missions. However, many analysts argue that some aspects of China's foreign policy show a more belligerent and narrowly self-interested outlook, such as Beijing's rigid stance on Taiwan and opposition to harsher measures against Sudan. Bilateral initiatives, such as Friendship and Cooperative Partnership Agreements, Free Trade Agreements, and Strategic Partnership Agreements, have helped to seal friendships. Finally, China has sought to devise new multilateral organizations that exclude the United States, such as the East Asia Summit (EAS), the Shanghai Cooperation Organization (SCO) in Central Asia, the Forum on China-Africa Cooperation Forum (FOCAC), and the China-Arab Cooperation Forum.

[58] Kishore Mahbubani, "Smart Power, Chinese-Style," *The American Interest*, March/April 2008; Joshua Kurlantzick, "China's Charm Offensive," *Los Angeles Times*, June 23, 2007.

[59] Karen DeYoung, "U.S. to Cut 10 Percent of Diplomatic Posts Next Year," *Washington Post*, December 13, 2007.

[60] Goldstein, Avery, *Rising to the Challenge: China's Grand Strategy and International Security*, Stanford University Press, 2005.

[61] Michael Fullilove, "China Starts to Pull its Weight at the UN," *International Herald Tribune*, August 23, 2006; "Bush Stands by His Controversial Man," *Economist.com*, September 6, 2005.

U.S. Foreign Aid[62]

Background

Foreign assistance is a fundamental component of the U.S. international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy. U.S. foreign assistance programs began in earnest in the mid-1940s with a four-year $13 billion investment in rebuilding Europe under the Marshall Plan. After the Marshall Plan ended in the early 1950s, much of U.S. foreign assistance of the 1950s and 1960s was provided to Southeast Asia to counter Soviet and Chinese influence.

The focus of U.S. foreign aid has changed with different world events and administrations. Famine relief in Africa and countering insurgencies in Central America were themes during the 1980s. In the 1990s, support of Middle East peace included aid to Israel, Egypt, Jordan, and the Palestinians. Since the September 11, 2001 terrorist attacks, U.S. assistance programs have taken on a strategic importance, frequently cast as supporting national security and the global war on terrorism.

In its FY2009 International Affairs 150 budget the Bush Administration identified the Department of State and the U.S. Agency for International Development (USAID) as playing critical roles in implementing the National Security Strategy. At the same time, however, both State and USAID, according to many foreign policy experts and the Secretary of Defense Robert Gates, have been lacking in resources for several years: "America's civilian institutions of diplomacy and development have been chronically undermanned and underfunded for far too long—relative to what we traditionally spend on the military and more importantly, relative to the responsibilities and challenges our nation has around the world."[63] Additionally, the effectiveness of the foreign policy agencies, particularly USAID, have been hindered by operational changes. Whereas USAID until recently was comprised of development and country experts, now, according to some development experts, it has become an agency of contract managers, both in Washington and overseas, thereby weakening the expertise of the organization.[64]

Some policy-makers have expressed concern that new initiatives, such as Secretary Rice's Transformational Diplomacy and Transformational Development (which place greater emphasis on U.S. security and democracy-building goals), have taken resources away from traditional aid programs, particularly in countries that present fewer security threats to the United States or where governments do not meet various performance criteria. Other agencies and programs, such as the Department of Defense, the Millennium Challenge Corporation (MCC), and the President's Emergency Plan for HIV/AIDS Relief (PEPFAR), also may have diverted funds from core programs and reduced coordination of U.S. foreign assistance activities, in general. Some analysts also argue that promoting democracy prematurely in some countries may waste aid or even create a backlash toward other U.S. programs in that country.[65]

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[62] Written by Susan Epstein, Specialist in Foreign Policy.

[63] Secretary of Defense, Robert Gates, speech delivered at the U.S. Global Leadership Campaign, Washington, D.C., July 15, 2008.

[64] *Embassies Grapple to Guide Foreign Aid: A Report to Members of the Committee on Foreign Relations*, United States Senate Committee Print, November 16, 2007.

[65] National Endowment for Democracy, *The Backlash Against Democracy Assistance*, June 8, 2006.

Funding

The United States is the world's largest economic aid donor in dollar terms, but is the smallest contributor among major donor governments in terms of percent of gross national income. U.S. foreign assistance generally declined for several decades to an all-time low of 0.14% of national income in the mid-1990s due to the ending of the Cold War and efforts to balance the federal budget. In the late 1990s, aid gradually increased to respond to international disasters, such as Hurricane Mitch in Central America.[66] Aid funding increased significantly in the 2000s, largely due to the wars in Iraq and Afghanistan. See **Table 2** and **Figure 5**. However, although the amount of spending for international activities has grown significantly since 2001, compared to changes in the overall size of the federal budget, the share allocated for foreign policy programs has declined.[67] Spending on non-military aid has declined slightly since 2004. See **Figure 6**.

Table 2. Foreign Operations Appropriations, FY1999-FY2009

($ billion)

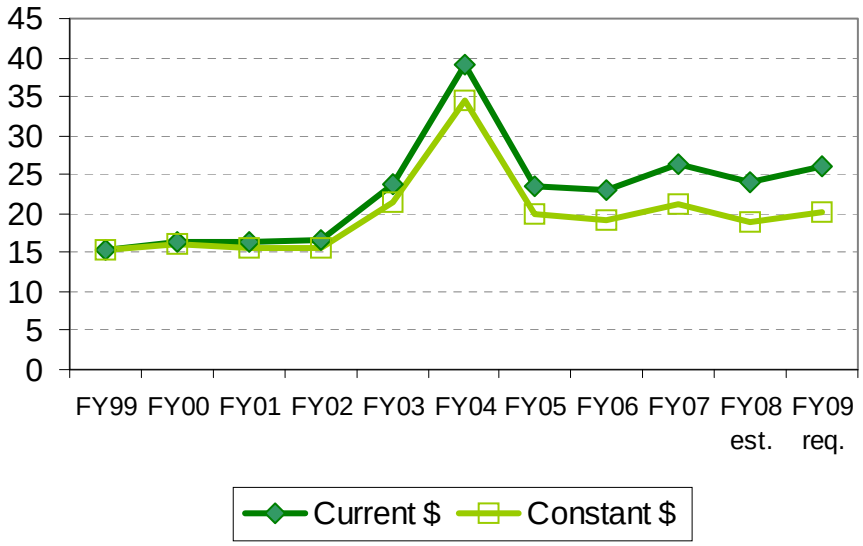
	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08 est.	FY09 req.
Current $	15.4	16.4	16.3	16.5	23.7	39.1	23.5	23.1	26.4	24.0	26.1
Constant 1999 $	15.4	16.0	15.5	15.5	21.6	34.6	20.0	19.1	21.3	18.9	20.1

Note: Amounts do not include mandatory Foreign Service retirement accounts that total $34.6 million in FY2009. FY1999 excludes $17.61 billion for replenishing the International Monetary Fund (IMF). All figures include regular and supplemental appropriations. Figures for FY2008 are Administration estimates. Figures for FY2009 are requested amounts.

[66] *George Bush's Foreign Aid, Transformation or Chaos?* by Carol Lancaster, 2008, p. 11.

[67] With the exception of FY2004 and the $18.45 billion supplemental for Iraq. See CRS Report RL33262, *Foreign Policy Budget Trends: A Thirty-Year Review*, by (name redacted).

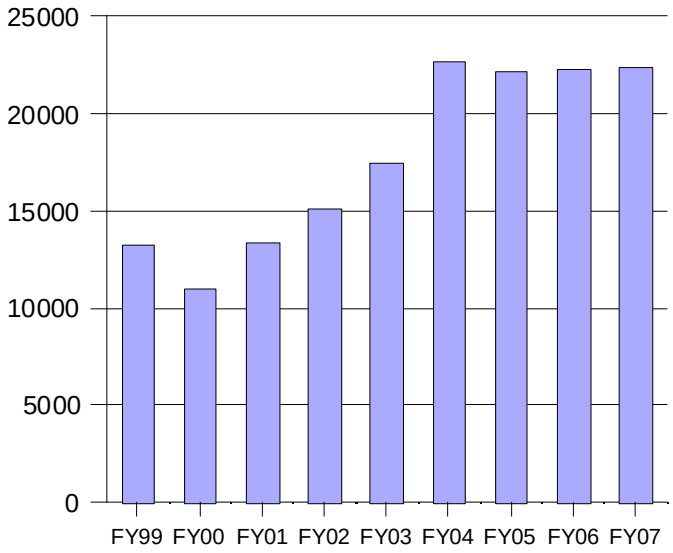
Figure 5. Foreign Operations Appropriations, FY1999-FY2009($ Billions)



Source: The Foreign Operations Congressional Budget Justifications, FY2001 - FY2009 and CRS calculations.

Out of $14.7 billion spent on bilateral and regional aid programs in FY2007, the Middle East was the largest recipient ($5.1 billion), followed by Africa ($4.7 billion), South and Central Asia ($2.1 billion), Latin America, ($1.5 billion), Europe and Eurasia ($.85 billion), and East Asia and the Pacific ($0.53 billion).[68] See **Figure 7**.

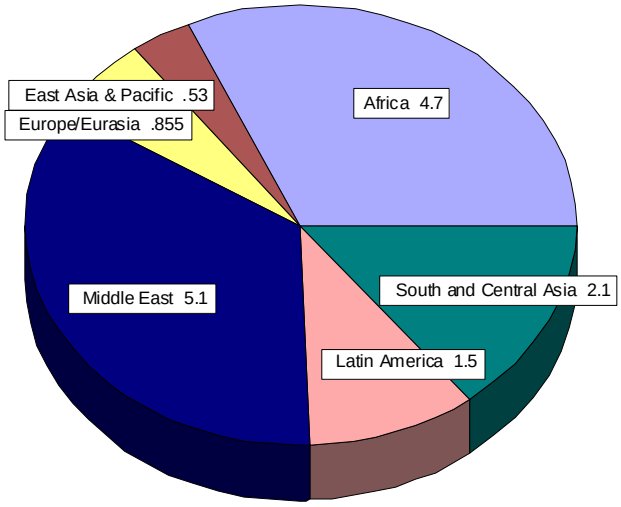
Figure 6. U.S. Foreign Economic Assistance, FY1999-FY2007 ($million)



Source: U.S. Department of State

[68] U.S. Department of State Congressional Budget Justification for FY2009. The State Department refers to Latin America and the Carribean as "Western Hemisphere" and the Middle East as "Near East."

Figure 7. U.S. Foreign Assistance by Region, FY2007 ($ billion)



Source: U.S. Department of State

China's Foreign Aid[69]

China's foreign aid is difficult to quantify, due to a lack of official and reliable data. The *China Statistical Yearbook 2003-06* released an annual aid figure of $970 million, but this number likely does not include loans, which according to some experts is the main form of PRC aid.[70] According to one source, annual PRC aid ranges between $1.5 billion-$2 billion.[71] When loans and state-sponsored investment are included, according to one study using unofficial reports of pledged aid, the PRC promised a total of $31 billion in economic assistance to Southeast Asian, Latin American, and African countries in 2007, a threefold increase compared to 2005 and 20 times greater than 2003.[72] By contrast, the United States' core official development assistance (ODA) budget (bilateral development, economic, and security assistance; not including military and multilateral assistance) was $19.5 billion in FY2007 out of a total foreign operations budget of $26.4 billion. According to OECD data, the United States' ODA budget is the largest among OECD member countries, followed by Japan, the United Kingdom, France, and Germany. China's estimated aid levels are comparable to those of Australia, Belgium, or Denmark.[73] Another problem with calculating Chinese foreign assistance is that it is often difficult to confirm when or whether aid and loan pledges were actually disbursed.

[69] Written by (name redacted), Specialist in Asian Affairs.

[70] Lancaster; See also Phillip C. Saunders, "China's Global Activism: Strategy, Drivers, and Tools," *Institute for National Strategic Studies, National Defense University*, 2006.

[71] Carol Lancaster, "The Chinese Aid System," *Center for Global Development Essay*, June 2007. http://www.cgdev.org.

[72] New York University Wagner School, "Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America," report prepared for the Congressional Research Service, April 25, 2008. According to this study, only 3% is grant aid.

[73] Organisation for Economic Co-operation and Development (OECD) data. See http://www.globalissues.org/.

The unique characteristics of PRC foreign aid often result in it being overlooked. Like Japan but unlike most major aid donors, a large portion of Chinese assistance consists of interest-free or concessional loans—up to 41%—rather than grants, which constitute only 3%, according to one study.[74] Debt forgiveness is also a major form of PRC foreign aid. In addition, China often extends aid packages that include not only loans but also trade and investment agreements, largely in the energy sector. According to some analysts, when these kinds of assistance are added, China becomes one of the largest bilateral aid donors in some countries and regions.

Furthermore, PRC assistance often garners appreciation among foreign leaders and citizens disproportionate to its costs: (1) China offers assistance without the conditions that Western donors frequently place on aid (i.e. democratic reform, market opening, and environmental protection). China's policy of "non-interference in other countries' domestic affairs" often wins international support because it is regarded as respectful of their countries' sovereignty;[75] (2) Chinese aid does not require a lengthy process involving setting up and meeting social and environmental safeguards; (3) PRC assistance, often announced at lavish receptions with toasts to the recipient country's leaders, carries great symbolic value;[76] (4) Many Chinese aid projects, such as government buildings, infrastructure, hospitals, and energy facilities, often funded by loans from the China Import-Export Bank and built by Chinese companies, are high profile efforts with tangible benefits and serve as constant reminders of China's beneficence; (5) Some Chinese aid and investment projects reportedly tackle challenging projects that other aid donors have avoided because of technical difficulties or hardships.

China has taken some tentative steps toward making its foreign aid process more open, coordinating its projects with other ODA providers, and offering more development-oriented assistance, while continuing to eschew the label of major ODA donor. Beijing 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 Southwest Pacific. During the same year, China for the first time provided aid to Cambodia through an international pledging process. The PRC aid programs are expanding to include technical assistance, medical assistance, political development (elections), and food aid. China has begun sending "youth volunteers," similar to U.S. Peace Corps volunteers, engaged in Chinese language instruction, computer skills, agricultural and poultry technologies, sports and music training, and traditional Chinese medicine.[77]

[74] New York University, op. cit.

[75] 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 or to use Chinese companies and workers in the development of aid projects.

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

[77] China reportedly has volunteers in 50 countries, mostly in Africa and Southeast Asia, and has begun to send volunteers to Latin America. The Chinese government has pledged to send 300 volunteers to Africa by 2009. "China to Send Youth Volunteers to Africa this Year," *The Ethiopian Herald*, February 17, 2007.

Global Public Perceptions[78]

Although public perceptions of the United States and China vary widely within regions and are sensitive to current events, some public opinion studies point to a significant decline for the United States after 2002. A comparison of surveys conducted in 2002 and 2007 by the Pew Research Center shows that images of the United States declined in 26 of 33 countries.[79] In a 2005 Pew 16-nation survey, images of the United States had improved somewhat from its low point following the invasion of Iraq in 2003, but its favorability rating still placed it last among five major powers—Germany, France, Japan, and China.[80] In a 2006 Harris Poll, among European countries, the United States was viewed as the greatest threat to global stability, followed by Iran and China.[81]

Although positive attitudes toward China have declined somewhat in the past few years, the PRC's image is regarded as "decidedly favorable" in 27 of 47 nations surveyed by Pew in 2007. These responses reflect a view of China's economic influence as largely positive, especially among developing countries that do not compete directly with China. However, concerns about China's military strength are evident in Europe, Japan, and South Korea.[82] Western European nations have become increasingly critical of China's role in the world. In a 2008 Harris Poll, among major European countries, China has overtaken the United States as the "biggest threat to global stability."[83] Some observers argue that China's self-cultivated image of "peaceful development" may have been marred by reports of the PRC police crackdown in Tibet and Chinese foreign students attacking human rights demonstrators in Seoul, South Korea during the Olympic torch relay there.[84]

PRC and U.S. Military Diplomacy[85]

This section discusses two aspects of the PRC's military diplomacy for comparison with U.S. spending: training foreign militaries and participating in peacekeeping. For many years, China has used military training to support arms sales as well as the diplomacy that is conducted by the military, collectively called the People's Liberation Army (PLA). China also has highlighted its role in United Nations (UN) peacekeeping to boost its diplomatic image and contend that the PRC is a cooperative country in international security and a responsible permanent member of the U.N. Security Council. China is not as transparent as the United States in publishing its military spending and deployment information, and PRC official media report vague and selective

[78] Written by (name redacted), Specialist in Asian Affairs.

[79] The Pew Global Attitudes Project, "Global Unease with Major Powers," June 27, 2007.

[80] The United States received a favorability rating of 50% or above from six countries, China from 11 countries, and Germany, France, and Japan from 13 out of 16 countries. *American Character Gets Mixed Reviews: U.S. Image Up Slightly, but Still Negative*, Pew Research Center, June 23, 2005.

[81] "Plurality of Public in Five Major European Countries Continues to See the U.S., over Five other Countries, as the Greatest Threat to Global Stability," http://www.harrisinteractive.com, August 30, 2006.

[82] The Pew Global Attitudes Project, "Global Unease with Major Powers," June 27, 2007.

[83] Ben Hall and Geoff Dyer, "China Seen as Biggest Threat to Security," [FT.Com], April 15, 2008.

[84] Kurt Achin, "Massive Chinese Crowds Overwhelm Olympic Torch Protests in South Korea," *VOANEWS.COM*, April 27, 2008.

[85] Written by Shirley Kan, Specialist in Asian Security Affairs.

information about the PLA's foreign contacts. Nevertheless, some funding data about the PLA's role in peacekeeping operations has been objectively reported by the UN.

Overview of Military Budgets

The PRC's defense budget can be used as one indicator of the priority placed on the modernization of its military, collectively called the People's Liberation Army (PLA). On March 4, 2008, the PRC announced its military budget for 2008 that totaled 417.8 billion yuan (US$58.8 billion), claiming a 17.6 percent increase over last year's military budget. Actually, the newly announced 2008 budget is an increase of 19.1 percent over last year's announced budget (vs actual budget). Using the PRC's own announced military budgets, the 2008 budget is a doubling of the 2004 budget. This trend of double-digit percentage increases has persisted for years. Nominally, China has raised its announced military budget by double-digit percentage increases every year since 1989. After the Taiwan Strait Crisis of 1995-1996, China's announced military budget has increased in real terms (accounting for inflation) every year, including real double-digit percentage increases every year since 1998. China's military budget is the highest in Asia.

In comparison, the U.S. base defense budget (for Defense Department activities other than the ongoing military operations in Afghanistan and Iraq) for FY2008 totaled $460.3 billion, as provided by the FY2008 Defense Appropriations Act (P.L. 110-116).[86]

The Defense Department estimates that China's total military *expenditures* is greater than the military *budget* as officially announced. The Secretary of Defense's 2008 report to Congress on PRC military power estimated that China's total defense-related spending for 2007 could be $97-139 billion, about two to three times the announced military budget.[87]

In comparison, total U.S. spending for national defense in FY2007 (including base budget for the Defense Department, war-related funding, related funding for the Energy Department, and related intelligence and homeland security spending) totaled $528.6 billion.[88]

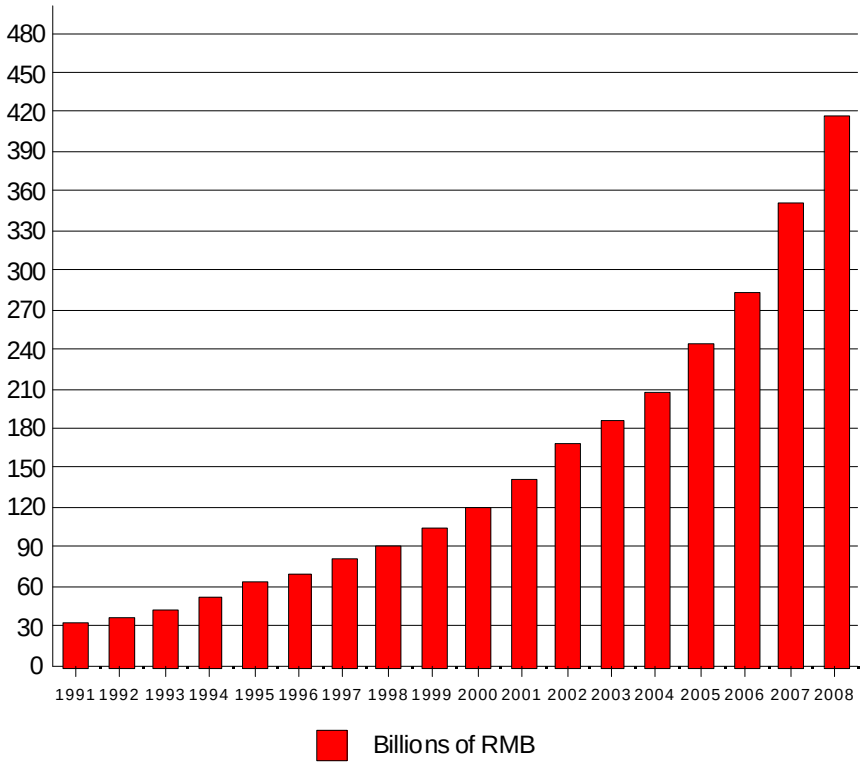
The following graph (**Figure 8**) depicts the increase in military budgets as announced by China.

[86] CRS Report RL33999, *Defense: FY2008 Authorization and Appropriations*, by (name redacted), (name redacted), and (name redacted).

[87] Secretary of Defense, "Annual Report to Congress: Military Power of the People's Republic of China 2008," March 3, 2008.

[88] CRS Report RL33999, *Defense: FY2008 Authorization and Appropriations*, by (name redacted), (name redacted), and (name redacted).

Figure 8. PRC's Announced Military Budgets, 1991-2008



Military Training

The PLA has extended training to foreign militaries, mostly of developing countries. For decades, military training has been conducted in support of China's arms sales or transfers. From 1999 to 2006, China ranked 5th among the leading suppliers of weapons to developing countries (behind the United States, Russia, United Kingdom, and France). The value of China's arms deliveries during the eight-year period totaled $5.8 billion. (The value of U.S. arms deliveries to developing countries in the same period totaled $61.1 billion.)[89] For example, in the 1980s and 1990s, the PLA Navy trained Pakistan's and Bangladesh's naval officers to maintain frigates and torpedo boats from China. In Africa, the PLA trained air force pilots of Zimbabwe to fly F-7 fighters and to operate air defense systems supplied by the PRC.[90] During a visit to the Philippines in September 2007, PRC Defense Minister Cao Gangchuan offered a grant worth $6.6 million to the military for non-lethal military equipment, construction machinery, Chinese-language training, participation in naval exercises in China, and military courses in Beijing. At the same time, China sought to sell at a discount eight Z-9 utility helicopters to the Philippines' army.[91] In 2004, China provided a preferential loan to Cambodia for the purchase of seven patrol boats, one landing ship, and one floating dock, worth a total of $60 million. At the handover ceremony in November 2007

[89] CRS Report RL34187, *Conventional Arms Transfers to Developing Nations, 1999-2006*, by (name redacted).

[90] Kenneth Allen and Eric McVadon, *China's Foreign Military Relations* (Stimson Center, 1999).

[91] Noel Tarrazona, "U.S., China Vie for Philippines Influence," *Asia Times*, September 19, 2007.

attended by China's ambassador, an executive of the China State Shipbuilding Corporation cited further cooperation with Cambodia, involving personnel training, maintenance, and spare parts.[92]

Additionally, training for foreign militaries has been conducted at the PLA's National Defense University (NDU) in Beijing in part to enhance friendly ties with foreign militaries, sometimes with scholarships. At the end of 2006, the PRC government reported that various PLA educational institutions in China hosted more than 2,000 military students from over 140 countries.[93] However, the PLA's primary objective in offering training in China to foreign militaries is not to build personal or cultural rapport and relationships between PLA and foreign military officers. At the NDU, classrooms for foreign military officers are located in a secondary campus, and foreign students are separated from PLA students. Even officers from Zimbabwe complained about isolation from and lack of interaction from PLA officers. Some countries have refused to conduct exchanges unless foreign students are integrated with PLA students on a reciprocal basis at the PLA's NDU.[94]

In contrast, the U.S. International Military Education and Training (IMET) program seeks to increase mutual understanding and defense cooperation; support combined operations with the U.S. military; and promote democratic values and human rights. In particular, IMET helps to develop professional and personal relationships that provide U.S. access to and influence in foreign militaries as the critical actors in transitions to democracies.[95]

In reporting training as part of building bilateral military relationships, the PLA has increasingly stressed China's cooperative attitude in international security, particularly non-traditional security problems like counter-terrorism, humanitarian assistance, and disaster relief. In July 2007, a PLA training base in the southern city of Guangzhou held an exercise with Thailand's special forces, training to counter violent international drug smugglers.[96] A report in Jakarta in early 2008 said that China offered training and education for 23 military officers from Indonesia plus a seminar in China on international disaster relief for two Indonesian officers among others from the Association for South East Asian Nations (ASEAN).[97] In April 2008, the PLA's University of Science and Technology in Nanjing conducted the first de-mining course to train military officers from Sudan, to show China's support for that country's reconciliation.[98]

In Asia, the PLA has extended military training to Cambodia. In 2003, coinciding with a visit by the PLA Chief of General Staff, media in Phnom Penh reported rare information on the PLA's military aid, saying that China provided $3 million annually to Cambodia for military training.[99] In addition to Cambodia, media reports have quoted senior PLA officers as mentioning vague training for the militaries of Pakistan, Vietnam, Indonesia, Singapore, Bangladesh, Mongolia, and

[92] "Chinese Ship-building Company Delivers Marine Equipment to Cambodia," *Xinhua*, November 7, 2007.

[93] PRC State Council, "China's National Defense in 2006," published by *Xinhua* on December 29, 2006.

[94] Consultation with U.S. observers of PLA educational exchanges; and Kenneth Allen and Eric McVadon, *China's Foreign Military Relations*, (Stimson Center, 1999).

[95] Department of State, "Foreign Military Training: Joint Report to Congress, Fiscal Years 2006 and 2007," August 2007.

[96] *Jiefangjun Bao*, July 23, 2007; *Nanfang Ribao*, July 24, 2007; *Guangzhou Ribao*, July 30, 2007.

[97] *Antara*, January 9, 2008.

[98] *Xinhua*, April 7, 2008.

[99] Agence Kampuchea Presse, November 24, 2003.

the Philippines.[100] China has provided military training for the forces of the junta ruling Burma. In the case of Thailand, China has proceeded to enhance military assistance, including training, in spite of the military coup in Bangkok in September 2006 and in contrast to U.S. concerns. In January 2007, the PLA hosted the Thai Army Commander-in-Chief who led the coup that ousted the prime minister and offered military aid and training worth $49 million to the Thai military.[101]

In Central and South America, where a number of countries still recognize the Republic of China (commonly called Taiwan), the PLA reportedly has provided training for the militaries of various countries, including Surinam, Argentina, Guyana, Venezuela, Cuba, and Brazil. An increasing number of officers from Latin American militaries have attended PLA academies.[102] In August 2007, the NDU in Beijing hosted the Third Latin American Senior Officer Symposium and the First Symposium of Senior Defense Officers from the Caribbean and South Pacific.[103]

In Africa since 2006, China has stepped up its civilian engagement and military training after a visit by Foreign Minister Li Zhaoxing in January 2006 and a China-African summit of the Forum on China-Africa Cooperation (FOCAC) in November 2006.[104] Heads of state or government from 41 African countries attended the summit in Beijing. Reportedly at times with scholarships and in support of arms sales or supplies, the PLA reportedly has trained personnel from the militaries of countries that include Egypt, Sudan, Zimbabwe, Chad, Madagascar, Guinea, Morocco, Rwanda, Zambia, Nigeria, Benin, Cameroon, Sierra Leone, Ethiopia, Eritrea, Lesotho, and Namibia. In addition, the press in Kinshasa reported in early 2006 that 83 military officers from the Democratic Republic of the Congo were studying at that time in PLA military academies.[105]

At the same time that the Beijing government touted training for foreign military students, it cited greater expenses for international cooperation as one of the reasons for China's increased military budget, in a report issued at the end of 2006.[106] However, China's defense budget lacks detailed clarity and transparency, and accounts for only part of total military-related spending. In a more detailed discussion of China's military spending in Beijing held in November 2006, just before the release of the PRC government's report, U.S. specialists found that the PLA's foreign assistance is covered by inter-agency funds from other ministries.[107]

In contrast, U.S. military assistance is reported annually in the State Department's request to Congress for funding the budget for international affairs. Military assistance includes three categories of International Military Education and Training (IMET), Foreign Military Financing (FMF), and Peacekeeping Operations (PKO). See **Table 3**. According to the budget justifications, the United States funded military assistance in the amounts shown in this table since FY2001. The IMET programs trains roughly 10,000 foreign military students per year from over 130

[100] Numerous PRC official and non-PRC media report vague and limited mentions of the PLA's "military training" or "cooperation" with foreign militaries and are available upon request to this author.

[101] "China and Thailand to Strengthen Army Ties," *Thai News Agency*, January 23, 2007; Kavi Chongkittavorn, "Post-Coup Thailand in the Eyes of the U.S. and China," *Nation*, February 12, 2007.

[102] Loro Horta, "China on the March in Latin America," *Asia Times*, June 27, 2007.

[103] *Jiefangjun Bao*, August 17, 2007.

[104] Chua Chin Hon, "China Sets Out to Build on Ties with Africa," *Straits Times*, January 13, 2006; and "Action Plan Adopted at China-Africa Summit, Mapping Cooperation Course," *Xinhua*, November 5, 2006.

[105] "China Offers 20,000 Uniforms to FARDC," *L'Observateur*, January 20, 2006.

[106] PRC State Council, "China's National Defense in 2006," published by *Xinhua* on December 29, 2006.

[107] U.S.-China Policy Foundation, "Defense-Related Spending in China," May 2007.

countries, with the largest totals coming from Europe/Eurasia and the Western Hemisphere (Latin America and the Caribbean).

Table 3. U.S. Military Assistance: Actual Funding

($ million)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
IMET	57.8	70.0	79.5	91.2	89.0	85.9	85.9
FMF	3,568.4	4,052.0	5,991.6	4,621.8	4,995.2	4,464.9	4,560.8
PKO	126.7	375.0	214.3	124.5	547.6	173.3	223.3
Totals	3,752.9	4,497.0	6,285.4	4,837.5	5,631.8	4,724.1	4,870.0

Source: State Department, International Affairs Function 150, budget requests for each fiscal year.

Peacekeeping Operations

China shunned participation in U.N. peacekeeping operations until a policy change in 1988, in part because of opposition to what China called military intervention in the name of the U.N. in the internal affairs of other countries. The PLA first participated in a U.N. peacekeeping mission by sending military observers to the Middle East in 1990. By 2000, China was deploying about 650 personnel in 10 U.N. peacekeeping missions. By late 2007, China's personnel at U.N. peacekeeping operations totaled 1,819.[108]

However, despite the rising numbers of deployed personnel in foreign countries, the PLA's "peacekeeping" in the 1990s was mainly in sending military observers, not troops or police.[109] The PRC Government's late 2006 report stressed the PLA's participation in U.N. peacekeeping operations, reporting that since 1990, China had sent a total of 5,915 military personnel to join 16 U.N. peacekeeping operations. However, the breakdown of types of personnel showed that they were not combat troops who maintained security. In late 2006, the total of 1,487 PLA "peacekeepers" were mainly military observers and staff officers, engineers, medical personnel, and transportation personnel. There also were 180 police in peacekeeping missions.[110] Some U.S. observers have suspected that the PLA's "peacekeepers" collected intelligence on foreign militaries and focused on protecting China's economic, including energy, investments or facilities.

Particularly since 2006, the PRC has touted its participation in U.N. peacekeeping, as part of its claimed "leading" role in international peace and security. In 2006, the PLA claimed that it was the largest contributor to U.N. peacekeeping operations among the five permanent members of the U.N. Security Council, and the *Washington Post* boosted China as "quietly extending its influence on the world stage through the support of international peacekeeping operations."[111] However, China's argument about its role as the largest participant in peacekeeping among the

[108] *China Daily*, November 21, 2007.

[109] Kenneth Allen and Eric McVadon, *China's Foreign Military Relations*, (Stimson Center, 1999).

[110] PRC State Council, "China's National Defense in 2006," published by *Xinhua* on December 29, 2006.

[111] "China is the Largest UNSC Contributor to Peacekeeping Missions," *Xinhua*, September 28, 2006; Colum Lynch, "China Filling Void Left By West in U.N. Peacekeeping," *Washington Post*, November 24, 2006.

five permanent members of the U.N. Security Council failed to take into account the various critical roles in maintaining international security played by the U.S. and European militaries outside of U.N. peacekeeping.

Despite its expansion of peacekeeping deployments, PRC influence exerted through peacekeeping has been limited. PRC personnel have included, since 2004, police officers (currently numbering 134) at the U.N. peacekeeping mission in Haiti. However, while this deployment raised a concern that Beijing would use its influence for diplomatic recognition, Haiti still maintains a diplomatic relationship with the Republic of China in Taipei (commonly called Taiwan). In 2007, China agreed to send PLA troops as U.N. "peacekeepers" to Darfur to deflect criticism of China's failure to help the humanitarian crisis in Sudan and the Beijing Olympic Games as the "Genocide Olympics." But the PLA sent 315 engineers to build barracks and other construction projects. In testimony in June 2008, Deputy Assistant Secretary for East Asian and Pacific Affairs Tom Christensen criticizing China for not doing more in Sudan. He said that while China has become more involved in addressing the humanitarian crisis in Sudan, Sudan's government continues to use violence against civilians and rebels in Darfur, and renege on key elements of deployment of the United Nations African Mission in Darfur (UNAMID).[112] In the same month, top PRC ruler Hu Jintao continued to have to urge Sudan, during a visit of its vice president, to fulfill its commitments on the deployment of the peacekeeping force and achieve peaceful conditions in Darfur.[113]

As of April 2008, China ranked 12th in the number of military and police personnel participating in U.N. peacekeeping operations, with 1,981 personnel in total in 12 U.N. missions. In comparison, the United States ranked 43rd, contributing 300 personnel. The top ten contributing countries to U.N. peacekeeping operations are: Pakistan, Bangladesh, India, Nigeria, Nepal, Ghana, Jordan, Rwanda, Italy, and Uruguay.[114]

However, while China increasingly has touted the increasing numbers of its personnel in peacekeeping, China has not highlighted the relatively limited funding it has provided to the U.N. for peacekeeping. The top ten contributors of funding for U.N. peacekeeping are: United States, Japan, Germany, United Kingdom, France, Italy, China, Canada, Spain, and South Korea.[115] While the United States leads with the highest contribution to the U.N. peacekeeping budget, providing 26 percent of assessed contributions, China provides 3 percent of assessed contributions. Even at this low level of contribution for the world's fastest growing economy, a PRC diplomat at the U.N. complained in late 2007 about the "financial burden" for China when its required assessments, including for peacekeeping, increased 42 percent from 2006 to 2007.[116] In 2007, China contributed $190.6 million for U.N. peacekeeping operations, while the United States contributed $1.2 billion.[117]

[112] Senate Foreign Relations Subcommittee on African Affairs, hearing on China in Africa, June 4, 2008.

[113] *Xinhua* and *Sudan Tribune*, June 11, 2008.

[114] United Nations, "Ranking of Military and Police Contributions to U.N. Operations," April 30, 2008.

[115] United Nations, "United Nations Peacekeeping Fact Sheet," February 2008.

[116] Yu Hong, PRC Representative to the Fifth Committee of the 62nd General Assembly, on Agenda Item 119, "Improve the Financial Situation of the UN," United Nations, New York, November 15, 2007.

[117] United Nations, Spokesman's internal reference, "2008 Status of Contributions to the Regular Budget, International Tribunals, Peacekeeping Operations, and Capital Master Plan."

International Trade Flows[118]

For China, international trade is playing a key role in increasing its influence around the world and in enabling the country to import the technology, resources, food, and consumer goods needed to support its economic growth, to finance the other aspects of its national power, and to maintain the legitimacy of the Communist Party government. The access that China has to foreign markets also has enabled it to attract foreign investment. These foreign-affiliated companies not only play a key role in generating economic growth and employment but in the manufacture of world-class products that account for more than half of China's exports. China is now the third largest trading nation in the world (after the United States and Germany), and its commercial interaction is having a major effect both on trading partners and on China's own economy.

International trade differs from diplomacy, foreign aid, military exchanges, and other bilateral interaction that requires explicit government action and funding. Trade is largely self-motivated and self-generated, and the financial rewards are captured largely by private producers and consumers along with the chain of service providers who facilitate the transactions. Governments, however, benefit from the international trade transactions through tariff and tax revenues, economic growth, increased economic efficiency, and a generally higher standard of living for residents. Government policy also influences trade flows either in a negative (e.g., protectionism) or positive (e.g., trade promotion) manner.

International trade and financial transactions, moreover, generate spillover effects, that carry over into political and security ties among nations. Trade also can be used as a weapon (as with trade sanctions) or it can be used to create interdependencies that may ameliorate hostile interactions or induce countries to take favorable political actions. Trade additionally creates interest groups within the trading countries who value stability and abhor political disruptions to their commercial transactions.

Academic studies have shown that among nations, the greater the interdependence (the greater the costs of exiting from an economic relationship), the greater the probability that the nations will not seek political demands that could lead to conflict. On the other hand, economic interdependence also can be used as leverage to bolster political demands.[119] Also, the greater the extent that internationally oriented coalitions in a country (actors with interest in expanding foreign markets or in importing) have political clout, the more likely that outside, economic incentives or sanctions will be effective in influencing policy in the country in question.[120]

In addition, economic studies indicate that the expectation of future commercial gains between nations helps to dampen political tensions and deter the onset of hostilities. Such future gains are enhanced by preferential trading arrangements, such as free trade agreements (FTAs). Membership in preferential trading arrangements tends to inhibit interstate conflict.[121] Economic

[118] Written by (name redacted), Specialist in Industry and Trade.

[119] See, for example: Crescenzi, Mark J. C. *Economic Interdependence and Conflict in World Politics* (Lanham, MD, Lexington Books, 2005) p. 6.

[120] Papayoanou, Paul A. And Scott L. Kastner, "Sleeping With the (Potential) Enemy: Assessing the U.S. Policy of Engagement with China," in Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman, *Power and the Purse, Economic Statecraft, Interdependence, and National Security* (Portland, OR, Frank Cass, 2000) p. 159ff.

[121] Copeland, Dale C. "Trade Expectations and the Outbreak of Peace: Dètente 1970-74 and the End of the Cold War (continued...)

interaction also increases opportunities for international communication, establishing personal ties between people, and cooperating in diplomatic endeavors. This reduces the chances for miscalculations and misperceptions and increases the chances for direct diplomacy and back-channel communications. On the other hand, economic arrangements may increase competition for domestic industries and invite blowback from sectors hurt by increased trade liberalization.

China has taken an aggressive stance toward establishing FTAs with trading partners. It has concluded a highly publicized FTA with the Association of South East Asian Nations that would create a zero-tariff market for China and the six early ASEAN members (Indonesia, Singapore, Thailand, Philippines, Malaysia, and Brunei) by 2010 and for the other four members (Vietnam, Cambodia, Laos, and Burma/Myanmar) by 2015. This included an early harvest program that eliminated tariffs on goods immediately, and in 2007 a further agreement brought services under the FTA. China also has FTAs with Hong Kong, Macao, New Zealand, and Chile. It is negotiating with or having pre-negotiation discussions with about two dozen other countries including Australia, South Korea, Pakistan, Peru, Iceland, Switzerland, the Gulf Countries, and the Southern Africa Customs Union.

The United States also has been actively concluding free trade deals. It has FTAs in force or pending implementation with Israel, Canada, Mexico, Jordan, Chile, Singapore, Australia, Morocco, Bahrain, Peru, and Oman, plus FTAs with Panama and South Korea awaiting legislative approval. Negotiations have begun for FTAs with Malaysia, Thailand, and the Southern Africa Customs Union.

A difference between China and the United States is that China tends to avoid insisting upon controversial or intrusive provisions in its FTAs, whereas the United States usually attempts to negotiate according to a "gold standard template" for its agreements. This high standard usually requires the partner country to open markets long protected for domestic political purposes or to enact legislation, such as greater protection of intellectual property, that may be politically difficult. As a result, China's FTAs usually engender less resistance and tend to result in considerable good will in the partner country—even if the FTA provides only for partial market opening. FTA negotiations with the United States, on the other hand, often trigger political opposition in the potential FTA partner country. Such political opposition, along with other developments, have hindered FTA talks with Thailand and Malaysia. Negotiations on the Korea-U.S. FTA were concluded despite demonstrations against it in South Korea, but the agreement is awaiting formal approval by each country.

Rapid economic growth in China combined with a population (1.3 billion people) that is larger than North America and Europe combined has generated soaring demand for food, energy, and minerals as well as business equipment, and consumer goods typical of a newly industrializing nation. Chinese and other multinational corporations have established global supply chains that both feed the Chinese economic juggernaut and carry its manufactured goods to world markets. In recent years, Beijing has focused particularly on securing stable supplies of petroleum and other raw materials. It has combined its huge purchasing power with funds for overseas direct investments and economic assistance to develop supply lines and long-term contracts to ensure

(...continued)

1985-91," p. 93 and Edward D. Mansfield, Jon C. Pevehouse, and David H. Bearce, "Preferential Trading Arrangements and Military Disputes," p. 16, both in Jean-Marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman, *Power and the Purse, Economic Statecraft, Interdependence, and National Security* (Portland, OR, Frank Cass, 2000) 343 p.

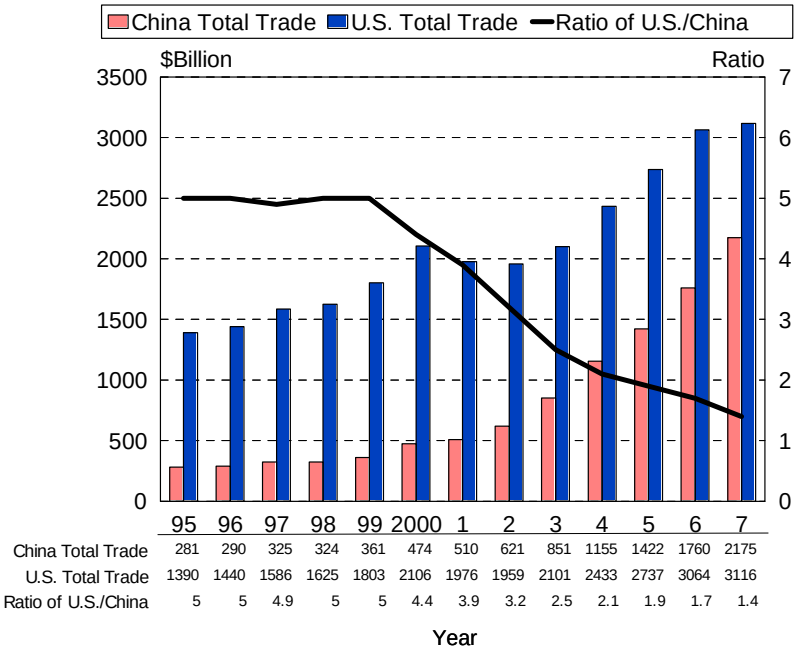
deliveries of needed industrial and consumer inputs. In some cases, these efforts have occurred in countries or with autocratic regimes, such as those in Africa, that are considered anathema to other nations. (These issues are discussed in more detail elsewhere in this memorandum.)

This section on international trade provides an overview of China's international trade in goods with comparisons to that of the United States. It shows that both nations are major traders, but that China has surpassed the United States in total exports. Both nations trade the most heavily with the rich, industrialized nations of the world. China, however, also trades with many countries under various U.S. sanctions. In 2007, for example, China imported mineral fuel from the Sudan and Iran while the United States did not. China also has more trade overall with Cuba, North Korea, and Burma/Myanmar.

Since the comparisons of this section are between the United States and China, trade between the two countries is not addressed. China's emergence as a world trade power has both positive and negative effects on the United States. In 2007, China was the largest source of U.S. imports ($322 billion), the third largest market for U.S. exports ($65 billion), and the country with which the United States has the largest merchandise trade deficit ($256 billion). Low cost imports from China have helped moderate inflation in the United States but at the same time have applied intense competitive pressures on certain U.S. industries making similar products.

As shown in **Figure 9**, the total trade (exports plus imports) in merchandise of the United States exceeds that of China. While both have been growing in nominal terms—no adjustment for inflation—the trade of China has been catching up with that of the United States. In 1995, U.S. total trade was $1,390 billion or five times that of China's $281 billion. By 2007, U.S. total trade of $3,116 billion was only 1.4 times that of China's $2,175 billion.

Figure 9. Total Trade (Exports + Imports) for China and the United States and the Ratio of Total Trade of the United States to That of China



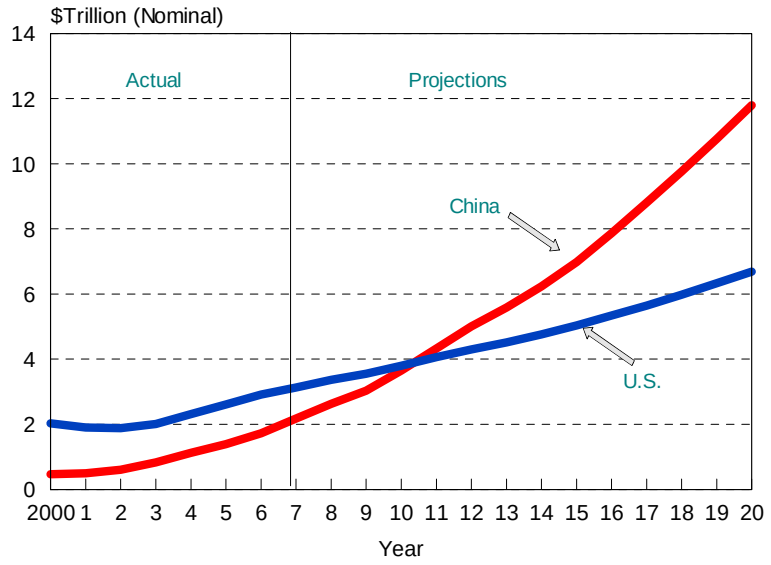
Source: United Nations, COMTRADE Database.

China, therefore, has become a major trading nation and a competitive rival to the United States in certain industries. The two countries compete, not only in third country economies but also in each other's home markets. Given the rise of globalized supply chains, however, China's economy also complements that of the United States in certain areas. U.S. companies may rely on China to manufacture products designed, advertised, and distributed by the American-based part of the multinational corporation, or they may manufacture in the United States using Chinese components. On a global scale, China now ranks second only to the European Union (EU, extra-EU trade only) in total merchandise exports and third after the United States and the EU in imports. Japan and Canada hold fourth and fifth places in both exports and imports, respectively.[122]

A projection by Global Insight, an econometric consulting firm, indicates that by around 2011, total trade in goods by China may exceed that of the United States. (See **Figure 10**.) By 2020, the total trade of China could reach nearly double that of the United States. These econometric projections are based on forecasts of economic growth rates for China of an average of 10.2% from 2006-2010 and about 7.4% for the following decade. For the United States, the projected growth rates are at around 2.5% per year.

An implication of these trends in trade is that China's presence in the international marketplace is likely to continue to grow. China's imports, in particular, are projected to continue to increase and to reach the level of its exports at around 2010. At that time, China's trading partners may be relying more on China than on the United States both as a market for exports and source of imports.

Figure 10. Projections for Total Trade (Exports plus Imports) in Merchandise for the United States and China to 2020

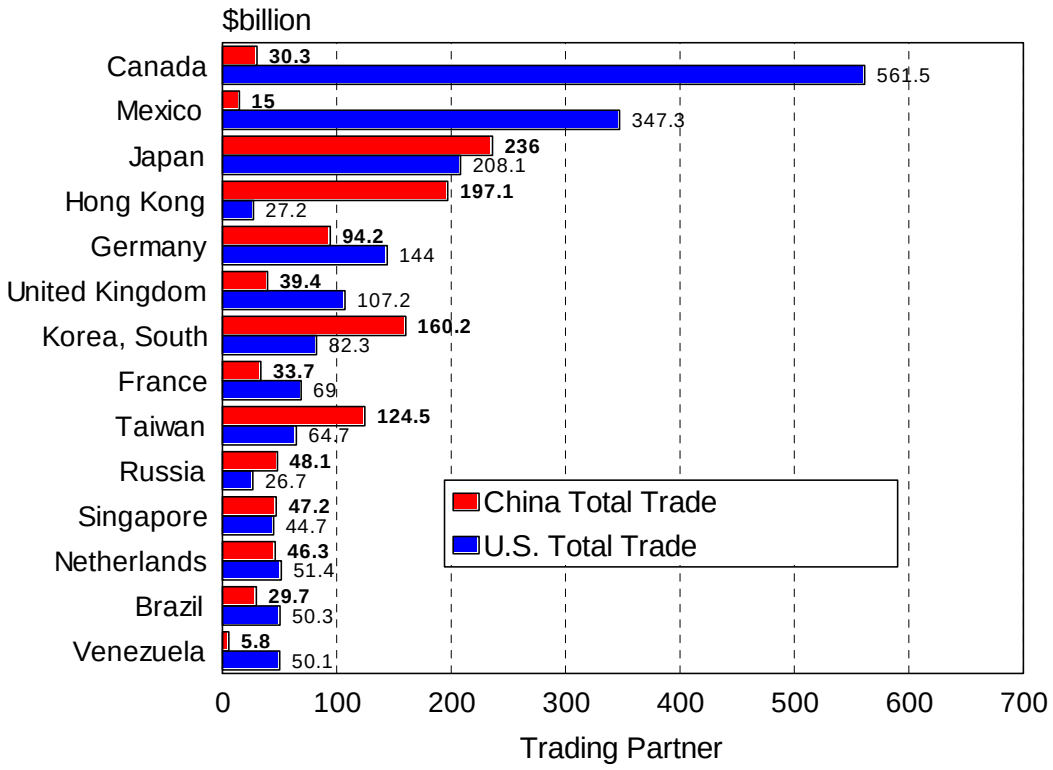


Source: Projections by Global Insight

[122] World Trade Organization. "World Trade 2007, Prospects for 2008," 2008 Press Release 520, April 17, 2008. http://www.wto.org/english/news_e/pres08_e/pr520_e.htm.

Figure 11 shows U.S. and Chinese total trade with selected major trading partners in 2007. The United States traded more than did China with its neighboring countries of Canada and Mexico as well as with Brazil and Venezuela. Likewise China traded more with its neighbors Hong Kong, Japan, South Korea, Russia, and Taiwan than did the United States. With the European countries of Germany, the UK, France, and the Netherlands, U.S. total trade exceeded that of China.

Figure 11. U.S. and China's Total Trade in Goods (Exports + Imports) in 2007 with Selected Major Trading Partners



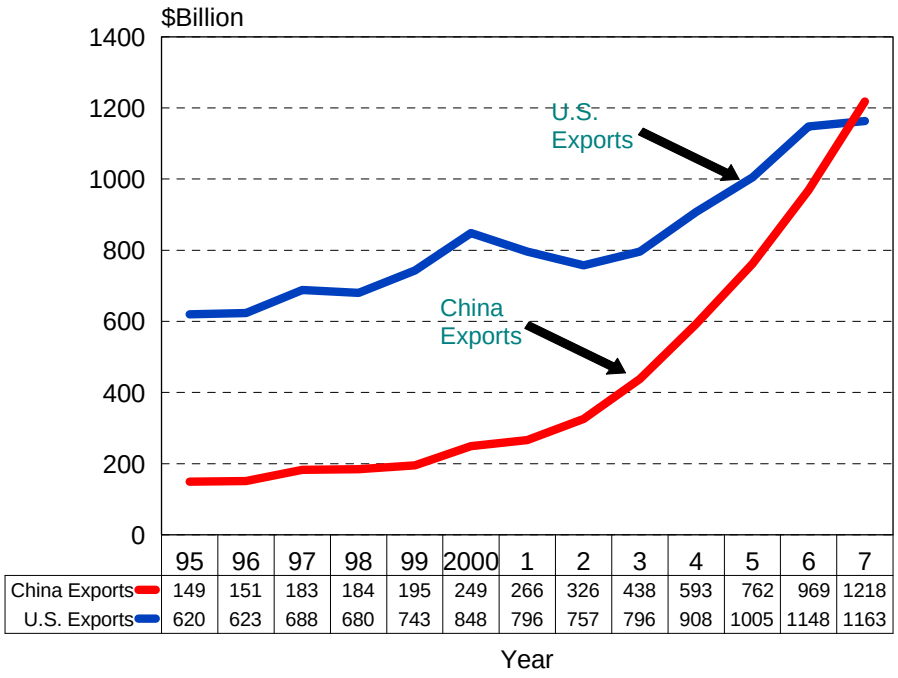
Source: Data from Global Trade Atlas

In 2007, the value of China's exports of merchandise surpassed those of the United States. As shown in **Figure 12**, whereas in 1995, U.S. exports at $620 billion were more than four times the $149 billion exports from China, in 2007, China's exports at $1,218 billion exceeded the $1,163 billion from the United States.

It should be noted that more than half of the exports of merchandise from China originate from foreign invested enterprises. These are products of multinational corporations based primarily in the United States, Japan, South Korea, and Europe that manufacture products designed and marketed to industrialized societies around the world.

As for imports, as shown in **Figure 13**, in 2007, U.S. imports at $1.954 billion amounted to more than twice China's total of $956 billion. In 1995, however, the United States imported nearly six times as much as did China. China's imports are rising fast. China's economy is not only consuming more imports, but its demand for imports is being added to that from other industrializing nations of the world for products such as petroleum, copper, and soybeans. This rise in demand is considered to be one cause for the recent rise in world commodity prices.

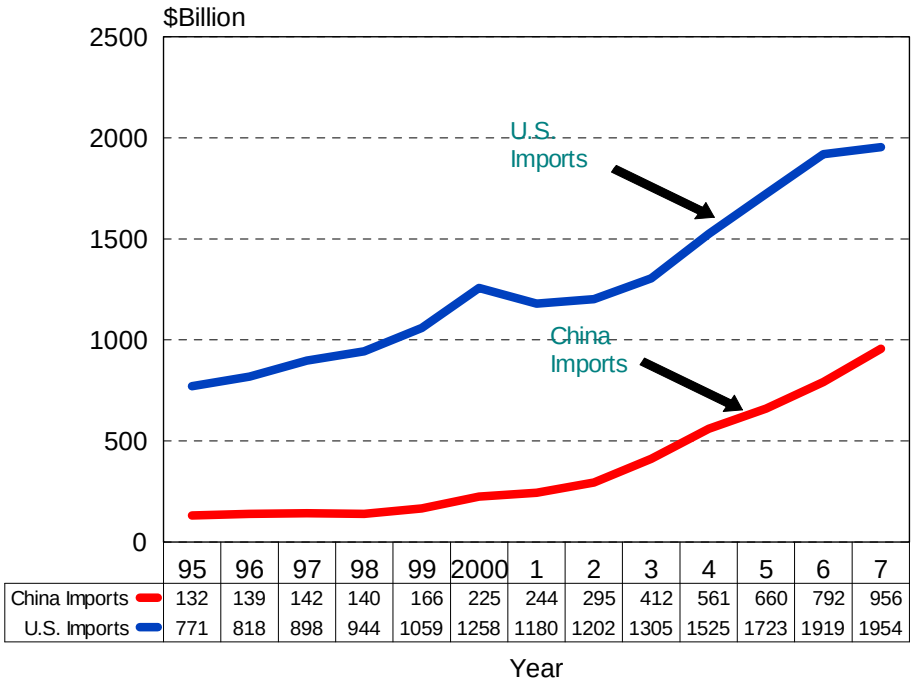
Figure 12. U.S. and China's Exports of Goods to the World



	95	96	97	98	99	2000	1	2	3	4	5	6	7
China Exports	149	151	183	184	195	249	266	326	438	593	762	969	1218
U.S. Exports	620	623	688	680	743	848	796	757	796	908	1005	1148	1163

Source: United Nations, COMTRADE Database.

Figure 13. U.S. and Chinese Imports of Goods From the World

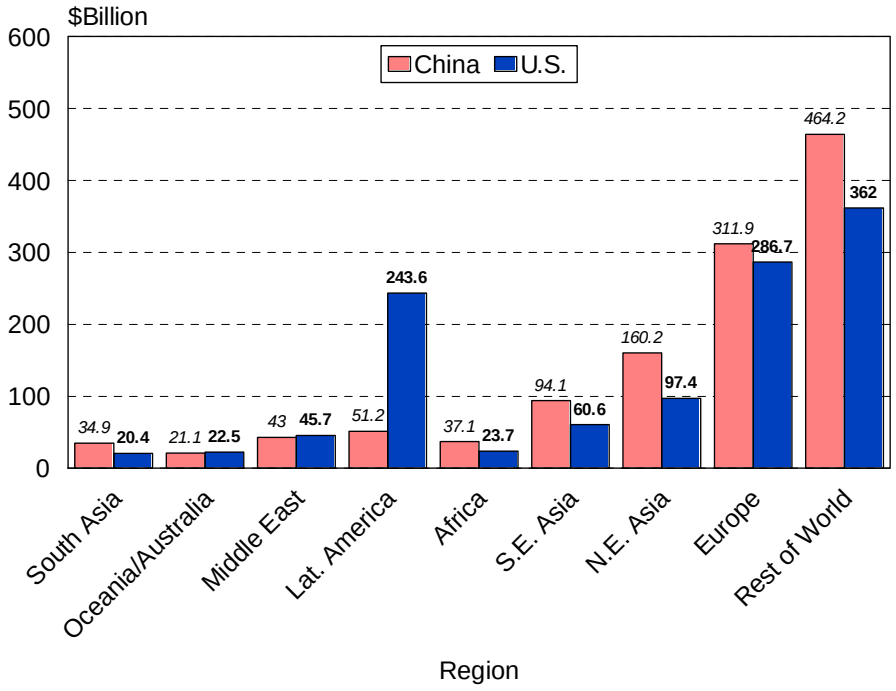


	95	96	97	98	99	2000	1	2	3	4	5	6	7
China Imports	132	139	142	140	166	225	244	295	412	561	660	792	956
U.S. Imports	771	818	898	944	1059	1258	1180	1202	1305	1525	1723	1919	1954

Source: United Nations, COMTRADE Database.

Figure 14 compares U.S. and Chinese exports to selected regions of the world in 2007. Both countries export about the same amount overall, but the United States exported more than did China to Oceania/Australia,[123] the Middle East, and Latin America. China exported more than did the United States to its neighbors in South Asia and Northeast Asia as well as to Africa,[124] Europe,[125] and to the rest of the world. U.S. exports to China and China's exports to the United States are included in the "Rest of the World" category. The importance to both countries of export markets in the industrialized countries in Europe and Northeast Asia is evident.

Figure 14. U.S. and China's Exports of Goods to Selected Regions of the World, 2007



Source: Data from United Nations, COMTRADE database.

Note: Northeast Asia = Japan, South Korea, North Korea, and Mongolia. Southeast Asia = ASEAN

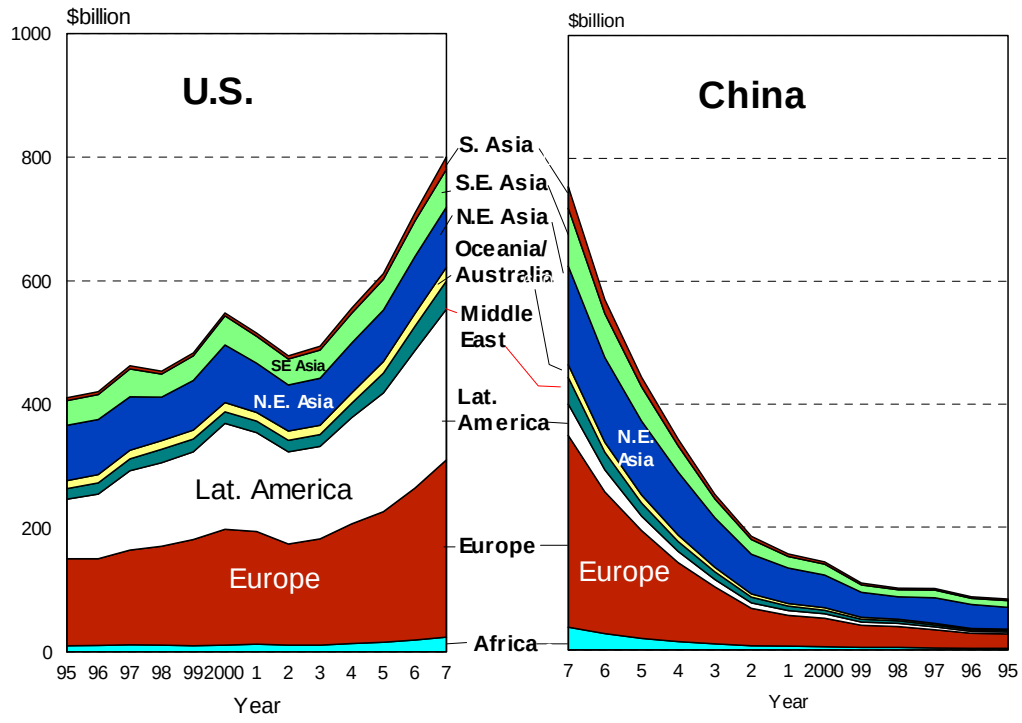
[123] The Middle East: Bahrain, Iraq, Islamic Republic of Iran, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates, Yemen, and other countries and territories in the Middle East n.e.s.

[124] Africa, of which North Africa: Algeria, Egypt, Libyan Arab Jamahiriya, Morocco and Tunisia; and Sub-Saharan Africa comprising: Western Africa: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo; Central Africa: Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Rwanda, and Sao Tome and Principe; Eastern Africa: Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Seychelles, Somalia, Sudan, United Republic of Tanzania and Uganda; and Southern Africa: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe; and territories in Africa n.e.s.

[125] Europe: Albania, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, former Yugoslav Republic of Macedonia, Malta, Netherlands, Norway, Poland, Portugal, Romania, Serbia and Montenegro, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and territories in Europe n.e.s.

Figure 15 compares exports of merchandise to selected regions of the world by the United States and China over the 1995-2007 period. For the regions selected, total exports are almost the same at about $800 billion. (The U.S. and Chinese exports to the regions exclude those exports to each other.) The recent rapid growth in exports from China is readily apparent from the chart. It also is clear that the industrialized regions, such as Europe and Northeast Asia, dominate in the exports of both countries and that U.S. exports to Latin America, which includes Mexico, are considerably greater than those from China. Although China has been promoting trade with certain resource-rich countries, the Chinese pattern of exports has come to resemble that of the United States, although China's exports to Africa have increased recently.

Figure 15. U.S. and China's Exports of Goods to Selected Regions 1995-2007

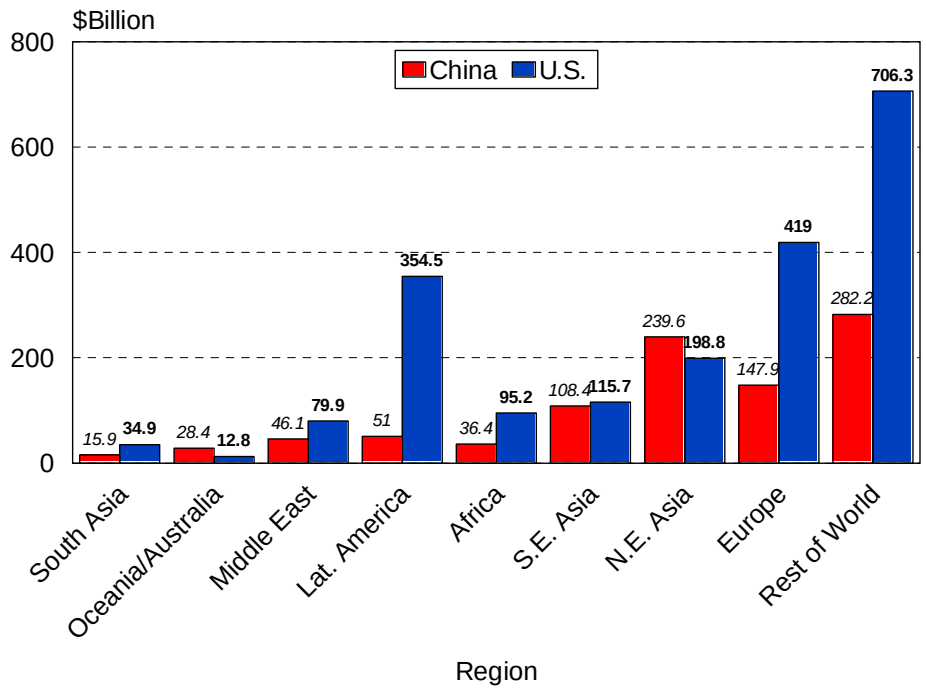


Source: United Nations, COMTRADE Database.

Figure 16 compares imports of merchandise from selected regions of the world for the United States and China in 2007. As indicated above, the United States imports considerably more overall than does China. China, however, imports more than does the United States from its neighbors in Northeast Asia (primarily Japan). In other regions shown, the United States imports far more than does China. Even for Africa, the United States still buys nearly three times as much as does China.

A variety of factors determine why countries buy from and sell to each other. The major factors, however, tend to be proximity, price, size and sophistication of the market, political restrictions, and endowment of natural resources. Both China and the United States trade, first, with their neighbors, then seek low cost sources of imports, large markets in which to sell, high-income consumers, and certain exporters with specific minerals or fuels to sell. Trade sanctions also may override market forces and shunt potential trade away from specific countries.

Figure 16. U.S. and China's Imports of Goods from Selected Regions of the World, 2007



Source: Data from United Nations, COMTRADE database.

Note: North East Asia = Japan, South Korea, North Korea, and Mongolia. This chart excludes U.S. and Chinese trade with each other.

As shown in **Figure 17**, imports by both the United States and China have been growing rapidly. From the selected regions shown, China imported in 2007 about the same amount as the United States did in 1997. The figure also shows the importance to both countries of the more industrialized economies in Europe and Northeast Asia. It also shows the greater amount of imports by the United States from Latin America. China's imports from Latin America and from the Middle East, however, have been growing rapidly.

Figure 17. U.S. and China's Imports of Goods from Selected Regions1995-2007

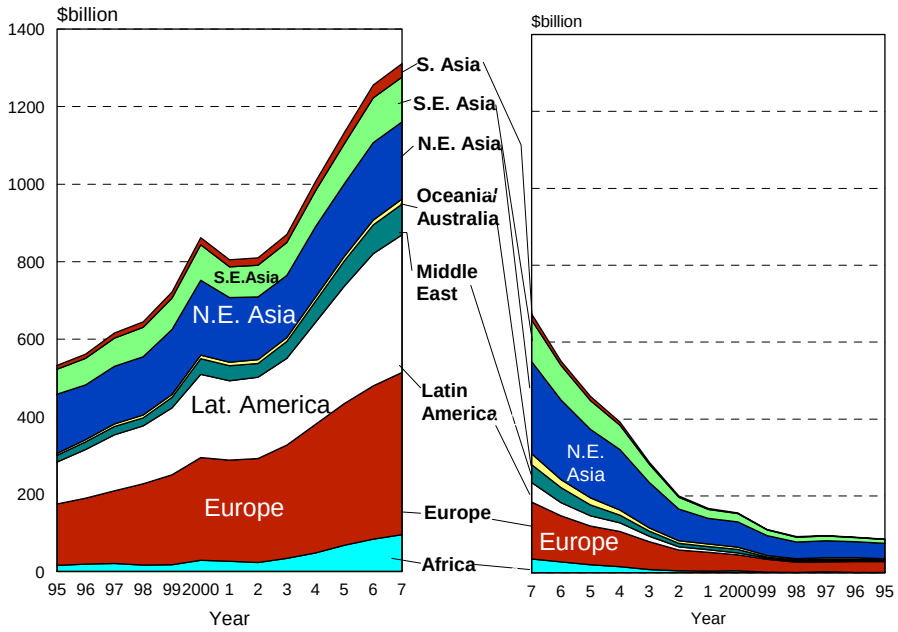
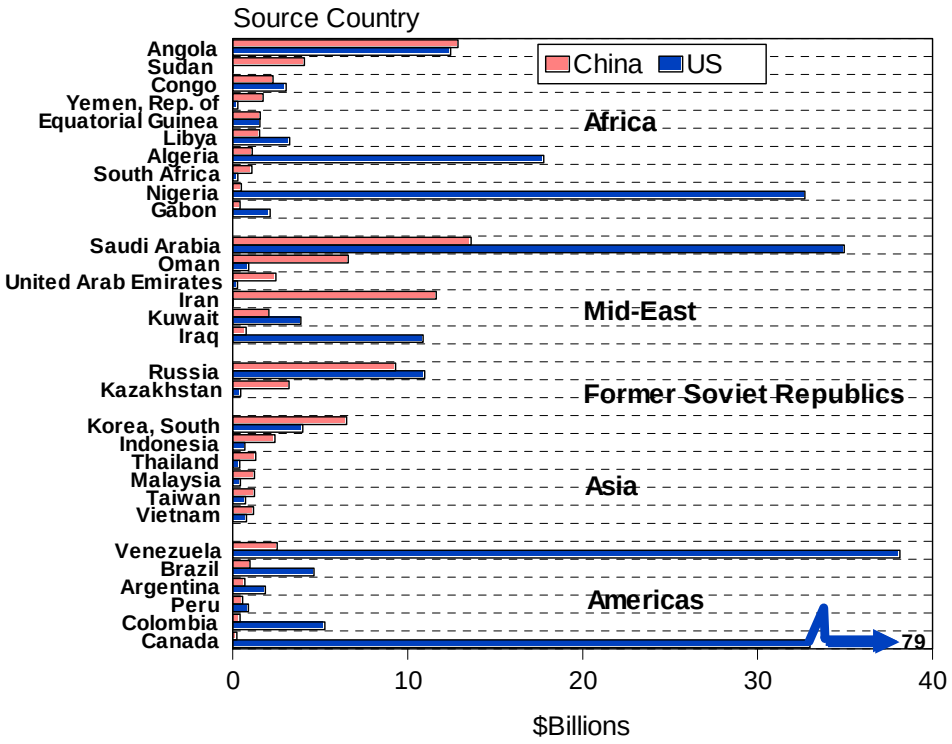


Figure 18 shows imports of energy in the form of mineral fuel and oil (includes crude oil, other oils, petroleum products, coal and coal products, and electrical energy) by China and the United States in 2007. In that year, the United States imported more than three times as much ($361 billion) as did China ($105 billion), but the major sources of those imports were somewhat different for the two countries. Both rely heavily on imports from Saudi Arabia and other nations of the Middle East as well as from Angola, the Congo, and Russia. China, however, imports energy from Sudan and Iran, two countries from which the United States buys none, and also buys more from Kazakhstan and neighboring countries in Asia. The United States also relies much more heavily on energy imports from Canada, Venezuela, Nigeria, Algeria, Iraq, Brazil, and Columbia.

Figure 18. China's and U.S. Imports of Mineral Fuel and Oil (HS 27) from Major Supplier Countries in 2007

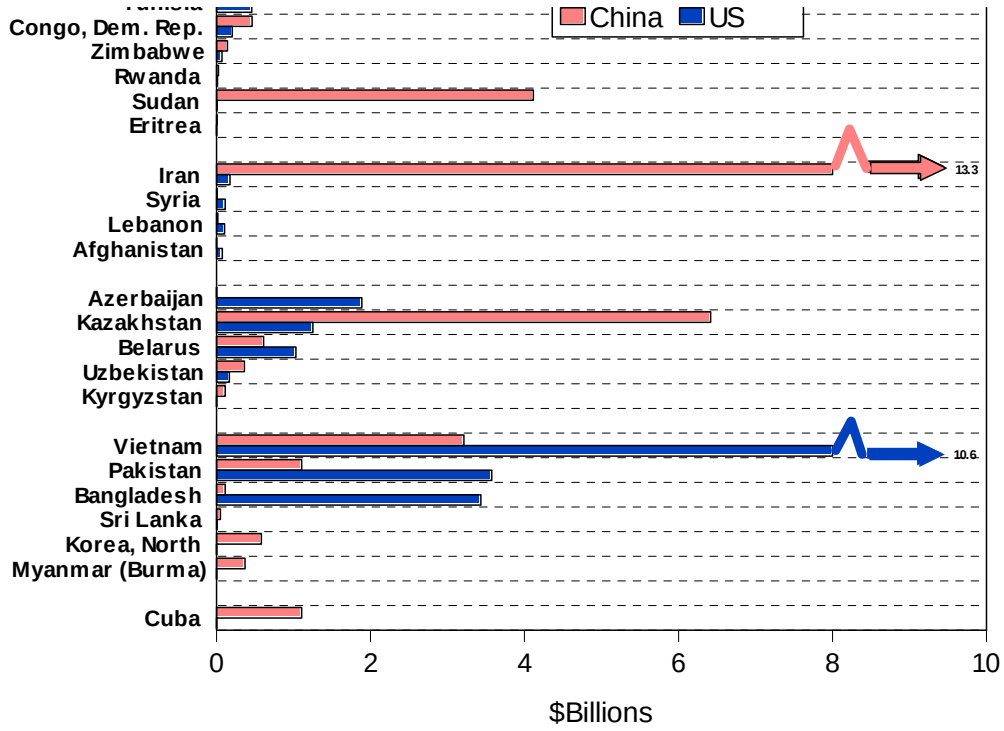


Source: Data from Global Trade Atlas

Figure 19 shows imports by the United States and China in 2007 from countries indicated by the U.S. State Department as nations with serious problems with human rights, particularly those whose human rights situations have deteriorated.[126] Some of the countries, such as North Korea (Democratic People's Republic of Korea), Myanmar/Burma, and Cuba are under U.S. trade sanctions. The countries with which China imports significantly more than does the United States include Iran, Sudan, Kazakhstan, North Korea, Cuba, Burma (Myanmar), Kyrgyzstan and Sri Lanka. Those countries from which the United States buys more than does China include Vietnam, Pakistan, Bangladesh, Afghanistan, Syria, and Lebanon. Neither country imports much from Rwanda or Eritrea.

[126] U.S. Department of State. *Country Reports on Human Rights Practices - 2007*, March 11, 2008. http://www.state.gov/g/drl/rls/hrrpt/2007/index.htm.

Figure 19. U.S. and China's Imports from Selected Countries with Reportedly Serious Human Rights Problems, 2007

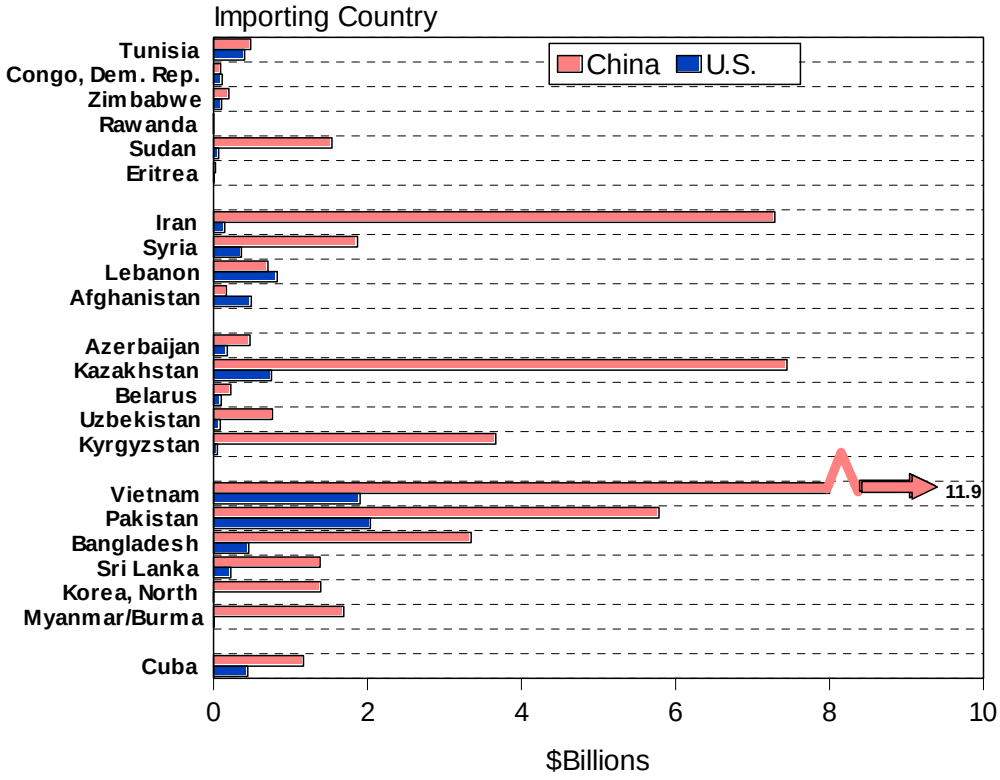


Source: Data from Global Trade Atlas.

Figure 20 shows U.S. and China's exports to selected countries that the U.S. State Department has indicated had serious problems with human rights, particularly those whose human rights situations have deteriorated.[127] In 2007, the United States exported a total of $1,163 billion while China exported a total of $1,218 billion in merchandise. With the exception of Lebanon and Eritrea, China exported more to all the listed countries than did the United States. Particularly significant were Vietnam, Iran, Kazakhstan, Krygyzstan, Pakistan, and Bangladesh. China also exports to North Korea and Burma, as well as to Cuba, countries under various U.S. trade sanctions.

[127] U.S. Department of State, Bureau of Democracy, Human Rights, and Labor. *Country Reports on Human Rights Practices - 2007*, March 11, 2008. http://www.state.gov/g/drl/rls/hrrpt/2007/index.htm.

Figure 20. U.S. and China's Exports to Selected Countries with Reportedly Serious Human Rights Problems, 2007

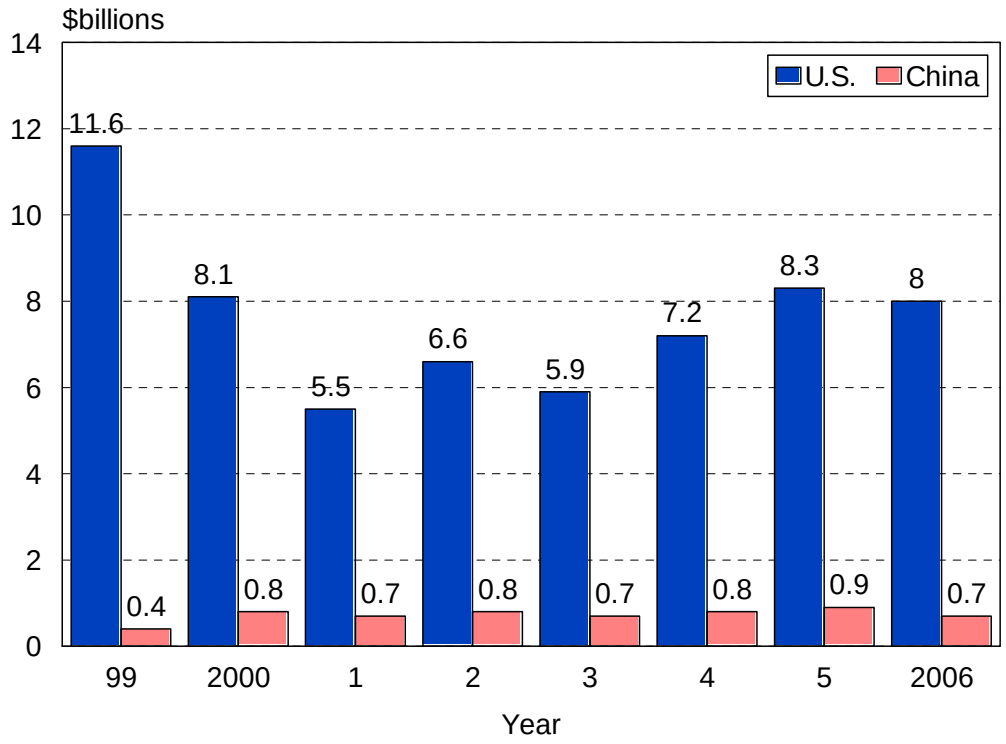


Source: Data from Global Trade Atlas.

Figure 21 shows deliveries of conventional arms to the developing world that have resulted from various arms transfer agreements by the United States and China over the 1999-2006 period. Developing nations are defined to be all countries except the United States, Russia, European nations, Canada, Japan, Australia, and New Zealand. While the United States has delivered roughly ten times the amount as has China in recent years, China is a significant supplier of such weapons. During this period, China ranked number six in the world after the United States, Russia, United Kingdom, France and Germany. China's arms deliveries were about the same level as those from Sweden and more than those from Canada and Israel. Over the 2003 to 2006 period, China's arms deliveries consisted primarily of artillery, armored personnel carriers and armored cars, minor surface combatants, supersonic combat aircraft, and other aircraft. In the Middle East, the countries taking delivery of arms from China during this time were Egypt, Iran, Kuwait, and Algeria.[128]

[128] For details and analysis, see CRS Report RL34187, *Conventional Arms Transfers to Developing Nations, 1999-2006*, by (name redacted).

Figure 21. U.S. and China's Conventional Arms Deliveries to Developing Nations, 1999-2006 (in Billions of Current Dollars)



Source: U.S. Government. Cited in CRS Report RL34187, *Conventional Arms Transfers to Developing Nations, 1999-2006*, by ame redacted.

Overseas Direct Investment

As in international trade, China has been generating media and government attention because of the recent surge in its overseas direct investment activity[129] (foreign direct investments or FDI) in various countries of the world. Beijing has urged its companies to "Go Global" and is facilitating the process. While these investments still are small when compared with those of the United States or other major industrialized nations, the rapid increase in amounts, the purposes, and destinations of these investments has raised concerns in many quarters.

As of the end of 2006, more than 5,000 domestic Chinese investment entities had established nearly 10,000 overseas direct invested enterprises in 172 countries (or territories) around the world, according to PRC government figures. The accumulated FDI stock had reached $90.63

[129] Overseas direct investments consist of capital flows that parent companies provide to their foreign affiliates (net of funds provided to the parent by the affiliate). They include equity capital flows, inter-company debt flows, and reinvested earnings. Equity capital flows consist of funds to establish new foreign affiliated companies, payments for the purchase of capital stock or other equity interests and other ownership-related payments made to foreign affiliates. Inter-company debt flows are the changes in net outstanding loans by parents to affiliates. Reinvested earnings are the parent's claim on the current-period undistributed earnings of their foreign affiliates. Prior to 2002, China's overseas FDI statistics did not include retained earnings. Since 2002, however, China's FDI data have been collected in accord with OECD definitions and IMF balance of payments guidelines.

billion of which non-finance FDI was $75.02 billion (83%) and $15.61 billion was in finance-related FDI. Of the total, $37.24 billion (41%) was in equity investments, $33.68 billion (37%) in reinvested earnings, and $19.71 billion (22%) in other kinds of investment. In 2006, FDI from China accounted for about 0.8% of global FDI stocks and 2.7% of global FDI outflows (13th in the world).[130]

As of the end of 2006, the cumulative stock of FDI abroad was $2,855.6 billion for the United States as compared with $90.63 billion for China. As for annual outbound FDI flows, in 2006, China reported $21.16 billion while the United States reported $216.6 billion. (See **Figure 22**.) Over the 2003-06 period, total overseas direct investment flows from the United States averaged 13 times those of China.

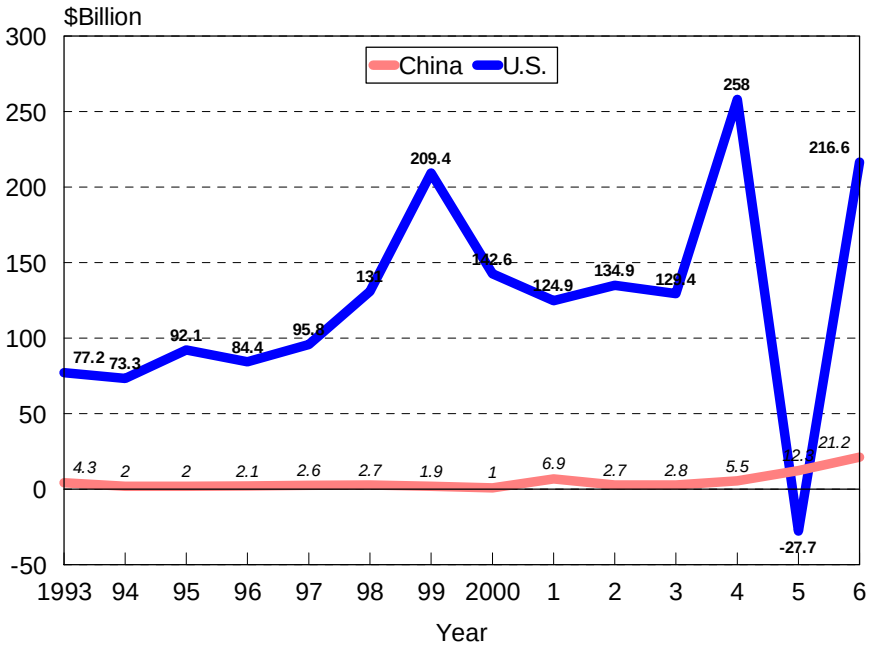
China's companies invest outside the country for many of the same reasons that other multinational firms do. The major factors pushing the outbound direct investment are:

- to bypass trade barriers and to use domestic production capacity because the home market for their products is too small
- to service markets in order to secure access or to expand market presence;
- to better compete with foreign-affiliated companies in the Chinese market and to diversify manufacturing facilities;
- to secure supplies of raw materials and resources; and
- to circumvent domestic governmental controls (by sending the investment funds to an offshore destination and then bringing it back as a foreign investment).[131]

[130] Peoples' Republic of China. Ministry of Commerce. "2006 Statistical Bulletin of China's Outward Foreign Investment." c. 2007. p. 51.

[131] Poncet, Sandra, "Inward and Outward FDI in China," Panthéon-Sorbonne-Economie, Université Paris, April 28, 2007 version. See also; Asia Pacific Foundation of Canada. *China Goes Global, A Survey of Chinese Companies' Outward Direct Investment Intentions*, September 2005.

Figure 22. U.S. and China's Total Outbound Direct Investment (FDI) Flows



Source: PRC, Ministry of Commerce, UNCTAD, US Bureau of Economic Analysis

The first four motives are shared to some extent by producers in other countries. The need to "round-trip" investments, however, seems be specific to China. This practice may result in overstatement of both outward and inward FDI in China. One study estimated that 20 to 30% of capital leaving China is "round tripped" back as foreign investment in the domestic economy. Much of this is done through Hong Kong, but tax havens, such as the Cayman Islands and the British Virgin Islands reportedly also are significant.[132] In 2006, these were the top three destinations for Chinese outward FDI with the Cayman Islands and Hong Kong receiving $14.76 billion (84%) out of total outward FDI of $21.16 billion.[133]

In China's quest for secure supplies of natural resources, for example, the Chinese investing companies frequently have been dealing with regimes that are considered to be unsavory among Western policy makers. Beijing counters such criticism by stating that its long-held policy is not to interfere in the affairs of others. This policy has enabled China to sometimes "slip under the radar" and invest in places such as Sudan, Burma/Myanmar, and North Korea that are under economic sanctions by the United States and several other Western powers.[134]

As for the regional distribution of FDI flows, illustrated in **Figure 23**, overseas direct investment from the United States in the regions shown is considerably greater than that from China[135]. This

[132] Xiao, Geng "China's Round-Tripping FDI: Scale, Causes and Implications," The University of Hong Kong, working paper, July 2004 revision.

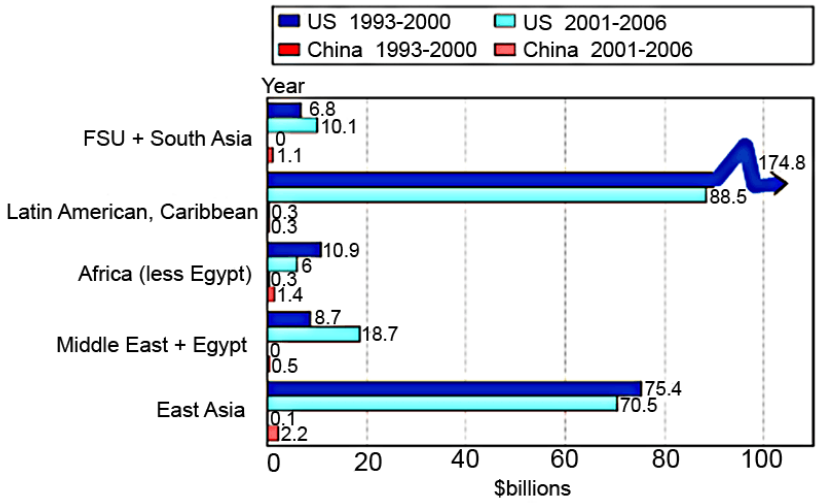
[133] Peoples' Republic of China. Ministry of Commerce. "2006 Statistical Bulletin of China's Outward Foreign Investment." c. 2007.

[134] Jane Macartney. "Insatiable Beijing scours the world for power and profit," *The Times* (London), January 12, 2006. pg. 42.

[135] Note: East Asia excludes South Asia; the Pacific Islands; Australia and New Zealand; and China, Hong Kong, and (continued...)

also holds for U.S. and Chinese investments in Europe (not shown). Comparing the magnitude of overseas direct investment for the two countries in the Former Soviet Union (FSU) and South Asia as well as in Africa (less Egypt) shows a similar pattern. In the 2001-2006 period, the United States invested nine times as much in the FSU and South Asia than did China. Over the same period, U.S. overseas direct investment in Latin America and the Caribbean completely dwarfs that by China. In East Asia (excluding China, Hong Kong, and Macau), the United States invested more than 30 times that done by China, although counting China's investments in Hong Kong would raise the Chinese figure by $6.9 billion.

Figure 23. U.S. and China's Foreign Direct Investment in Selected Regions of the World and Over Two Time Periods



Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for National Strategic Studies, October 2006, 57p. PRC, Ministry of Commerce, 2006 Statistical Bulletin of China's Outward Foreign Direct Investment. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

These capital flows include reinvested earnings by affiliated companies overseas. Over the 2001-2006 period, for example, U.S. companies and financiers reported direct investments of $70.6 billion in countries of East Asia. However, the companies also reported $82.6 billion in reinvested earnings[136] for the major East Asian countries (Indonesia, Japan, S. Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand) alone. In 2006, the United States reported reinvested earnings for Latin America and other Western Hemisphere countries of $59.1 billion, while total overseas direct investment for that year amounted to $22.3 billion.

Since 2002, China has included reinvested earnings in its FDI totals. These have accounted for about a third of Chinese outbound direct investments.

(...continued)

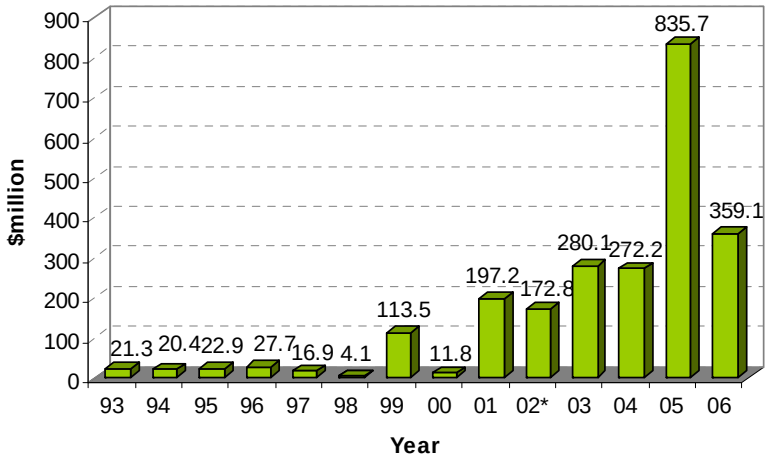
Macau. The categories in the regional FDI charts are those used in: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for National Strategic Studies, October 2006. 57p. Most of the data for China in the regional charts are from spreadsheets provided by Dr. Saunders.

[136] Reinvested earnings are U.S. parent company claims on undistributed earnings of their foreign affiliates. In balance of payments accounting, they are treated as an inflow of foreign income to the United States and an outflow of direct investments from the United States, even though the funds may never leave the affiliates.

China has been a heavy investor in its neighboring economies in East Asia, but much of that FDI has gone into Hong Kong—some for a round trip back to China. Hong Kong, Macau, and the Pacific Islands are excluded in **Figure 24**. This figure shows China's outbound FDI in East Asia since 1993. Since 2000, this investment has risen rapidly with a surge in 2005 and a fall back to its previous growth path in 2006.

Figure 24. China's Outbound Direct Investment Flows to East Asia

(Excludes Hong Kong, Macau, and the Pacific Islands)



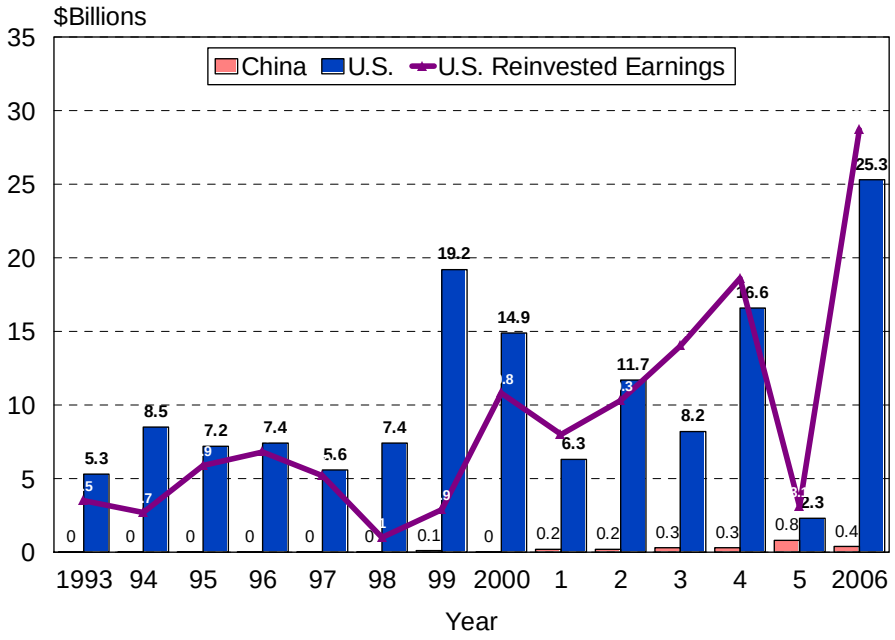
Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

Note: *Reinvested earnings not included in prior years.

U.S. overseas direct investment in the East Asian region, however, far surpasses that of China. The United States has long invested in countries such as Japan, South Korea, Indonesia, Singapore, and others. In many years, however, much of the investment has been in the form of reinvested earnings from existing U.S. affiliated enterprises in East Asia. **Figure 25** compares U.S. and Chinese outbound direct investments in **billions** of U.S. dollars. **Figure 24** above, shows the Chinese outbound FDI in **millions** of U.S. dollars. As seen in **Figure 25**, U.S. investment has been much greater than that of China, but as seen in **Figure 24**, the rate of increase for China has been considerable. Note the line in **Figure 25**, showing much of U.S. investment is from reinvested earnings and not new equity capital flows.

Figure 25. Chinese and U.S. Annual Outbound Direct Investment Flows to East Asia

(Excludes Hong Kong, Macau, and the Pacific Islands)

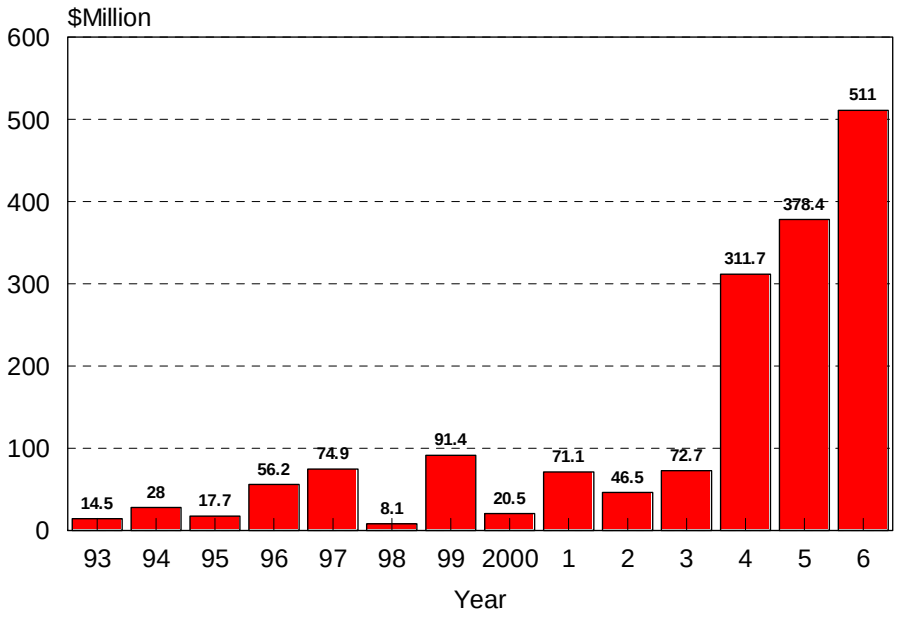


Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

Figure 26 shows China's FDI in Africa, excluding Egypt which is included in the Middle East. As in other regions of the world, China's investments there have boomed in recent years. Chinese activity in Africa has helped trigger world concern over Chinese soft power. As with international trade, Chinese investing companies have been dealing with some regimes that are considered to be unsavory among Western policy makers. In addition, Chinese companies have been investing in extractive industries and possibly locking in supplies of petroleum and other critical raw materials in countries that may be in political turmoil or may be under economic sanctions by other nations. In 2006, China reported direct investment flows of more than a half billion dollars to countries in Africa.

Figure 26. China's Outbound Direct Investment Flows to Africa

(excluding Egypt)

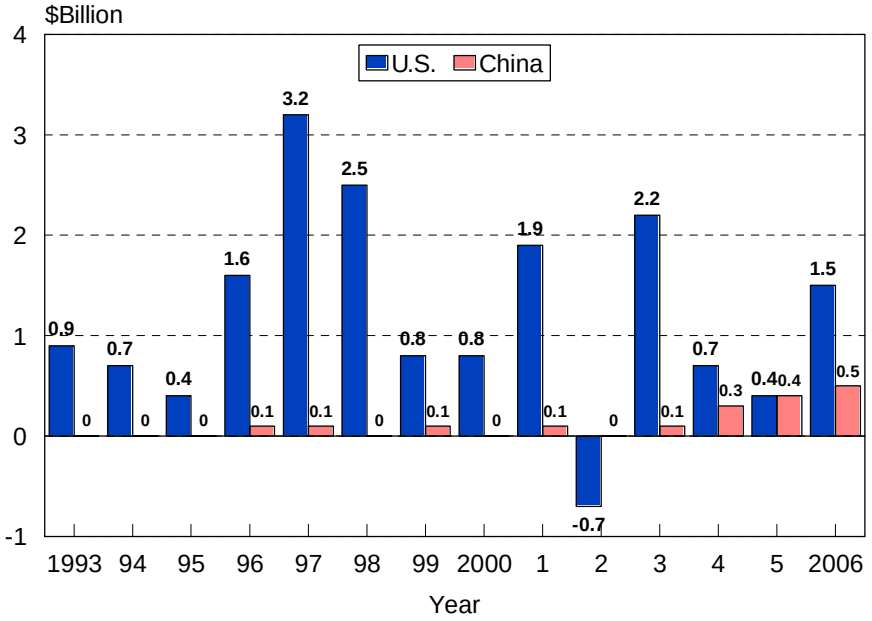


Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

When compared with U.S. outbound direct investments in Africa, however, Chinese investment was considerably less than such investments from the United States. As shown in **Figure 27** (denominated in billions of dollars), the U.S. outbound FDI in Africa completely dominated that of China during the 1990s but recently investment from China has been rising enough to rival that of the United States. In 2005, the two countries invested about the same amount, while in 2006, the U.S. amount was triple that of China.

Figure 27. Chinese and U.S. Outbound Direct Investment Flows to Africa

(excluding Egypt)



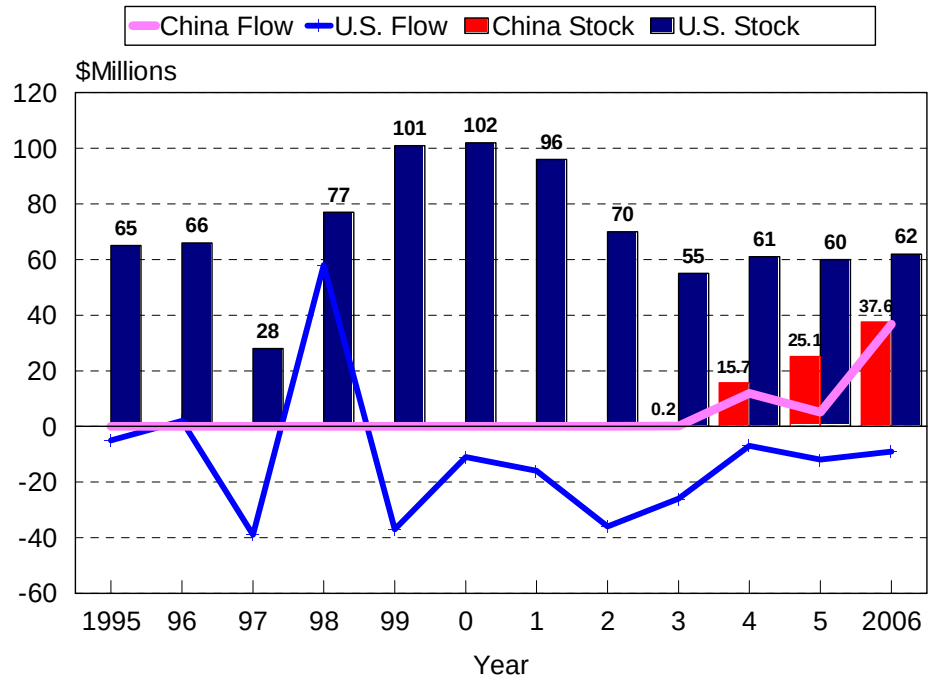
Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

The direct investment by China in Africa appears to be a part of Beijing's strategy to bolster its energy security. In 2007, China reportedly imported $25 billion worth of crude oil from African countries (primarily Angola, Sudan, and Congo). This amounted to nearly a third of the total $79.7 billion worth of crude oil that China imported that year. China also imported copper, iron ore, and other resources from Africa. Beijing would like to secure this supply through ownership and investments, partly to avoid the price and supply uncertainty associated with buying such commodities on spot markets. These resources are deemed critical for Beijing to maintain the country's economic growth.[137]

Figure 28 shows Chinese and U.S. direct investment in the Democratic Republic of the Congo. This is a country in turmoil, so some assets may have been damaged. The cumulative stock figures for China do not seem to reflect the flows accurately. Nevertheless, this is what China reported as its outbound direct investments in the D.R. Congo. Note that while the United States has been reducing its direct investments in the country, China has been increasing its assets there. Neither country, however, has more than $100 million invested there.

[137] Strategic Forecasting, Inc. (STRATFOR). "China: A Banking Deal and Securing African Investments," July 23, 2007. "Mineral Consumption Concerns Bite into China's Appetite for Growth," *Times Online*, September 6, 2005.

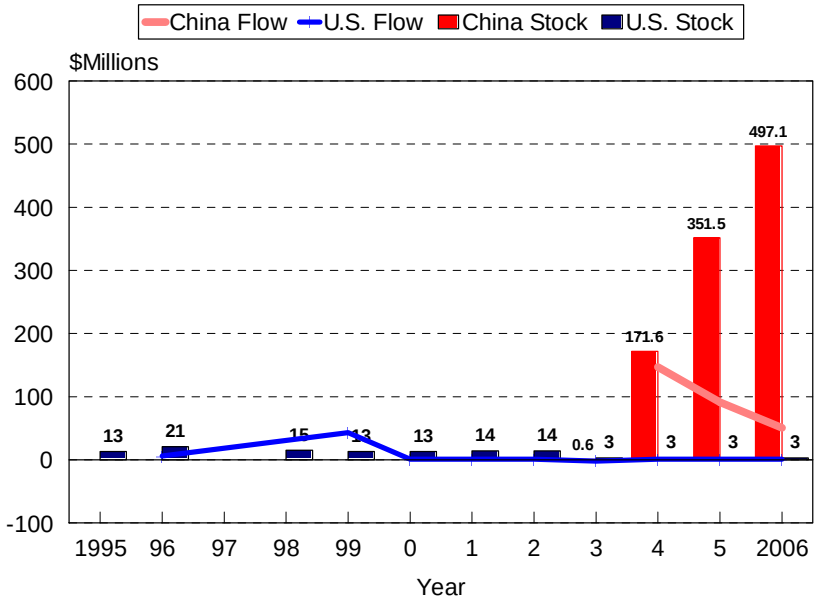
Figure 28. Chinese and U.S. Direct Investment in the Democratic Republic of the Congo, Annual Flows and Cumulative Stocks



Source: UNCTAD, World Investment Directory, Volume X, Africa 2008, p. 198. PRC. Ministry of Commerce.

Figure 29 compares the amounts of U.S. and Chinese direct investments in Sudan. This is another African country undergoing political turmoil. Again, there appear to be inconsistencies between annual flows and cumulative stocks in China's reported data, but the data indicate that while U.S. FDI there has virtually disappeared, China's stock was approaching $500 million. Much of this investment has been in the oil and gas industry.

Figure 29. Chinese and U.S. Direct Investment in the Sudan, Annual Flows and Cumulative Stocks



Source: UNCTAD, World Investment Director, Volume X, Africa 2008, p. 198. PRCE. Ministry of Commerce.

Figure 30 shows various oil and gas concessions in Sudan. The China National Petroleum Corporation has been active in partnering with the Sudanese government's Sudapet and other multinational oil companies in developing Sudan's oil industry, funding the building of upstream resources, constructing industry infrastructure including the export pipeline and downstream facilities. China's concessions include Block No. 1 (Greater Nile Petroleum Operating Company, a consortium that includes the China National Petroleum Corporation); Block No. 3 (Petronas Carigali (Malaysia), Sudapet (Sudan) and China National Petroleum Corporation (CNPC); Block No. 6 (China National Petroleum Corporation); and Block No. 7 (Sudapet and China National Petroleum Corporation).

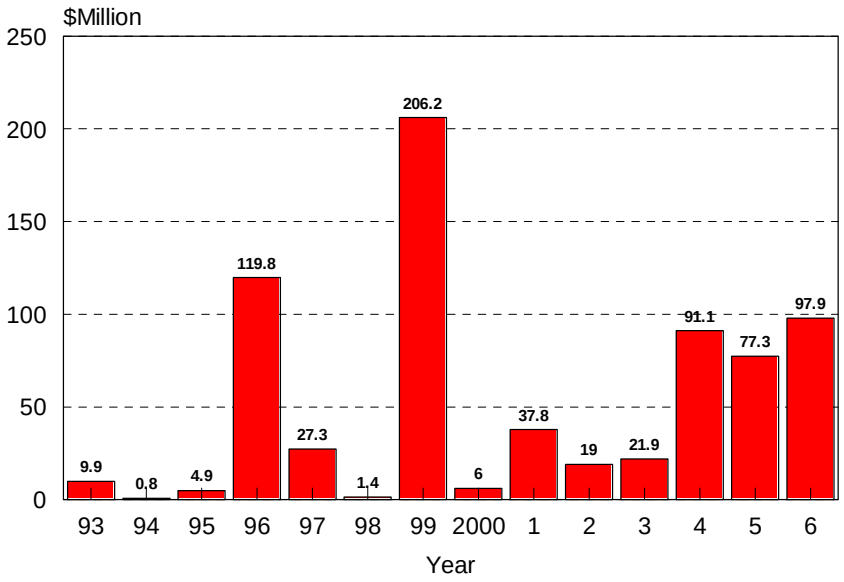
Figure 30. Oil and Gas Concessions in the Sudan

Source: Map by U.S. Agency for International Development

In Latin America, China's outbound direct investment has been relatively small. The data in **Figure 31** exclude investments in offshore tax havens (Cayman Islands and the British Virgin

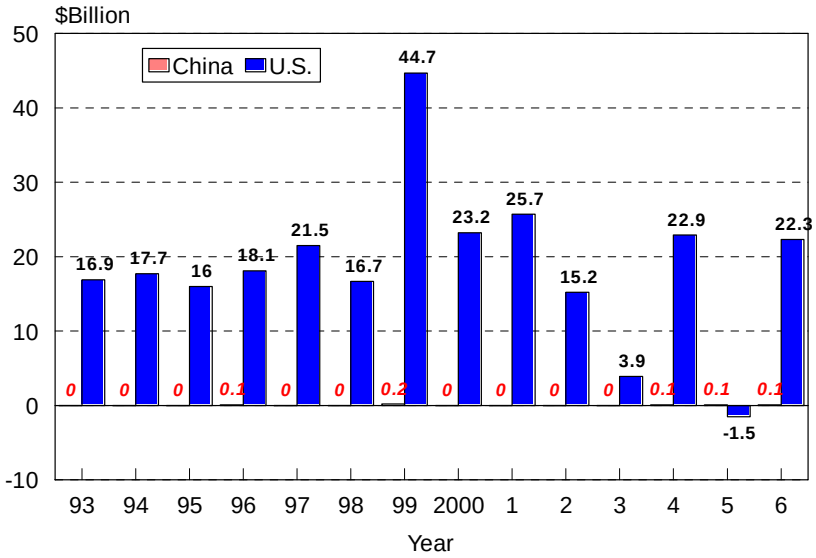
Islands) because that investment often is directed elsewhere—even back to China. In 1999, China's FDI to Latin America peaked at $206 million. In 2006, the total was less than $100 million. As seen in **Figure 32** (denominated in billions of dollars), Latin America is a major destination for U.S. direct investment that dwarfs that of China.

Figure 31. China's Outbound Direct Investment Flows to Latin America



Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

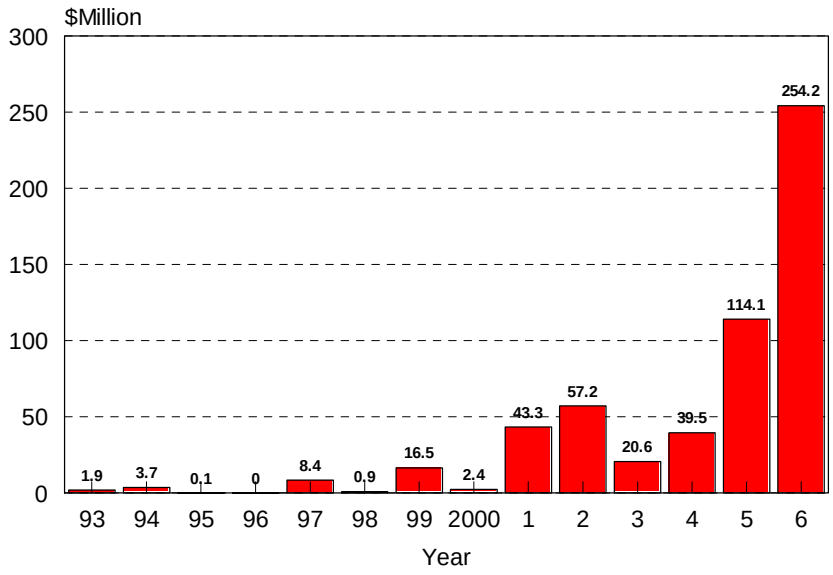
Figure 32. U.S. and China's Outbound Direct Investment Flows to Latin America



Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

Figure 33. China's Outbound Direct Investment Flows to the Middle East

(Including Egypt)

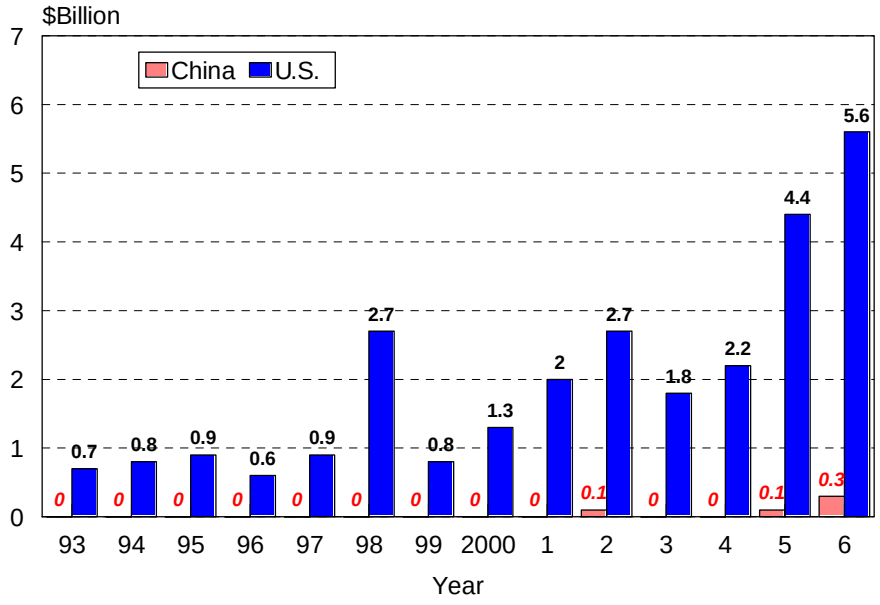


Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

In the Middle East (including Egypt), China has been actively seeking secure supplies of petroleum. As shown in **Figures 33** and **34**, even though Chinese investments have been rising in recent years, they still are small compared with those from the United States.

Figure 34. U.S. and China's Outbound Direct Investment Flows to the Middle East

(Including Egypt)



Sources: Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools*, Institute for Strategic Studies, October 2006. 57p. RPC, Ministry of Commerce, *2006 Statistical Bulletin of China's Outward Foreign Direct Investment*. U.S. Bureau of Economic Analysis, U.S. Direct Investment Abroad database.

China's Sovereign Wealth Fund[138]

China established its major sovereign wealth fund, the China Investment Corporation (CIC) on September 29, 2007—six months after it first announced its intention to create such a fund. Financed with $200 billion in initial capital, the CIC is the sixth largest sovereign wealth fund (SWF) in the world, according to one assessment.[139] China's sovereign wealth fund *potentially* could provide Beijing with another instrument to project its soft power around the world. Whether or not China's political leaders created the CIC with this in mind is difficult to determine. Similarly, it is uncertain if China's State Council is willing and able to use the CIC as an instrument of soft power. Finally, even if China has no intention to project soft power globally via its sovereign wealth fund, the investments made by CIC may either enhance or diminish China's global image and, thereby, indirectly augment or reduce China' soft power.

To date, the CIC is known to have made a number of investments both inside China and around the world. However, because the CIC does not generally release details of its investments, it is

[138] Written by (name redacted), Analyst in Asian Trade and Finance. For further information, see CRS Report RL34337, *China's Sovereign Wealth Fund*, by (name redacted) and CRS Report RS22921, *China's "Hot Money" Problems*, by (name redacted) and (name redacted).

[139] Edwin Truman, "A Blueprint for Sovereign Wealth Fund Best Practices," *Peterson Institute for International Economics*, No. PB08-3, April 2008. The top five SWFs (in order) are: United Arab Emirate's Abu Dhabi Investment Authority, Norway's Government Pension Fund - Global, Singapore's Government of Singapore Investment Corporation, Saudi Arabia's Saudi Arabian Monetary Authority, and Kuwait's Kuwait Investment Authority.

difficult to determine when and how it has used its available capital. Some of its known major investments are:[140]

- May 20, 2007—China Jianyin Investment Company, now a wholly-owned subsidiary of CIC, signs an agreement to purchase just under 10% of U.S. investment company, Blackstone Group, for $3 billion;
- November 21, 2007—CIC purchases $100 million in shares of Hong Kong's initial public offering (IPO) for the new China Railway Group, a railway construction company operating mainly in China;
- November 28, 2007—CIC subsidiary, Central Huijin Investment Company (CHIC), invests $20 billion in China Everbright Bank, a Beijing-based joint-equity commercial bank;
- December 19, 2007—CIC purchases 9.9% of Morgan Stanley, a major U.S. investment company, for $5 billion;
- December 31, 2007—CHIC signs an agreement to invest $20 billion in China Development Bank, a state-owned bank; and
- March 24, 2008—CIC purchases more than $100 million in shares of Visa's IPO.

China's Reasons for Creating China Investment Corporation

There has been much discussion—and little agreement—about the reasons China chose to create a sovereign wealth fund. At the time it announced its plans to create the CIC, Chinese officials focused in an apparent desire to increase the rate of return on its foreign exchange reserve investments. Just prior to the creation of China's sovereign wealth fund, Jesse Wang Jianxi, a member of the CIC's preparatory group, reportedly stated, "The mission for this company [CIC] is purely investment-return driven."[141] On the day CIC formally started operations, its new chairman, Lou Jiwei, said that the SWF would be making long-term investments aimed at maximizing its returns with acceptable levels of risk.[142]

However, analysts and observers of China's political economy speculated that there were other forces influencing the State Council's decision to establish a SWF at this time. Some speculated that the decision to create a separate, semi-autonomous corporation to invest a portion of China's growing foreign exchange reserves was the result of power struggles between China's major financial and economic policy institutions, including the People's Bank of China (PBoC), the Ministry of Finance (MoF), and the National Development and Reform Commission (NDRC).[143] Others saw the move as making a logical administrative separation between the state agency responsible for overseeing overseas financial transactions and the institution managing the government's international investment portfolio.

[140] Sources to this information can be found in: CRS Report RL34337, *China's Sovereign Wealth Fund*, by (name redac ted).

[141] Jason Dean and Andrew Batson, "Beijing to Take Passive Investment Approach," *Wall Street Journal* (Europe), September 10, 2007.

[142] Xin Zhiming, "China's State Forex Investment Company Debuts," *China Daily*, September 29, 2007.

[143] For example, see Michael Pettis, "China's Sovereign Wealth Fund," September 24, 2007, available at http://www.piaohaoreport.sampasite.com/blog/Guest-blog-2.htm.

It was also postulated that a major reason the State Council was setting up the CIC was part of a plan to alleviate inflationary pressures building up in China.[144] According to this theory, China's rapidly rising stockpile of foreign exchange reserves—which had more than doubled between September 2005 and September 2007—was creating excess liquidity in China's money supply.[145] In order to remove the excess money from circulation, the PBoC was selling bonds to the public—a process often called sterilization. However, the Chinese bonds were offering a higher yield than the PBoC was earning on its investments in U.S. treasury bonds. Some analysts viewed the creation of the CIC as providing the Chinese government an investment avenue by which it could eliminate the financial losses associated with the sterilization of its growing foreign exchange reserves.

There were also concerns raised that the Chinese government had created the CIC so it could purchase control over key industries and/or access to important natural resources. Some U.S. commentators raised the alarm that with over $1.4 trillion to invest, China could acquire several major U.S. companies and obtain the power to unduly influence the U.S. economy.[146] Others speculated that China may use the CIC to obtain market power over key natural resources (petroleum, natural gas, iron ore, etc.) or access to sensitive technology by purchasing a seat on a corporation's board of directors.

China responded to these concerns by providing reassuring statements about the types of investments the CIC would *not* be making. Chinese officials reportedly told German Chancellor Angela Merkel during her visit to China in August 2007 that the future CIC "had no intention of buying strategic stakes in big western companies."[147] CIC Chairman Lou also indicated that the CIC will not invest in infrastructure.[148] China's Vice Minister of Finance Li Yong dismissed "rumors that China would try to buy out European and American companies in large numbers."[149] Vice Minister Li also stated that the CIC would not buy into overseas airlines, telecommunications or oil companies.[150] An unnamed contact at CIC was cited as saying that the SWF also will not make investments in foreign technology companies as a means of obtaining advanced technology, pointing out, "That's political, and we don't do that."[151]

Will and Can China Use the CIC as an Instrument of Soft Power?

Even if the State Council did not *originally* establish the CIC to be used as an instrument of "soft power," once the SWF was in operation, the State Council could decide to use it as a means of advancing China's foreign policy objectives. One possible indication that Chinese officials recognized the "soft power" potential of the CIC was their pattern of pointing out that the

[144] For example, see Henny Sender, "China Turns Risk Averse, Even as Capital Outflows Rise," *Financial Times*, January 18, 2008.

[145] According to China's State Administration of Foreign Exchange (SAFE), China's foreign reserve holdings were $769 billion as of September 2005 and $1.434 trillion as of September 2007.

[146] James Surowiecki, "Sovereign Wealth World," *The New Yorker*, November 26, 2007.

[147] Pettis, op. cit.

[148] "China's Sovereign Wealth Fund Seeks to be a Stabilizing Presence in Global Markets," *Xinhua*, November 30, 2007.

[149] "Investment Fund Announces Strategic Plans," *Xinhua*, November 9, 2007.

[150] "China Investment Corporation Unveils Investment Plan," *Xinhua*, November 7, 2007.

[151] Keith Bradsher, "$200 Billion to Invest, But in China," *The New York Times*, November 29, 2007.

investments of SWFs in ailing financial firms—such as CIC's investment in Morgan Stanley—were providing market stability at a time when there was growing concern about a global financial crisis.

There is also uncertainty about the ability of the State Council to influence the CIC's investment decisions if it should decide it wants to use the SWF as an instrument of soft power. When the CIC was established, much was made of its autonomy from government influence in its investment decisions. In addition, the CIC has reportedly begun vetting private investment firms around the world as possible contracted "fund managers"for the CIC. If the CIC does subdivide its portfolio among a group of independent fund managers, it should significantly reduce the State Council's ability to influence the CIC and use the SWF as an instrument of soft power.

CIC's Unintended Soft Power Effects

Ironically, even if the Chinese government has no intention of using the CIC as an instrument of soft power, the investment activities of China's SWF may either enhance or detract from China's global image. China may already have benefitted from CIC's investment in Morgan Stanley among people who see the SWF's action as providing needed market stability in a time of financial uncertainty. However, in a different light, CIC's purchase of Morgan Stanley shares at a time when the firm was struggling could also be viewed as opportunistic and harm China's global image. Both interpretations have been presented by outside observers.

In the same way, different analysts had different interpretations of CIC Chairman Lou's statement comparing investment opportunities to a farmer shooting "big, fat rabbits."[152] Some commentators understood the comment to indicate CIC's willingness to jump on good investment opportunities when they occur. Others heard a veiled threat in the statement, likening U.S. financial companies to game to be hunted. Lou himself seemed to recognize the ambiguity of his initial statement, adding, "Some people may say we [CIC] were shot by Morgan Stanley. But who knows?"

Since June 2008, the CIC has not made any major overseas investments. The CIC allegedly began accepting applications from investment firms to serve as contracted fund managers in April 2008, but there are no confirmed cases of companies being hired to manage portions of CIC's portfolio.[153] Until the CIC once again becomes active in international markets, it is difficult to assess its potential effects on China's overall soft power.

[152] Steven R. Weisman, "Chinese Official Seeks to Reassure U.S. on Investment Fund," *International Herald Tribune*, February 1, 2008.

[153] On April 3, 2008, Reuters reported that CIC had signed a deal with J.C. Flowers & Company, a U.S.-based investment firm, launching a $4 billion private equity investment fund that would focus on investments in U.S. financial assets (George Chen, "China's CIC to Launch $4 Billion Fund with JC Flowers," *Reuters*, April 3, 2008). Neither CIC nor J.C. Flowers would confirm the deal.

PART THREE: REGIONAL COMPARISONS

Southeast Asia[154]

Many observers cast Southeast Asia as a crucial arena of Sino-U.S. competition. The United States has deep security, trade and investment relations with the region, and many believe that Southeast Asian nations deeply value the longstanding U.S. "security umbrella" against a potentially expansive China. Southeast Asia's proximity to China historically has cut two ways—creating cultural and regional affinities, but also breeding an existential Southeast Asian fear of potential PRC domination. But the PRC has spent over a decade actively courting Southeast Asian states with new diplomatic initiatives, trade and investment, and foreign aid.

In fact, both China and the United States have strong ties to Southeast Asia, and both draw upon considerable strengths in projecting soft power in the region. Despite widespread improvements in public perceptions of China and parallel declines in perceptions of the United States, the United States draws upon considerable security and diplomatic assets in Southeast Asia, and neither side can really claim to be the dominant power in the region.

Some analysts argue that China seeks to create a sphere of influence in Southeast Asia and to erode U.S. dominance, while others contend that the PRC has not the will, capability, nor acquiescence of countries in the region to carry out such a goal, at least in the short- to medium-term.[155] According to many analysts, Southeast Asian countries generally welcome PRC aid, investment, and friendship, but do not want China to dominate the region militarily. Many citizens in the region support or accept the U.S. military presence, but feel that the United States has often neglected to engage them diplomatically or hear their concerns. This void has been filled in part by China's growing soft power.

China's growing influence derives mainly from its role as a market for the region's natural resources, the economic benefits that it bestows through aid (mostly loans for infrastructure projects) and investment, gestures of friendship expressed through its diplomacy and foreign assistance, the PRC's standing as an economic development model, and economic and cultural integration stemming from proximity and migration. The United States maintains its influence based upon its military presence, foreign direct investment, its market for the region's manufactured goods, military and development assistance, and educational opportunities. Many Southeast Asians continue to view the United States as a model of democracy and free market economics, aspire to its middle class lifestyle, and are attracted to its popular culture.

[154] Written by (name redacted), Wayne Morrison, and (name redacted). Thomas Coipuram provided research support.

[155] For different views on China's strategic goals, see John Tkacik and Dana Dillon, "China's Quest for Asia," *Policy Review (Hoover Institution)*, December 2005-January 2006; (name redacted), *China's Rise in Asia: Promises and Perils* (New York: Rowman and Littlefield, 2005).

Figure 35. Map of Southeast Asia

Source: Map Resources. Adapted by CRS. (K. Yancey 12/22/05)

Other research emphasizes the overarching principles that inform China's soft power activities and make it a powerful alternative to U.S. soft power. The PRC's official embrace of Southeast Asia—what some refer to as its "charm offensive"—has nurtured China's rising influence.[156] By contrast, perceptions of U.S. aloofness and narrow security interests in the region and of Washington's demanding conditions for diplomatic and financial support have contributed to Southeast Asian disillusionment with the United States. In the past decade, China has cultivated goodwill in Southeast Asia by refraining from devaluing its currency and by contributing to the International Monetary Fund "support package" to Thailand during the 1997-98 Asian Financial Crisis;[157] downplaying territorial disputes and agreeing to strive for peaceful resolutions to such conflicts;[158] developing a very active diplomatic agenda; promoting free trade agreements; and providing economic assistance without conditions.

Overseas Chinese communities have long played important parts in the economies, societies, and cultures of Southeast Asian states, although their relations with China, the home of their ancestors, in many instances have been ambivalent. Ethnic Chinese, who for over two centuries have migrated to Southeast Asia from southern China with little apparent acknowledgment from the Chinese government, have long dominated the economies of the region. Recent Chinese immigrants to Southeast Asia have both exploited contacts with older Chinese communities and engendered resentment within these communities as well as among indigenous peoples.[159] Many overseas Chinese in the region have downplayed their ties to China in order to help avoid ethnic discrimination against them or to improve their economic, social, and political opportunities in their adopted countries; however, as China has gained international stature, some of the more economically and politically influential overseas Chinese have proudly proclaimed their heritage and links to China. Estimates of ethnic Chinese living in Southeast Asia range from 30 million to 40 million, or over 6% of the region's population.[160] Although their degree of assimilation, as well as discrimination against them, has varied by country, their long-term presence has brought about a local familiarity with Chinese culture.

For China, despite its successes, Southeast Asia presents an uneven and challenging landscape for soft power projection. The United States maintains alliances with the Philippines and Thailand, has a strategic agreement with Singapore, is developing military-to-military relations with Indonesia, and cooperates with Malaysia on counter-terrorism efforts. These and other countries in the region, or elements within them, continue to feel ambivalent towards China due to ongoing territorial disputes, China's past and present support for repressive regimes, and tensions between indigenous peoples and the region's ethnic Chinese communities. 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), although China is rapidly catching up to the United States in trade. Washington also was a major contributor to countries hit by the 2004 Indian Ocean tsunami, which affected several Southeast Asian countries. The Bush Administration pledged $305 million to affected countries compared to China's $63 million and Taiwan's $50 million. The U.S. emergency response helped to improve the image of the United States in the region, particularly

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

[157] The United States did not contribute to the support package for Thailand.

[158] 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.

[159] Bertil Lintner, "The Third Wave," *Far Eastern Economic Review*, June 24, 1999.

[160] "Southeast Asia Looks North," in Catharin Dalpino and David Steinberg, eds, *Georgetown Southeast Asia Survey 2002-2003* (Washington: Georgetown University, 2003).

in Indonesia, somewhat reversing a dramatic rise in negative public perceptions of the United States after the U.S.-led invasion of Iraq in 2003.

An analysis of China's bilateral relations in Southeast Asia leads to a regional division between mainland Southeast Asian states, particularly Burma, Cambodia, and Laos, where China is more influential, and maritime Southeast Asian states (Indonesia, the Philippines, and Singapore), where Beijing wields less power.[161] Thailand, a major non-NATO ally of the United States, appears to be more comfortable in its relationship with China than other regional states. China's historical conflicts with Vietnam, including a brief border war in 1979, and Vietnam's close economic relations with Taiwan have placed limits on rapprochement between the two neighboring countries. In the past decade, the Philippines, a major non-NATO ally, has pursued stable and friendly political and economic relations with China, while relying upon the United States and the Association of Southeast Asian Nations (ASEAN) as security and diplomatic counterweights to the PRC. Muslim states 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. Singapore, arguably the most strategically vulnerable and trade dependent state in the region, has promoted a balanced approach to the involvement of great powers in its region.[162]

Cultural and Educational Exchange Activities

U.S. Programs

U.S. cultural and educational exchange programs in region may be considered more established and varied than China's, but their impact is less visible than China's soft power activities. In contrast to PRC government-sponsored cultural and educational exchange programs, such as the Confucius Institutes, U.S. government activities in this area place more emphasis on exchanging or transferring ideas. The Department of State's Bureau of Educational and Cultural Exchange sponsors a wide range of programs in Southeast Asia that focus on academic research, facilitating an understanding of American values and culture, and English language education.

In 2004-05, the United States awarded Fulbright scholarships to 280 students, scholars, and teachers in Southeast Asia, out of a total of 579 grants for the Asia-Pacific region. Among the countries with the largest numbers of recipients were the Philippines and Indonesia (71 and 69 Fulbright grants, respectively). The Department of State's *Citizen Exchange Program for Professionals* currently sponsors exchanges of experts on many topics, including business (United States and Vietnam); responsible citizen participation in politics (United States and the Philippines); inter-religious dialogue (United States and Thailand); journalism and English education (United States and Indonesia). *Study of the U.S. Institutes* bring foreign student leaders to U.S. college campuses to study and experience the principles and practices of democracy, freedom of expression, pluralism and tolerance, and volunteerism. Participating countries include Burma, Cambodia, Laos, and Vietnam. The Department of State has two Regional English

[161] Bronson Percival, The Dragon Looks South: China and Southeast Asia in the New Century (Westport: Praeger Publishers, 2007).

[162] For further information, see CRS Report RL34310, *China's "Soft Power" in Southeast Asia*, by (name redacted), (name redacted), and (name redacted).

Language Officers (RELOs) in Southeast Asia, posted in Bangkok and Jakarta. RELO programs include teacher training and conferences and workshops on teaching methodologies. In 2006, the U.S. government granted over 385,000 J-1 non-immigrant visas for exchange visitors (a 12% increase over 2005), of which 16,199 went to Southeast Asian applicants, the regional countries with the largest numbers were Thailand (9,648) followed by the Philippines (2,088).[163]

Foreign Students

The United States, with its first-rate universities, continues to attract far more foreign students than China (600,000 in 2007), including many from the PRC. Of the ten top countries sending students to the United States, six are in Asia (India, China, South Korea, Japan, Taiwan, and Thailand), accounting for 49% of the U.S. foreign student population. Thailand, at 2% of the foreign student population, is the only Southeast Asian country among the top ten. Indian, PRC, and South Korean students constitute 14% 11%, and 10% of U.S. foreign students, respectively.[164]

There may be more Southeast Asian students enrolled in China than in the United States, however. In 2007, 195,000 foreign students reportedly were studying in China, the vast majority (72%) from Asia (South Korea, Japan, and Southeast Asia). South Korea, Japan, the United States, Vietnam, and Thailand are the five largest sources of students. The remaining foreign students come from Europe, the Americas, Africa, and Oceania (13%, 10%, 3%, and 1% of foreign students, respectively), according to recent PRC statistics. Data from 2004 show that about 15% of Asian foreign students in China were from Southeast Asia. The PRC government awarded scholarships to over 10,000 foreign students in 2007, and plans to expand its scholarship program by 3,000 additional awards each year between 2008 and 2010. China plans to enroll 300,000 foreign students by 2020.[165]

Diplomacy

China has been an increasingly active player in Asian multilateral organizations—some argue that China now participates in them "more fully than Washington."[166] Principal regional groupings that include Southeast Asian states are ASEAN, 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. Some analysts argue that the EAS, which excludes the United States, may increasingly rival the Asia Pacific Economic Cooperation (APEC) group, in which the United States plays a leading role, as the preeminent multilateral organization in East Asia. Others emphasize the diverse interests and lack of unity

[163] Department of Homeland Security, *2006 Yearbook of Immigration Statistics* (Supplemental Table 1), September 2007.

[164] Jeanne Batalova, "The 'Brain Gain' Race Begins with Foreign Students," *Migration Policy Institute*, January 1, 2007; Jaroslaw Anders, "U.S. Student Visas Reach Record Numbers in 2007," U.S. Department of State Bureau of International Information Programs.

[165] "More Foreign Students Come to Study on Chinese Mainland," *Xinhuanet*, March 13, 2008; Wang Ying, "Foreign Students Drawn to China's Schools," *China Daily*, October 12, 2007; "China Expects Influx of Foreign Students," *People's Daily Online*, September 20, 2004.

[166] Jason T. Shaplen and James Laney, "Washington's Eastern Sunset; The Decline of U.S. Power in Northeast Asia," *Foreign Affairs*, Nov/Dec 2007.

within the EAS, efforts by some members to counterbalance China's influence, and China's lack of leadership in the grouping.[167]

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 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, as she had in 2005, 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."[168] In an apparent effort to reverse this trend, Senate Resolution 110 (S.Res. 110), introduced in March 2007, called for the appointment of an ambassador to ASEAN "in recognition of the growing importance of ASEAN as an institution and belief that the United States should increase its engagement and cooperation with the region." In April 2008, the Senate confirmed Deputy Assistant Secretary of State for East Asia and Pacific Affairs Scot Marciel as Ambassador to ASEAN.[169]

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.[170] 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.[171] 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.[172] 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."[173] In January 2007, China and ASEAN signed the *Agreement on Trade in Services of China-ASEAN Free Trade Area* which is intended to liberalize rules on trade in services.

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[167] Edward Cody, "East Asian Summit Marked by Discord," *Washington Post*, December 14, 2005; Shulong Chu, "The East Asia Summit: Looking for an Identity," *Brookings Northeast Asia Commentary*, February 1, 2007. For background information, see CRS Report RL33242, *East Asia Summit (EAS): Issues for Congress*, by (name redacted).

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

[169] "U.S. Envoy to ASEAN Vows to Push for Reforms in Myanmar," *Agence France Presse*, April 9, 2008.

[170] 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

[171] 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.

[172] 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.

[173] A listing of agreements and declarations can be found on the ASEAN Secretariat's website at http://www.aseansec.org/.

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. 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 has held negotiations with Malaysia and Thailand on reaching FTAs, although these talks have failed to reach agreements. 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.

High-Level Visits

In the past several years, China, aided by its proximity, has pursued a very active diplomatic agenda in the region, reportedly sending and receiving many more—twice as many according to some experts—official, high level delegations than the United States to some countries.[174] These efforts may have a particularly large impact on smaller, poorer states in Southeast Asia, whose own delegations also have received lavish receptions in Beijing. In the past year, for example, China's Foreign Minister as well as Chinese Communist Party delegations visited both Cambodia and Laos, while the Cambodian National Assembly President, Lao Prime Minister, and Lao Deputy Prime Minister visited Beijing. When all delegations are counted (national and provincial), those of the PRC reportedly far surpass those of the United States. These meetings may generate positive impressions that far exceed their costs.[175]

Foreign Assistance

China's Foreign Assistance

Many reports of Chinese foreign assistance to Southeast Asia refer to loans, infrastructure projects, and natural resource development rather than development aid. By some accounts, China has become one of the largest providers of economic assistance in the region; however, it is not a major provider of official development assistance (ODA). According to one study that compiled a database of PRC foreign aid projects, China pledged $12.6 billion in economic assistance to Southeast Asian countries in 2002-07. Of this amount, 59% was promised for infrastructure and 38% for investment in natural resources. The remaining 3% was divided among humanitarian assistance, military assistance, high profile "gifts" such as cultural centers and sports facilities.[176] According to data of official development assistance among member countries

[174] Michael A. Glosny, "Heading Toward a Win-Win Future? Recent Developments in China's Policy Toward Southeast Asia," *Asian Survey*, Vol. 2, No. 1, 2006; Kurlantzick, "China's Charm Offensive in Southeast Asia," op. cit.

[175] State Department official, March 13, 2008.

[176] New York University Wagner School, "Understanding Chinese Foreign Aid: A Look at China's Development Assistance to Africa, Southeast Asia, and Latin America," report prepared for the Congressional Research Service, April 25, 2008.

of the Organization for Economic Cooperation and Development (OECD), of which China is not a member, Japan is the largest bilateral aid donor in the region.[177]

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 supplier of economic and military assistance" to these countries and provides an "implicit security guarantee."[178] In recent years, China has financed many infrastructure and energy-related projects in Burma, Cambodia, and Laos that in turn rely upon Chinese equipment, technical expertise, and labor. Often these projects may help China access raw materials and oil. There are some 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).[179]

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.[180] 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.[181]

China may be one of the largest sources of aid to Cambodia, including loans and support for public works, infrastructure, and hydro-power projects in the kingdom. In 2007, foreign donors reportedly pledged a total of $689 million in assistance to Cambodia, including $91.5 million from China.[182] For the 2007-2009 period, China pledged $236 million in unspecified aid compared to Japan's $337 million and the EU's $215 million.[183]

China, the second largest aid donor by some estimates, 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, and youth volunteers engaged in medical and educational

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

[178] 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; Marvin C. Ott, "Southeast Asian Security Challenges: America's Response? *Strategic Forum*, October 1, 2006.

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

[180] 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.

[181] Jared Genser, "China's Role in the World: The China-Burma Relationship," Testimony before the U.S. Economic and Security Review Commission, *Hearing on China's Role in the World: Is China a Responsible Stakeholder?* August 3, 2006.

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

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

programs, and agricultural training. In 2006, Chinese President Hu Jintao visited Vientiane and offered $45 million in economic and technical cooperation and debt forgiveness.[184]

According to some reports, China may be the second largest source of foreign aid to Vietnam. In 2005, the PRC reportedly offered nearly $200 million in grants and loans.[185] Beijing has provided loans to Vietnam for railways, hydro-power development, and ship building facilities. In 2006, Beijing reportedly pressured the Vietnamese government to exclude Taiwan from the APEC summit in Hanoi. After Hanoi refused to do so, Beijing temporarily halted aid to Vietnam.[186]

The PRC provides roughly four times as much foreign aid to the Philippines and twice as much to Indonesia compared to the United States, according to some experts.[187] The PRC has become a major source of financing for development projects in the Philippines. 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. China reportedly also has begun to provide non-lethal military assistance to the Philippines, including training and equipment.[188]

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.

According to some analysts, despite much greater military assistance provided by the United States in terms of cost and substance, the United States may not have been sufficiently attentive to the security needs of its friends and allies in Southeast Asia, as perceived by regional leaders.[189] In some cases, U.S. long-term strategic objectives may conflict with the goals of helping to foster democracy. After the United States government imposed sanctions 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.[190]

Many observers fear that China's unconditional and non-transparent aid efforts and growing economic integration in Southeast Asia may 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,

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[184] 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.

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

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

[187] Kurlantzick, "China's Charm Offensive," op. cit.; Dr. Steven Rood, Asia Foundation, January 22, 2008.

[188] "China Loans to RP to Hit $2 Billion in 3 Years," *Manila Standard*, February 6, 2007; "Philippines, China Sign 20 Agreements to Boost Trade," *Xinhua Financial Network*, January 16, 2007.

[189] Dana Dillon and John Tkacik, "China's Quest for Asia," *The Heritage Foundation*, December 14, 2005.

[190] 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. In February 2008, the United States resumed security and military assistance to Thailand following the holding of democratic elections.

China reportedly takes on aid projects that other donor countries have avoided due to difficulty or hardship.

U.S. Foreign Assistance

U.S. aid to Southeast Asia has grown dramatically since 2001, largely reflecting increased aid to Indonesia and the Philippines as part of the Bush Administration's regional counter-terrorism goals. The United States is the second largest provider of ODA, after Japan, to Cambodia and the Philippines.[191] Aid to Southeast Asia constitutes 85% of U.S. assistance to East Asia and the Pacific ($452 million out of $533 million in FY2007). Among program areas, U.S. spending on infrastructure assistance—a major form of Chinese aid—represented only 5% of total funding in the EAP region compared to peace and security programs (20%). The United States Peace Corps operates in Cambodia, the Philippines, and Thailand. See **Table 4**.[192]

Table 4. U.S. Foreign Assistance to Southeast Asia (not including food aid), FY2006-FY2008

($ thousands)

	FY2006	FY2007	FY2008 estimated	Major Programs
Burma	13,890	15,990	18,695	Burmese refugees
Cambodia	54,933	57,276	56,373	health and education
East Timor	22,305	20,539	23,263	economic growth
Indonesia	144,282	147,321	189,674	health and education; counter-terrorism
Laos	4,290	4,825	5,474	de-mining
Malaysia	2,417	3,272	2,874	anti-terrorism
Philippines	115,954	121,294	119,371	counter-terrorism; good governance
Thailand	12,035	7,534	8,730	security; counter-terrorism; good governance
Vietnam	40,831	74,374	102,294	HIV/AIDS
Southeast Asia Foreign Aid Totals	410,937	452,425	526,748	
Global Foreign Aid Totals	23,130,000	26,380,000	24,000,000	
Global International Affairs Totals	34,250,000	38,670,000	36,400,000	

[191] In FY2007, the United States provided foreign aid worth an estimated $55 million and $61 million to Cambodia and Vietnam, respectively. Most U.S. assistance to Vietnam funds HIV/AIDS programs. Organization for Economic Cooperation and Development (OECD). See http://www.oecd.org/home/.

[192] For further information, see CRS Report RL31362, *U.S. Foreign Aid to East and South Asia: Selected Recipients*, by (name redacted).

Source: U.S. Department of State, FY 2009 International Affairs (Function 150) Congressional Budget Justification, Summary Table; International Affairs Function 150 Fiscal Year 2008 Budget Request, Summary and Highlights.

Notes: Includes Supplemental Appropriations. International Affairs appropriations include Foreign Aid (bilateral assistance, Millennium Challenge Account, Peace Corps, debt restructuring, and multilateral economic assistance), Department of State Operations and related accounts, Broadcasting Board of Governors, and Department of Agriculture food aid. Some accounts listed as "State Operations and Related Accounts" in FY2007 and FY2008, such as Department of Agriculture food aid and several other smaller programs, were listed as "Department of State and USAID Bilateral Economic Assistance" and "Independent Department and Agencies Bilateral Assistance" in FY2006.

U.S. Foreign Aid Sanctions

Conditions on aid, which many U.S. policy makers consider to be an integral part of U.S. foreign aid goals, are viewed by some analysts as sacrificing other foreign policy objectives and creating a window for Chinese engagement around the world.[193] Unlike China's "unconditional" aid approach, the United States government often imposes criteria related to democracy and human rights on non-humanitarian aid. Despite widespread support for this approach, some policy analysts have argued that it is ineffectual at best and counterproductive at worst, denying aid resources for development and security objectives and making China an attractive aid provider. In the past several years, restrictions or sanctions have been imposed or considered toward most Southeast Asian countries, including Burma, Cambodia, Indonesia, Thailand, and Vietnam.

The United States provides no direct aid to the Burmese government in response to the Burmese military junta's repression of the National League for Democracy and harassment of its leader, Aung San Suu Kyi and rejection of the voters' mandate in 1990. In 2003, the 108th Congress passed the Burmese Freedom and Democracy Act of 2003 (P.L. 108-61), which bans imports from Burma unless democracy is restored. Additional foreign aid sanctions against Burma include opposition to international bank loans to Burma and a ban on debt restructuring assistance. In addition, since 2001, when the Office to Monitor and Combat Trafficking in Persons was established by the U.S. State Department, Burma has received a "Tier 3" assessment annually by the Office for failing to make significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking in persons. The Tier 3 ranking could serve as a basis for withholding non-humanitarian aid.

In February 2007, the United States government lifted a decade-long ban on direct bilateral aid to Cambodia (the last major aid donor to drop restrictions). The U.S. government had imposed restrictions on foreign assistance to Cambodia following Prime Minister Hun Sen's unlawful seizure of power in 1997 and in response to other abuses of power under his rule. U.S. assistance was permitted only to Cambodian and foreign NGOs and to local governments, with some exceptions. U.S. assistance to Laos ($4.8 million in FY2007), remains limited largely due to human rights concerns and strained relations between the two countries.

Between 1993 and 2005, Indonesia faced sanctions on military assistance largely due to U.S. congressional concerns about human rights violations, particularly those committed by Indonesian military forces (TNI). In February 2005, Secretary of State Condoleezza Rice determined that the Indonesian government and armed forces (TNI) had satisfied legislative

[193] Kishore Mahbubani, "Smart Power, Chinese-Style," *The American Interest*, Vol. III, No. 4 (March/April 2008).

conditions and certified the resumption of full IMET for Indonesia. In November 2005, the Secretary of State waived restrictions on FMF to Indonesia on national security grounds.

In response to the September 19, 2006, military coup in Thailand, the Bush Administration suspended military and peacekeeping assistance pursuant to Section 508 of the Foreign Operations Appropriations Act, which provides that such funds shall not be made available to any country whose duly elected head of government was deposed by military coup. The U.S. government also suspended funding for counter-terrorism assistance provided under Section 1206 of the National Defense Authorization Act for FY2006. In February 2008, the United States resumed security and military assistance to Thailand following the holding of democratic elections.

The proposed Vietnam Human Rights Act of 2007 (H.R. 3096) would prohibit U.S. non-humanitarian assistance to the government of Vietnam for FY2008 in excess of FY2007 levels unless the President certifies to Congress that the government of Vietnam has made substantial progress respecting: (1) the release of political and religious prisoners; (2) the right of religious freedom, including the return of church properties; (3) the rights of ethnic minorities; and (4) access to U.S. refugee programs by Vietnamese nationals.

Public Opinion

China has made some gains relative to the United States in the areas of cultural and political soft power in some Southeast Asian countries. A 2007 Pew Research poll found that only 29% of Indonesians and 27% of Malaysians had a favorable view of the United States as opposed to 83% of Malaysians and 65% of Indonesians who had favorable views of China. The rating for Indonesia is up slightly from a favorable view of only 15% in 2003 but remains well below the 75% favorable view of the United States in 2000.[194] 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. In this survey, 64% of Indonesians and 56% of Thais did not trust the United States to act responsibly.[195] Despite these negative views toward the United States, another poll suggests that the United States is still viewed as the predominant soft power influence in Asia.[196]

Although Southeast Asian views of the United States have reached new lows in the past decade, tensions with a potentially arrogant or uncompromising China are never far from the surface, and historical memories add to recurring wariness. In 2007, for example, 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.[197]

[194] The Pew Global Attitudes Project, 2007, op. cit.

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

[196] The Chicago Council on Global Affairs, *Soft Power in Asia: Results of a 2008 Multinational Survey of Public Opinion*.

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

Some of the main beneficiaries of China's largesse in Southeast Asia remain wary of PRC power or seek to dampen its growing influence in the region. For example, many Cambodians, mindful of China's former support of the Khmer Rouge, reportedly feel resentful towards China. Vietnamese leaders reportedly began to place greater importance on relations with the United States in 2003, after concluding that China's ties to neighboring countries were growing too deep.[198] Vietnamese citizens held anti-China demonstrations, likely with the tacit acceptance, if not 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.

Central Asia[199]

Compared to other regions, China's main interests in Central Asia, which is situated along its western border, involve not only trade, but also considerations related to both external and internal security. The region, encompassing the former Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, remains under the strong Russian strategic and economic influence. Since the end of the Cold War but especially since 2001, the United States has been actively engaged in the region. As "front-line" states in the war on terrorism, Central Asian states have hosted U.S. and NATO military personnel and have received substantial U.S. foreign assistance. Despite these constraints on Chinese influence, Beijing has become a major diplomatic and economic presence in Central Asia.[200]

The United States wields somewhat more influence than does China in a few non-military cultural, diplomatic, and economic areas of "soft power" in the region. These include the amount of foreign assistance and perhaps the number of mid- and lower-level official visits and presence in the regional states. In other areas, China has more regional influence than the United States, including in trade and the number of its citizens visiting the region. The Chinese-led Shanghai Cooperation Organization (SCO)—which includes Russia and all of the Central Asian states except Turkmenistan and pursues economic and security cooperation—has no equivalent U.S. counterpart. However, the United States wields influence through its membership in the Organization for Security and Cooperation in Europe (OSCE) and NATO, which are active in the region.

Cross-border migration between China and Central Asia has facilitated stronger economic ties but also has contributed to more complicated diplomatic relations. There reportedly are over one million ethnic Kazakhs in China, with most residing in the Xinjiang Uighur Autonomous Region. Several tens of thousands have moved to Kazakhstan in recent years. These ethnic Kazakhs bring Chinese language skills and cultural awareness that have facilitated Kazakhstan-Chinese ties, particularly in trade. However, some ethnic Kazakh migrants also bring critical memories of

[198] Raymond Burghardt, "US-Vietnam: Discreet Friendship Under China's Shadow," *YaleGlobal Online*, 22 November 2005.

[199] Written by (name redacted), Specialist in Russian and Eurasian Affairs.

[200] CRS Report RL33458, *Central Asia: Regional Developments and Implications for U.S. Interests*, by (name redacted); Bates Gill, "Chinese Security Interests and Activities with Central Asian States," National Defense University Conference on Meeting U.S. Security Objectives in a Changing Asia, April 22, 2004.

perceived prejudice against Muslims in Xinjiang, which may negatively influence the views of other Kazakhs and conceivably affect Kazakhstan-Chinese relations.

About 9 million ethnic Uighurs (a Turkic people) reside in China, mostly in Xinjiang, 300,000 reside in Kazakhstan, and 50,000 in Kyrgyzstan. In the early 1990s, Kazakhstan tolerated advocacy by its resident ethnic Uighurs for greater respect for human rights and autonomy for their cohorts in Xinjiang. In the later 1990s, however, Kazakhstan cracked down on such activism at China's behest. Nonetheless, Kazakhstan allegedly has remained the base for clandestine Uighur groups advocating independence for "East Turkestan," or otherwise continuing to criticize China, which may influence the views of other Kazakhs. In Kyrgyzstan, ethnic Uighurs were implicated in the murder of a Chinese diplomat in June 2002 and the bombing of a bus in March 2003 that killed nineteen Chinese visitors, leading Kyrgyzstan to ban the Eastern Turkestan Islamic Party and the Eastern Turkistan Liberation Organization.[201]

Estimates of ethnic Chinese migrants in Central Asia are unreliable, but some observers have speculated that up to a few hundred thousand legal and illegal Chinese migrants are in the region either on a temporary or indefinite basis. The number of U.S. citizens residing in Central Asia is far less.

Figure 36. Map of Central Asia

There have been complaints by some officials in Central Asian states about increasing numbers of illegal migrants from China. The Kyrgyz State Committee on Migration and Employment

[201] China: Daily Report (hereafter *CDR*), July 10, 2003, Doc. No. CPP-81; *Central Eurasia: Daily Report* (hereafter *CEDR*), January 2, 2004, Doc. No. CEP-99; March 16, 2004, Doc. No. CEP-406.

reported in early 2008 that there were about 8,000 Chinese illegal immigrants in Kyrgyzstan.[202] In Kazakhstan, President Nazarbayev raised concerns in 2006 that Chinese energy companies operating in the country were employing illegal Chinese workers, and Kazakh legislators alleged that these illegal immigrants numbered about 100,000 by late 2007. Kazakh analyst Elena Sadovskaya reported that, in addition, about 40,000 legal migrants were ethnic Kazakhs who had moved from China and that about 5,000 were Chinese citizens who were legitimately in the country under approved travel documents. An opinion poll she carried out indicated that while some Kazakhs perceived that Chinese migration was rising and was harmful to the country, most Kazakhs had "indifferent" attitudes toward Chinese migrants. Kyrgyzstan and Tajikistan are not that attractive to potential Chinese migrants, according to some observers, because their under-performing economies have contributed to the exodus of many of their workers to Kazakhstan, Russia, and elsewhere.[203]

Cultural and Educational Exchange Activities

U.S. Government-Sponsored Exchange and Training

For FY2006, the latest year available, 14 Cabinet-level departments and 49 independent agencies/commissions reported 243 international exchange and training programs to the Interagency Working Group on U.S. Government-Sponsored International Exchanges and Training. These include such programs as the Peace Corps Volunteer Service, International Military Education and Training, Edmund Muskie Graduate Fellowships, various Fulbright programs, Eurasia/South Asia Teaching Excellence and Achievement Program, International Visitor Leadership Program, Hubert Humphrey Fellowships, and Benjamin Gilman Program, among others. **Table 5** provides statistics on such training and exchanges involving Central Asia.

Table 5. FY2006 U.S. Government-Sponsored Exchanges and Training with Central Asia

Country	U.S. Participants Traveling To:	Country Participants Traveling From:	Total
Kazakhstan	288	5,941	6,229
Kyrgyzstan	262	9,397	9,659
Tajikistan	85	12,232	12,317
Turkmenistan	97	3,522	3,619
Uzbekistan	106	10,848	10,954
Total	838	41,940	42,778

Source: Interagency Working Group on U.S. Government-Sponsored International Exchanges and Training. *FY2007 Annual Report (Includes FY2006 Inventory of Programs)*, 2008.

Note: Data include training provided in-country or in a third country.

[202] *CEDR*, February 6, 2008, Doc. No. CEP-950492.

[203] *CDR*, December 20, 2006, Doc. No. CPP-442003; *CEDR*, December 26, 2007, Doc. No. CEP-950093; October 9, 2007, Doc. No. CEP-950298; June 12, 2007, Doc. No. CEP-950120. Elena Sadovskaya, "Chinese Migration to Kazakhstan: a Silk Road for Cooperation or a Thorny Road of Prejudice?" *China and Eurasia Forum Quarterly*, Volume 5, No. 4 (2007), pp. 147-170.

The Central Asian governments also are facilitating study abroad. In 1993, Kazakhstan launched the "Bolashak" (Future) program of scholarships for college study aboard. Kazakh President Nursultan Nazarbayev in 2005 announced the enlargement of the program to up to 3,000 annual scholarships, and he reportedly urged that students attend U.S. universities to receive not only the latest professional knowledge, but also to be imbued with democratic and civic norms. The United States has received the largest cumulative number of students, amounting to over one thousand.[204]

One U.S. government program with some slight similarities to the activities of China's Confucius Institutes (language and cultural offices established worldwide; see below) is the Peace Corps, which sends volunteers to Kazakhstan, Kyrgyzstan, and Turkmenistan. (See **Table 5**) Estimated budgeted funding for the Peace Corps was $6.9 million for the Central Asian countries in FY2008. About $7.1 million was requested for FY2009. Many Peace Corps volunteers are engaged in English-language training in the Central Asian states, with most working in rural secondary schools, which may somewhat parallel the efforts of the Confucius Institutes. However, Peace Corps volunteers also work with governments and NGOs on HIV/AIDS and other healthcare, youth, environment, women, and economic development issues.

Table 6. U.S. Peace Corps Volunteers in Central Asia

(number of volunteers)

Country	Estimated FY2008	FY2009 Request
Kazakhstan	184	185
Kyrgyzstan	100	110
Turkmenistan	96	104
Total	380	399

Source: Peace Corps. *Congressional Budget Justification for FY2009.*

Chinese Programs

Chinese educational and cultural exchanges have been stepped up, both bilaterally and under the aegis of the Shanghai Cooperation Organization. Confucius Institutes have been set up and funded in Kazakhstan (two institutes), Kyrgyzstan, and Uzbekistan to foster Chinese language and culture. The pilot program for the worldwide network of institutes was launched in 2004 in Uzbekistan. The Confucius Institutes usually are affiliated with higher educational institutions in their host countries and provide materials for students and training for teachers in secondary schools. According to various reports, they receive yearly funding of up to $100,000 or more, and at least some staffing from Chinese volunteer language teachers sponsored by the Office of the Chinese Language Council International (abbreviated as Hanban). According to one report, Hanban expects the institutes to become self-funding after three years, which some observers suggest may be optimistic.[205]

[204] Embassy of Kazakhstan in the United States and Canada. *Education and Culture*, at http://www.kazakhembus.com/systemofeducation.html.

[205] Jaime Otero Roth, "China Discovers Public Diplomacy," *Working Paper*, Elcano Royal Institute, January 6, 2007; Jessica Shepherd, "Not a Propaganda Tool?" *The Guardian*, November 6, 2007.

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. At the summit, Chinese President Hu Jintao called for bolstering scientific, cultural, educational, sports, and healthcare exchanges and cooperation, and announced that China would offer 20 college scholarships per year to SCO members. He called on SCO members to start short-term student exchanges and announced that China would invite 50 college and high school students.[206] In September 2007, Turkmen President Berdimuhamedow praised China for greatly boosting the number of Turkmen students admitted to study at leading Chinese universities.[207]

China's ability to host foreign students in its higher educational institutions is limited, in part because the schools are an "elite" educational system able to accommodate only a small fraction of the college-age cohort. Many more Chinese study abroad than foreigners study in China. The Central Asian states are not among the top ten countries sending students to China.[208]

Many more Chinese than American citizens travel to the Central Asian countries, many to engage in small- to medium-scale trade (the so-called "shuttle" or "suitcase" traders). In early 2008, the Kyrgyz Interior (police) Ministry reported that over 49,000 foreigners from 110 countries had visited Kyrgyzstan in 2007, and that the greatest number, over 12%, were from China.[209] In Kazakhstan, the State Statistics Agency reported in 2005 that the United States was among the top seven countries of origin for inbound tourists (over 19,500), although Russia remained first with 1.7 million inbound tourists, followed by China with over 76,800. Russia was the top country of destination for citizens of Kazakhstan (with 1.65 million visitors), followed by China (nearly 85,000). The United States was not among the top eight destinations.[210]

Diplomacy

U.S. Bilateral and Multilateral Relations

Unlike Chinese diplomacy, which adheres to the principle that the domestic affairs of a country should not be subject to international interference, U.S. diplomacy advocates democratization and respect for human rights in the Central Asian states.[211] Kazakh and Uzbek government officials have raised concerns about U.S. funding for NGOs in their countries that advocate democratization and respect for human rights, and both countries have moved in recent years to restrict or close down the activities of many of these NGOs. All of the governments of the region have objected to their treatment in the State Department's annual human rights reports. According to some reports, the U.S. Administration's protests over the Uzbek government's crackdown in the town of Andijon in May 2005, which resulted in many civilian deaths, contributed to the Uzbek decision to abrogate U.S. military access to the Karshi-Khanabad (K2) base two months

[206] *CDR*, August 16, 2007, Doc. No. CPP-968175.

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

[208] China Ministry of Education, at http://www.moe.edu.cn/english/international_3.htm.

[209] *CEDR*, January 30, 2008, Doc. No. CEP-950466.

[210] Kazakh State Statistics Agency, as reported by the Embassy of Kazakhstan in Great Britain.

[211] The record of diplomatic advocacy for democratization and respect for human rights, including in Central Asia, is reported yearly in the State Department's *Supporting Human Rights and Democracy: The U.S. Record*. The latest available report was released on April 5, 2007.

later. Uzbekistan also cut back its diplomatic ties with the United States. Russia and China defended the "counter-terrorism" actions of the Uzbek government, and Uzbekistan subsequently enhanced its diplomatic ties with both countries.

High-Level Visits

Before the terrorist attacks of September 11, 2001, the highest level U.S. visit to Central Asia was by then-Vice President Al Gore to Kyrgyzstan and Kazakhstan in December 1993. In the latter country, he signed an agreement on the provision of Cooperative Threat Reduction aid for de-nuclearization efforts.

After the terrorist attacks of September 11, 2001, several high-level U.S. officials visited the region to secure transit and basing access to support operations in Afghanistan. Among high-level visits, former Secretary of State Colin Powell visited Kazakhstan and Uzbekistan in November 2001, just after a military basing agreement had been concluded with Uzbekistan. Former Defense Secretary Donald Rumsfeld visited Kyrgyzstan in April 2002 (just after a U.S. base was opened), in April 2005 (just after a revolt resulted in the seating of a new Kyrgyz president, and the two sides discussed continued U.S. basing access), and in July 2005 (just after the SCO had issued a communique—see below—questioning the continued presence of U.S. bases in the region). Secretary of State Rice visited Kazakhstan, Kyrgyzstan, and Tajikistan in October 2005. The highest-level U.S. visit to the region occurred in May 2006, when Vice President Richard Cheney led a delegation to Kazakhstan. In July 2006, Secretary Rumsfeld visited Tajikistan to discuss assistance in combating drug-trafficking and U.S.-Tajik cooperation in Afghanistan, and in June 2007, Defense Secretary Robert Gates visited Kyrgyzstan to reaffirm U.S. interest in continued basing access.

Selected U.S. Official Visits to Central Asia

1. Acting Deputy Assistant Secretary of State for South and Central Asia, Pamela Spratlen, visited Tajikistan in April 2008
2. Acting Deputy Assistant Secretary of State for South and Central Asia, Pamela Spratlen, visited Uzbekistan in March-April 2008
3. Principal Deputy Assistant Secretary of State, Steven Mann, visited Turkmenistan in January 2008
4. U.S. Central Command Commander, Admiral William Fallon, visited Uzbekistan in January 2008
5. U.S. Central Command Commander, Admiral William Fallon, visited Turkmenistan in January 2008
6. U.S. Central Command Commander, Admiral William Fallon, visited Tajikistan in January 2008
7. Senator Richard Lugar led a delegation that visited Turkmenistan in January 2008
8. Deputy Assistant Secretary of State for Democracy, Human Rights and Labor, Erica Barks-Ruggles, visited Turkmenistan in December 2007
9. Principal Deputy Assistant Secretary of State for South and Central Asian Affairs, Steven Mann, visited Turkmenistan in November 2007
10. Secretary of Energy, Samuel Bodman, visited Turkmenistan in November 2007
11. U.S. Central Command Commander, Admiral William Fallon, visited Tajikistan in November 2007
12. U.S. Ambassador to the OSCE, Julia Finley, visited Turkmenistan in October 2007
13. Representative Christopher Smith visited Kyrgyzstan in October 2007
14. U.S. Central Command Naval Forces Commander, Vice Admiral Kevin Cosgriff, visited Turkmenistan in September 2007
15. Secretary of Commerce, Carlos Gutierrez, visited Tajikistan in August 2007
16. House Foreign Affairs Committee delegation visited Turkmenistan in August 2007
17. Commission on International Religious Freedom, Chairman Michael Cromartie, visited Turkmenistan in August 2007
18. Assistant Secretary of State for Economic, Energy, and Business Affairs, Daniel Sullivan, visited Turkmenistan in August 2007
19. Acting Assistant Administrator for the USAID's Bureau for Europe and Eurasia, Drew Luten, visited Turkmenistan in July 2007

20. Representative Shelley Berkley visited Kazakhstan in July 2007
21. Principal Deputy Assistant of Secretary of State for Central and South Asia Affairs, Stephen Mann, visited Turkmenisan in July 2007
22. The U.S. State Department's Ambassador-at-Large for International Religious Freedom, John Hanford, visited Uzbekistan in June 2007
23. Deputy Assistant Secretary of State for South and Central Asian Affairs, Evan Feigenbaum, visited Turkmenistan in June 2007
24. U.S. Central Command Commander, Admiral William Fallon, visited Tajikistan in June 2007
25. Assistant Secretary of State for South and Central Asian Affairs, Richard Boucher, visited Kyrgyzstan in June 2007
26. Assistant Secretary of State for South and Central Asian Affairs, Richard Boucher, visited Kazakhstan in June 2007
27. Secretary of Defense, Robert Gates, visited Kyrgyzstan in June 2007

Source: Compiled by Congressional Research Service.

Recent high-level visits by U.S. and Chinese officials to Central Asia during the period from June 2007 to early April 2008 are listed in the boxes (*Selected U.S. Official Visits to Central Asia* and *PRC Official Visits to Central Asia*). It appears from these visits that China places a higher priority on top-level contacts than does the United States, as reflected in visits by the Chinese premier, president, and foreign minister to several Central Asian countries. Premier Wen Jiabao, President Hu Jintao, and foreign minister Yang Jiechi attended SCO meetings but also met with regional leaders. The highest-level U.S. visitors to the region during the time period were Defense Secretary Robert Gates, Commerce Secretary Carlos Gutierrez, Energy Secretary Samuel Bodman, and several Members of Congress. However, visits by several medium-to-high-ranking State Department and other executive branch officials appear to indicate a broad range of U.S. official interest in the region. Except in Kazakhstan, U.S. embassies and consulates also appear to have larger staffs than Chinese embassies, including diplomats and other U.S. government personnel. In Kazakhstan, the Chinese diplomatic presence may approach or exceed that of the United States.

China's National People's Congress has inter-parliamentary exchanges with Kazakhstan, Kyrgyzstan, and Uzbekistan. Also, the SCO summit in August 2007 called for enhanced inter-parliamentary cooperation.[212] The U.S. Congress does not have regularized exchange relations with the Central Asian states, although several congressional delegations have visited the region in recent years, and several legislative delegations from the regional states—some federally funded through the U.S. Open World Leadership Center and other exchange programs—have visited the United States.

U.S. Diplomacy on Trade and Investment

The Administration and others stress that U.S. support for free market reforms directly serves U.S. national interests by opening new markets for U.S. goods and services and sources of energy and minerals. Most U.S. private investment has been in Kazakhstan's energy sector and has amounted to about $12.6 billion as of 2006, compared to China's reported $8 billion in investment as of 2007.[213] U.S. trade agreements have been signed and entered into force with all the Central Asian states, but bilateral investment treaties are in force only with Kazakhstan and Kyrgyzstan. In line with Kyrgyzstan's accession to the World Trade Organization, the United

[212] *CDR*, August 16, 2007, Doc. No. CPP-968175.

[213] U.S. Department of Commerce. U.S. Commercial Service. *Kazakhstan: 2007 Investment Climate Statement*; Bureau of Economic Statistics, *Balance of Payments and Direct Investment Position Data, 2006*, at http://www.bea.gov.

States established permanent normal trade relations with Kyrgyzstan by law in June 2000, so that "Jackson-Vanik" trade provisions that call for presidential reports and waivers concerning freedom of emigration no longer apply.

Selected PRC Visits to Central Asia

1. Premier, Wen Jiabao, visited Uzbekistan in November 2007
2. Premier, Wen Jiabao, visited Turkmenistan in November 2007
3. Deputy Commander of the Xinjiang Military Region, People's Liberation Army, visited Kyrgyzstan in November 2007
4. Deputy Director of the Chinese Public Security Ministry's Criminal Investigation Department, Qian Li, visited Uzbekistan in September 2007
5. Vice Governor of the China Development Bank, Yao Zhongmin, visited Turkmenistan in September 2007
6. Chief of the International Department of the Central Committee of the Communist Party of the People's Republic of China, Wang Jiarui, visited Turkmenistan in September 2007
7. Chief of the International Department of the Central Committee of the Communist Party of the People's Republic of China, Wang Jiarui, visited Tajikistan in September 2007
8. A delegation headed by He Luli, Deputy Chair of the Standing Committee of the National People's Congress, visited Kazakhstan in September 2007
9. A delegation headed by He Luli, Deputy Chair of the Standing Committee of the National People's Congress, visited Uzbekistan in September 2007
10. A delegation headed by He Luli, Deputy Chair of the Standing Committee of the National People's Congress, visited Tajikistan in September 2007
11. President, Hu Jintao, and the Minister of Foreign Affairs, Yang Jiechi; Vice Premier, Wu Yi; Vice Chairman of the Central Military Commission, State Councilor and Defense Minister, Cao Gangchuan; Minister in charge of the National Development and Reform Commission, Ma Kai; Commerce Minister, Bo Xilai; Director of the Policy Research Office of the Central Committee of the Communist Party, Wang Huning; Deputy Director of the General Office of the Central Committee of the Communist Party, Ling Jihua; Director of the President's Office, Chen Shiju; and Assistant Foreign Minister, Li Hui, visited Kyrgyzstan in August 2007
12. President, Hu Jintao, and the Minister of Foreign Affairs, Yang Jiechi; Vice Premier, Wu Yi; Vice Chairman of the Central Military Commission, State Councilor and Defense Minister, Cao Gangchuan; Minister in charge of the National Development and Reform Commission, Ma Kai; Commerce Minister, Bo Xilai; Director of the Policy Research Office of the Central Committee of the Communist Party, Wang Huning; Deputy Director of the General Office of the Central Committee of the Communist Party, Ling Jihua; Director of the President's Office, Chen Shiju; and Assistant Foreign Minister, Li Hui, visited Kazakhstan in August 2007
13. Foreign Minister, Yang Jiechi, visited Kyrgyzstan in July 2007
14. Finance Minister, Jin Renqing, visited Uzbekistan in July 2007
15. Vice Chairman of the Central Military Commission, State Councilor, and Defense Minister, Cao Gangchuan, visited Kyrgyzstan in June 2007
16. Chairman of the China Council for Promotion of International Trade, Wan Jifei, visited Tajikistan in June 2007
17. Vice Minister of the State Development and Reform Commission, Chen Deming, visited Turkmenistan in May 2007

Source: Compiled by Congressional Research Service.

The U.S.-Central Asia Council on Trade and Investment . In June 2004, The U.S. Trade Representative signed a Trade and Investment Framework Agreement (TIFA) with ambassadors of the regional states to establish a U.S.-Central Asia Council on Trade and Investment. The Council represents the main U.S.-backed multilateral regional organization. It meets yearly to address intellectual property, labor, environmental protection, and other issues that impede trade and private investment flows between the United States and Central Asia. The Bush Administration at the annual meetings also has called for greater intra-regional cooperation on trade and encouraged the development of regional trade and transport ties with Afghanistan and South Asia.

As stated by Secretary Rice, these Administration efforts support a "new Silk Road, a great corridor of reform" extending from Europe southward to Afghanistan and the Indian Ocean. According to Evan Feigenbaum, Deputy Assistant Secretary of State for South and Central Asia,

"we are ... promoting options and opportunities omni-directionally but increasingly to the south—the least developed direction." The reorganization of the State Department in 2006 to create the Bureau of South and Central Asian Affairs facilitated this emphasis.[214] In 2006, Robert Deutsch was appointed Senior Advisor on Regional Integration in the Bureau of South and Central Asian Affairs with a mandate to work on such linkages between Central and South Asia. On the other hand, Congress in late 2007 (P.L. 110-140) directed the creation of the post of energy advisor to the Secretary of State to facilitate interagency cooperation within the U.S. government, and it was expected that efforts to encourage the transport of Caspian energy to European markets would be of major concern.

At the third annual meeting of the Council on Trade and Investment in mid-July 2007, Assistant Secretary of State Boucher and Deputy Assistant Secretary Feigenbaum stressed transport, electricity, and other links between South and Central Asia as well as U.S. private investment in the region.[215]

Foreign Operations Appropriations for FY2003 (P.L. 108-7) and subsequent years consolidated several programs under a new funding category, trade capacity building (TCB), "aimed at helping countries build the physical, human, and institutional capacity to participate in global trade. It includes assistance to negotiate, implement, and benefit from trade agreements, such as agreements within the World Trade Organization (WTO), and regional and bilateral free trade agreements."[216]

In Central Asia, TCB funds have been devoted to improving export controls (modernizing customs offices and other border security), supporting business information technology and business associations, bolstering business skills, developing agribusiness, and increasing government transparency and inter-agency coordination. Multilateral, region-wide programs also have been implemented. (See **Table 7**) It appears that the United States has placed more emphasis on systems building and less emphasis on physical infrastructure development—the latter including the construction of telecommunications, power, and water systems, ports, airports, roads, and industrial zones—than China has in the Central Asian region. However, as noted below, the United States has supported some important energy and other infrastructure development projects in Central Asia and between Central and South Asia.

[214] Evan Feigenbaum, *Remarks at Eurasian National University*, October 13, 2005; and U.S. Congress. House International Relations Committee. Subcommittee on the Middle East and Central Asia. *Testimony by Steven R. Mann, Principal Deputy Assistant Secretary*, July 25, 2006. See also U.S. Embassy Kazakhstan. *Kazakhstan and the United States in a Changed World*, August 23, 2006.

[215] U.S. Department of State. Richard Boucher, Assistant Secretary of State for South and Central Asia. *Remarks at the South and Central Asia Regional Economic Integration Meeting*, July 18, 2007; Evan A. Feigenbaum, Deputy Assistant Secretary of State South and Central Asian Affairs. *Remarks to Participants of the Third Annual Meeting of the U.S.-Central Asia Trade and Investment Framework Agreement*, U.S. Chamber of Commerce, July 18, 2007.

[216] CRS Report RL33628, *Trade Capacity Building: Foreign Assistance for Trade and Development*, by (name red acted).

Table 7. U.S. Trade Capacity Building (TCB) Assistance to Central Asia FY2005-FY2007

(obligated funds, million dollars)

TCB Category	FY2004	FY2005	FY2006	FY2007
World Trade Organization Awareness, Accession, and Agreements	0.19	0.49	0.94	2.82
Trade Facilitation[a]	11.39	8.92	5.16	9.47
Physical Infrastructure Development	0.00	4.64	1.15	0.96
Trade-Related Agriculture	0.80	0.17	2.01	4.89
Government Transparency & Inter-Agency Coordination	1.62	1.16	0.89	3.15
Financial Sector Development, Monetary & Fiscal Policy, Commodity & Capital Markets	2.96	4.08	1.24	0.16
Competition Policy, Foreign Investment, Tourism Development	0.00	0.40	0.18	0.33
Total	16.96	19.86	11.57	21.78

Source: U.S. Agency for International Development. *Trade Capacity Building Database*, at http://qesdb.usaid.gov/tcb/index.html.

a. Includes aid for customs operation & administration; e-commerce development & information technologies; export promotion; business services & training; regional trade agreements; and other trade facilitation.

Among some specific TCB-related efforts in Central Asia, in October 2005, the U.S. Trade and Development Agency (TDA) announced the launch of a $1 million "U.S. Infrastructure Integration Initiative in Central Asia," which includes the countries of Afghanistan, Kazakhstan, Kyrgyzstan, and Tajikistan. The program focuses on regional energy, transport, and communications infrastructure development. Technical teams visited the countries in early 2006 and recommended projects.

To facilitate regional transportation, the TDA supports building a 1,860 mile "North-South Silk Road" from Almaty, Kazakhstan, through Kyrgyzstan, Tajikistan, and Afghanistan to Karachi, Pakistan. As part of this route, the United States completed construction of a $30 million bridge connecting Afghanistan and Tajikistan. The United States also has provided assistance for border and customs posts, such as $600,000 for a truck inspection facility at the border between Kazakhstan and Kyrgyzstan. TDA hosted an April 2007 conference to support reforming Central and South Asia's telecommunications regulations.

In the energy sector, USAID in 2006 launched a three-year, $3.3 million "Regional Electricity Marketing Assistance Program" (REMAP; implementor is the U.S. Energy Association) that encourages the development of electrical power infrastructure and power sharing between Central Asia and Afghanistan, Pakistan, and India.[217] In October 2006, a U.S.-facilitated memorandum of understanding was signed between Afghanistan, Kyrgyzstan, Pakistan, and Tajikistan envisaging the supply of 1,000 megawatts of electricity from Tajikistan and Kyrgyzstan to Pakistan via

[217] U.S. Trade and Development Agency. *Press Release: USTDA Launches Central Asian Infrastructure Integration Initiative*, October 14, 2005; Richard A. Boucher, *Remarks at Electricity Beyond Borders: A Central Asia Power Sector Forum*, Istanbul, Turkey, June 13, 2006; Joshua Kucera, "Washington Seeks to Steer Central Asian States Toward South Asian Allies," *Eurasia Insight*, April 28, 2006; Joshua Kucera, "USAID Official Outlines Plan to Build Central-South Asian Electricity Links," *Eurasia Insight*, May 4, 2006.

Afghanistan. REMAP also facilitated agreements between Kazakhstan and Tajikistan and between Kazakhstan and Kyrgyzstan on electricity sales.

USAID launched a $400,000 "U.S.-Central Asia Trade Facilitation Initiative" in 2005 that focused on customs reform. Technical teams visited Central Asia and Afghanistan to identify impediments to regional trade, and the United States and Kazakhstan hosted a meeting of regional states, donors, and the private sector to develop plans to facilitate trade.

The Millennium Challenge Corporation (MCC), created in 2004 to provide U.S. aid to countries with promising development records, announced in late 2005 that Kyrgyzstan was eligible to apply for assistance as a country on the "threshold" of meeting the criteria for full-scale development aid. On March 14, 2008, the MCC signed an agreement with Kyrgyzstan to provide $16 million over the next two years to help the country combat corruption and bolster the rule of law. One early TCB-related project will be $1 million in technical assistance to the judiciary and other actors to improve the processing of commercial cases and the enforcement of judgments.

Other U.S. Multilateral Ties with Central Asia

Besides its leading role in the regional Council on Trade and Investment (discussed above), the United States plays a prominent role in the regional activities of the OSCE and NATO.

Role of the OSCE . All the Central Asian states were admitted soon after their independence to membership in the OSCE as successor states of the Soviet Union. Perhaps the most controversial type of "soft power" wielded by the OSCE in the region has been its encouragement of democratization and respect for human rights, including through its monitoring of legislative and presidential elections. At OSCE meetings, U.S. diplomats have raised regular concerns about democratization and human rights problems in the region. The Central Asian states and Russia increasingly in recent years have accused the OSCE of interfering in domestic affairs and of fomenting "colored revolutions" to overthrow the sitting governments. After long raising concerns that democratization and human rights problems in Kazakhstan needed to be addressed before the country could hold the presidency of the OSCE, the United States and other member-states in late 2007 accepted Kazakhstan's promises to accelerate reforms and agreed that it could hold the presidency in 2010.

Role of NATO's Partnership for Peace (PFP) . All the Central Asian states except Tajikistan joined NATO's PFP by mid-1994 (Tajikistan joined in 2002). Central Asian troops have participated in periodic PFP (or "PFP-style") exercises in the United States since 1995, and U.S. troops have participated in exercises in Central Asia since 1997. A June 2004 NATO summit communique pledged enhanced Alliance attention to the countries of the South Caucasus and Central Asia. Uzbekistan sharply reduced its participation in PFP after NATO raised concerns that Uzbek security forces had used excessive and disproportionate force in Andijon. In contrast to Uzbekistan's participation, Kazakhstan's progress in military reform enabled NATO in January 2006 to elevate it to participation in an Individual Partnership Action Plan. Among its objectives, PFP aims to encourage transparency and accountability in military budgeting, civilian control over the military, and other elements of "soft power."

The United States and the SCO

U.S. officials appear to view the Russia- and China-dominated 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."[218]

Deputy Assistant Secretary of State 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 bilateral and multilateral 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.[219]

In testimony in April 2008, Assistant Secretary of State Boucher indicated some reassessment of the SCO's role in Central Asia. For awhile, it seemed that the SCO was becoming a means "for big countries to push little countries around," he averred, and the United States objected to such efforts, but recently the SCO seems to have stressed "border security, cross-border cooperation, [and] common efforts against terrorism. And to that extent, you know, when it does that, we think it makes a contribution to the region." Nonetheless, he did not envisage that the United States would seek to cooperate with the SCO.[220]

China's Bilateral and Multilateral Relations

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.[221]

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[218] 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.

[219] 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.

[220] House Foreign Affairs Committee. Subcommittee on Asia, the Pacific and the Global Environment. Hearing on Central Asia. *Testimony by Richard A. Boucher, Assistant Secretary, Bureau for South and Central Asian Affairs, U.S. Department of State*, April 8, 2008.

[221] Adil Kaukenov, "China's Policy Within the Shanghai Cooperation Organization," *Central Asia and the Caucasus*, (continued...)

China's Bilateral Ties with Central Asian States

China has concluded Friendship and Cooperation Treaties with Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan that provide a framework 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.[222] 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.[223] 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 dissidents 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).

In December 2007, China announced the formation of a China-Central Asia Friendship Society, a propaganda organization under the direction of the Chinese Communist Party. Chinese Foreign Minister Yang Jiechi hailed the society as marking "the beginning of a new development phase in our non-governmental diplomacy with Central Asian nations." He stated that the society would assist in the "implementation of the country's overall diplomatic strategy, promote our mutual understanding and traditional friendship with Central Asia nations and their peoples, and augment

(...continued)

No. 3 (2007), pp. 62-76.

[222] Shi Ze, "Relations Between China and Central Asian Countries Face Opportunity of All-Round Development," *China International Studies*, Winter 2005, p. 83; *CEDR*, September 7, 2007, Doc. No. CEP-950007.

[223] *CDR*, December 20, 2006, Doc. No. CPP-442003.

our good-neighborly and friendly relations of cooperation with the five Central Asian nations." The deputy foreign minister stated that "non-governmental diplomacy, as an important supplement to official diplomacy, is playing an increasingly important role" in Central Asia.[224]

China's Multilateral Ties with Central Asia

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 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 SCO, in which China plays the leading role.[225] 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.[226]

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."[227] Russia emphasized the

[224] *CDR*, December 19, 2007, Doc. No. CPP-710009.

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

[226] *CDR*, September 10, 2002, Doc. No. CPP-131.

[227] *CEDR*, June 17, 2004, Doc. No. CEP-335.

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-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*).[228]

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.[229] 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."[230] 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 have taken the form of training in exercises.[231]

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."[232] 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

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

[229] *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.

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

[231] 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.

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

U.S.-led coalition operations in Afghanistan, for reasons that included what Uzbekistan claimed was 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.[233]

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.

Foreign Assistance

U.S. Foreign Assistance

The United States has been the largest bilateral aid donor to the Central Asian region since 1992, followed by the EU. U.S. foreign aid budgeted to Central Asia for FY1992 through FY2006 amounted to $4.1 billion. The EU has reported that it has provided approximately 1.39 billion euros ($2.13 billion at current exchange rates) in assistance to the region since 1991.[234]

For much of the 1990s and until September 11, 2001, the United States provided much more aid each year to Russia and Ukraine than to any Central Asian state (most such aid was funded through the Freedom Support Act (FSA) account in Foreign Operations Appropriations, but some derived from other program and agency budgets). Cumulative foreign aid budgeted to Central Asia for FY1992 through FY2006 was about 14% of the amount budgeted to all the Eurasian states, reflecting the lesser priority given to these states prior to September 11. Budgeted spending for FY2002 for Central Asia, during OEF, was greatly boosted in absolute amounts ($584 million) and as a share of total aid to Eurasia (about one-quarter of such aid). The Administration's aid requests since then have gradually declined in absolute amounts, although it has continued to stress important U.S. interests in the region. The Administration has highlighted the phase-out of economic aid to Kazakhstan (because of its "quantifiable reform progress" in the democratic, economic, and social sectors) and restrictions on aid to Uzbekistan (see below) as among the reasons for declining aid requests. Aid to Central Asia in FY2005 and thereafter has been about

[233] 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.

[234] The EU plans to provide about $1 billion in aid to Central Asia in 2007-2013, which may prove to be more than projected U.S. aid to the region. European Community. *Regional Strategy Paper for Assistance to Central Asia for the period 2007-2013*, June 2007; Council of the European Union. *Presidency Conclusions*, 11177/07, June 23, 2007, p. 12.

the same or less in absolute and percentage terms than that provided to the South Caucasian region. (See **Table 8**.) Not reflected in this table, the United States also contributes to international financial institutions and international organizations that aid Central Asia.

The Millennium Challenge Corporation (MCC), created in 2004 to provide U.S. aid to countries with promising development records, announced in late 2005 that Kyrgyzstan was eligible to apply for assistance as a country on the "threshold" of meeting the criteria for full-scale development aid. On March 14, 2008, the MCC signed an agreement with Kyrgyzstan to provide $16 million over the next two years to help the country combat corruption and bolster the rule of law. According to one report, the signing of the agreement had been delayed over U.S. concerns over non-transparency of the vote count in the December 2007 Kyrgyz legislative election.

Congressional Conditions on Kazakh and Uzbek Aid

In Congress, Omnibus Appropriations for FY2003 (P.L. 108-7) forbade FREEDOM Support Act (FSA) assistance to the government of Uzbekistan unless the Secretary of State determined and reported that it was making substantial progress in meeting commitments under the Strategic Partnership Declaration to democratize and respect human rights. The act also forbade assistance to the Kazakh government unless the Secretary of State determined and reported that it significantly had improved its human rights record during the preceding six months. However, the legislation permitted the Secretary to waive the requirement on national security grounds. The Secretary reported in May 2003 that Uzbekistan was making such progress (by late 2003, the Administration decided that it could no longer make this claim). In July 2003, the Secretary reported that Kazakhstan was making progress. Some in Congress were critical of these findings.

Table 8. U.S. Foreign Assistance to Central Asia, FY1992 to FY2008

(millions of dollars)

Central Asian Country	FY1992 thru FY2006 Budgeted[a]	FY2007 Estimate[a]	FY2008 Estimate[b]	FY2009 Request[b]
Kazakhstan	1,244.8	70.70	25.191	21.948
Kyrgyzstan	806.5	36.55	32.626	29.608
Tajikistan	679.7	35.86	31.914	28.582
Turkmenistan	255.4	12.48	9.149	11.504
Uzbekistan	760.9	18.99	10.19	7.94
Regional	73.2	3.46	2.976	6.607
Total	4,053.4	178.04	112.046	106.189
Percent	14	11	24	25

Sources: State Department, *Office of the Coordinator of U.S. Assistance to Europe and Eurasia*, information as of January 9, 2008; *Congressional Budget Justification for Foreign Operations, FY2009: South and Central Asia.*

a. FSA and Agency funds. Excludes some classified coalition support funding.

b. FSA and other Function 150 funds, including Peace Corps. Does not include Defense or Energy Department funds, funding for exchanges, or Millennium Challenge Corporation aid to Kyrgyzstan.

Yearly appropriations for foreign operations since FY2004 have retained these conditions, while clarifying that conditions on assistance to the government of Uzbekistan include substantial

progress in respecting human rights, establishing a "genuine" multi-party system, and ensuring free and fair elections and freedom of expression and media. In July 2004, the State Department announced that, despite some "encouraging progress" in respecting human rights, up to $18 million in aid to Uzbekistan might be withheld because of "lack of progress on democratic reform and restrictions put on U.S. assistance partners on the ground" (in contrast, progress was reported regarding Kazakhstan).[235] This determination potentially affected IMET and FMF programs as well as FREEDOM Support Act funding, since legislative provisions condition IMET and FMF on respect for human rights. The State Department reprogrammed or used notwithstanding authority (after consultation with Congress) to expend some of the funds, so that about $8.5 million was ultimately withheld. In FY2005 and subsequent years, Secretary of State Condoleezza Rice reported to Congress that Kazakhstan had failed to significantly improve its human rights record, but that she waived aid restrictions on national security grounds. She has not reported substantial progress by Uzbekistan in meeting its commitments, so aid restrictions have remained in place.

China's Foreign Aid

There are no official Chinese data on grant assistance to Central Asia. Most Chinese 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 exchange grants (see above).

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.[236] 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.[237]

Among concessional loans, China has reported that it has funded 127 projects since launching its $900 million SCO loan initiative in 2004. Although offered under the SCO framework, each

[235] U.S. Department of State. Office of the Spokesman. *Secretary of State Decision Not to Certify Uzbekistan*, July 13, 2004.

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

[237] *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.

country has to negotiate separately with China about specific projects.[238] Many of the loans have focused on upgrading Central Asia's transportation and communications systems, including those linking the region with China, in order to facilitate China's trade with the region and the economic development of Xinjiang. Among the loans:

- Visiting Chinese Deputy Minister of Foreign Trade Zhang Xiang signed an agreement with Kyrgyzstan's then-Prime Minister Nikolay 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.[239] In 2005, China allocated $3.75 million to repair the 16 miles of roadway between the Kyrgyz capital of Bishkek and the Manas airport.[240] In September 2006, China provided a loan for Kyrgyzstan's purchase of automobiles worth $1.8 million.[241]
- 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 Khujand. 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 repaving the highway from Dushanbe through Khujand to Chanak (near the Uzbek border), modernization of the telecommunications system, and upgrading of electricity transmission lines.[242] The repaving project is expected to be completed in 2008.[243]
- 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. Tajikistan's state-run news agency reported in January 2008 that Tajikistan owed China $217 million, the largest amount owed to one country.
- In late 2006, China extended a $24.5 million low-interest loan to finance construction or revamping of fiber optic and cellular telephone networks

[238] Artyom Matusov, *China and Eurasia Forum Quarterly*, Vol. 5, No. 3 (2007).

[239] *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.

[240] *CEDR*, February 21, 2005, Doc. No. CEP-129.

[241] *CEDR*, May 13, 2005, Doc. No. CEP-402005.

[242] *CEDR*, March 12, 2006, Doc. No. CEP-950006; June 15, 2006, Doc. No. CEP-950119; *Agence Presse France*, June 24, 2006.

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

throughout Turkmenistan.[244] 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.

- 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 $350 million for economic development in Uzbekistan. 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."[245] In July 2005, China allocated two grants worth $3.6 million for economic training and other cooperation.

Africa[246]

China has pursued ties with sub-Saharan Africa ("Africa" hereafter) since the 1950s. Prior to China's broad economic reforms of the 1980s, its engagement in Africa was primarily defined by political factors (e.g., colonial liberation, Third World development, and the Cold War). The 1980s brought a gradual shift in Chinese foreign policy in Africa and elsewhere, as Beijing's motivations increasingly came to be dominated by pragmatic economic and trade-related considerations. This has increased in recent years with China's outward investment push and its search for new sources of energy and natural resources. China continues to support aid projects in Africa, but many of these projects are increasingly commercially driven.

As with China, U.S. relations were long influenced by Cold War concerns, and by associated support for free markets, along with a desire to provide humanitarian assistance when needed and assist in Africa's socio-economic development. After the Cold War, U.S. engagement with Africa declined somewhat, but bilateral assistance levels gradually rose again starting in the early-mid 1990s. While security concerns played a role in U.S. relations in Africa during the Cold War, U.S. interest in African security issues declined for a time after the Cold War. The U.S. appetite for direct military intervention in Africa's many conflicts was limited, and this notably became the case following the killing of U.S. soldiers in Somalia in 1993 during the infamous "Blackhawk down" incident. Security concerns in Africa, however, began to gain prominence in U.S. views of the region following the 1998 Al Qaeda bombings of the U.S. embassies in Kenya and Tanzania. They have remained a prominent facet of Bush Administration policy since the Al Qaeda attacks on the United States in 2001. Along with a rise in security cooperation, U.S. bilateral assistance to Africa, most notably in the healthcare sector and in the fights against the AIDS epidemic, has grown dramatically under the Bush Administration.

One potential area of concern for policymakers is China's determined political courting of and growing economic support of African governments. This may lead—and in some cases has already led—them to view China as a desirable political ally and a model for development.[247]

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[244] *CEDR*, September 27, 2006, Doc. No. CEP-950353.

[245] *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.

[246] Written by (name redacted), Specialist in African Affairs.

[247] On African views of the United States, see, for instance, BBC World Service Poll, "Global Views of USA
(continued...)

China's policy of non-interference in states' internal affairs, especially with respect to issues of human rights and democracy may prove attractive, particularly in contrast to Western donor governments' imposition on Africans of political conditionalities in return for credit. Some Africans see such Western approaches as paternalistic, and some African states, when subjected to sustained Western policy pressure, have already turned to China. While such realignments may not be permanent, Angola's rejection of relations with the IMF in favor of access to Chinese economic ties and Zimbabwe's ties to China have been interpreted as reflecting such views. Rapidly expanding Sino-African economic cooperation and the perceived relevance to Africa of China's rapid economic development may also lead Africans to view China as a more relevant political-economic model than Western democracies.[248]

Economic Factors

Early in the present decade, China's economic boom prompted a renewed push to accelerate the development of relations with Africa. Chinese-African economic and political ties are now rapidly burgeoning and take many forms: trade agreements, commodity acquisition and production deals, and scientific, educational, technological and—in a few cases—security cooperation. China is also offering increasing amounts of development aid to Africa.

The dominant factor driving such ties is trade. Sino-African ties are underpinned by China's prodigious demand for Africa's plentiful commodities, notably oil and unprocessed metals and minerals, to supply its rapidly growing economy, and by African demand for Chinese goods and services.

The People's Republic of China (PRC) uses a combination of political and economic means to protect this trade and foster bilateral ties. As a result, economic relations are not carried out on a purely commercial basis. There is a substantial amount of overlap between Chinese development aid, investments, and business deals. These are often underpinned by PRC soft loans, with terms ranging from a no-cost (i.e., grant) basis to near-market rates. PRC financing and political backing are increasingly enabling Chinese firms to attain a dominant competitive position with respect to the demands of Africa's small but often rapidly growing markets, which many view as having often been neglected by developed country businesses.

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Improve," April 2, 2008, among others.

[248] Stephanie McCrummen, "Struggling Chadians Dream of a Better Life—in China," *Washington Post*, October 6, 2007.

Figure 37. Map of Sub-Saharan Africa

Source: Map Resources. Adapted by CRS.

Political Factors

China's political goals in Africa center on fostering support among African states for Beijing's political, economic and trade interests. Notable among these are long-standing efforts by China to

isolate Taiwan internationally. In Africa, China has been increasingly successful in this respect; only four of 48 sub-Saharan African countries (Burkina Faso, Sao Tome, Gambia, and Swaziland) now maintain official relations with Taiwan. In large measure it pursues its international political goals by attempting to extend its influence within the United Nations (U.N.) system and other international forums, where African countries form an important potential block of allied votes.[249] In such forums China often champions policies that it views as shared by many African countries. These include efforts to foster a more multi-polar international political system and to counter putatively disproportionate U.S. global political-economic and military influence. China also uses these forums to promote developing country interests in order to create a "new, just and rational economic order" and to influence international policy-making decisions that affect countries, such as Sudan, in which China has important interests.

China is also proving attractive to many for more direct, practical purposes. With the exception of its Taiwan policy, China, unlike Western official donors, does not condition its financial offerings and political ties on improvements in governance, economic reform, or human rights conditions. Instead, it expresses strong support for state sovereignty and "non-interference" in countries' internal affairs, and stresses the mutual benefits of bilateral ties and "economic win-win cooperation." Such policies dovetail with those of many African governments, both for economic reasons and because some, like China, have periodically been targets of foreign criticism regarding undemocratic governance and human rights.

Responses

There have been complex and varied reactions among analysts regarding the implications of Chinese engagement in Africa. These range from enthusiasm and guarded optimism to concern over potential Chinese strategic and economic threats to western or African interests. Some observers are concerned about the state-centric, political-commercial mode of PRC engagement in Africa; its potential negative impacts on U.S. and Western public policy goals and engagement in Africa; the competitive impact of increased PRC imports of raw materials from Africa and, to a lesser extent, Chinese competition for current and future African market demand; and the implications for U.S. political interests and influence of the PRC's undertakings in Africa.[250] Such concerns largely stem from the fact that China's African undertakings are increasingly affected by diverse international events, politics, and policy trends, with origins both in Africa and extrinsic to it, that are of interest to Western governments and polities. Examples include international responses to the conflict in Darfur, Sudan;[251] western support for universal good governance and

[249] African votes 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.

[250] 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*. See also concerns expressed by some Members of the House at the Subcommittee on Africa, Global Human Rights and International Operations of the House International Relations Committee at a hearing entitled *China's Influence in Africa*.

[251] Critics have alleged that Chinese oil interests in Sudan had led China to ignore Sudanese President Bashir's government's widely reported human rights abuses in the conflict that continues to affect Darfur in western Sudan, and to prevent international action aimed at placing pressure on the Sudanese government to end such abuses and seek peace in Darfur in international forums such as the U.N. Security Council. In an effort to pressure China to take a more (continued...)

fiscal transparency; and globalized economic competition. China has an ostensible policy of neutrality and non-interference with respect to countries' internal affairs and does not link provision of bilateral aid and credit to apolitical or governance performance.[252] Critics worry that this may weaken African governments' motivation to pursue democratization, good governance, and transparency reforms, and adhere to universal norms of civic and human rights and the rule of law in Africa.

There are growing concerns among some observers 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 conflict with international human rights, transparency, or environmental norms, or promote economic activities that do little to develop the African private sector.[253]

Other analysts, however, point to potential benefits to Africa resulting from China's involvement on the continent, which Bush Administration officials have in some cases pointed to as a positive outcome of Sino-African engagement. Many also view China's engagement in Africa as a reflection of China's legitimate pursuit of political and economic self interest. Among the most often cited positive outcomes for Africa are rising levels of Chinese investment in Africa, particularly in infrastructure; increases in African exports to China; and Chinese fulfillment of unmet African consumer demand. China is also seen as providing African countries with a new source of private credit and finance, and as spurring global commercial interest in African resources and markets.

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critical stance against Sudan's government and convince it to cooperate with the broader international community, activist critics of Beijing mounted a campaign labeling the 2008 Olympics in China the "Genocide Olympics." Such criticisms may have helped prompt China to take a more active role in attempting to end the conflict in Sudan. China has several times abstained from U.N. Security Council that call on Sudan to take certain actions, and has in several instances called publicly on Sudan to comply with international demands. It is also increasing its communications with Sudan's government. On criticisms, see, for instance, 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, *inter alia.*

[252] 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.)

[253] 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.

Implications for U.S. Policy

Analysts are divided over the implications Chinese engagement in Africa may have for U.S. policy, but with some exceptions, few see a trend toward direct U.S.-Chinese "soft power" competition in Africa.[254] But some observers see emerging economic and/or political competition between the two countries.

Bush Administration officials, including the President, have repeatedly stated that they do not view Chinese engagement in Africa as a threat to U.S. interests in the region.[255] Administration officials are, however, actively monitoring China's activities in Africa, since it is widely accepted that the breadth and diversity of these endeavors may present numerous potential issues for consideration by U.S. policy makers. One area for consideration is the impact of Chinese engagement on African governments' willingness to pursue democratization, good governance, and transparency reforms, and their adherence to universal civic and human rights norms and the rule of law. Another concern may include the potential for a renewed rise in African financial indebtedness to China, fast on the heels of recent substantial U.S. and Western government write-downs of past unsustainable African debt.[256] The prospect of increased U.S.-Chinese economic competition in Africa, notably in the oil sector and strategic metals and minerals trade, also presents national energy security 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 manufacturing sectors through the African Growth and Opportunity Act program (AGOA), which seeks to bolster African 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.

Cultural and Educational Cooperation

Chinese Education Cooperation

Africans in China make up a small proportion of all foreign students in China, and number considerably fewer than Africans studying in the U.S. But the number of African students in China is rising.[257] By 2007, the total number of foreign students in the PRC was 195,503, of which about 5,900 (3%) were Africans. This rise reflects a PRC pledge to increase the number of and support for African students in China from 2006 onwards, specifically a pledge to increase the number of African students receiving PRC government scholarships.[258] Most African students

[254] A few observers see China's activities in Africa as overt, deliberately challenging U.S. interests. See, for instance, Donovan C. Chau, *Political Warfare in Sub-Saharan Africa: U.S. Capabilities and Chinese Operations in Ethiopia, Kenya, Nigeria, and South Africa*, Army Strategic Studies Institute, March 2007.

[255] White House Press Release, "President Bush Participates in Press Availability with President Kufuor of Ghana," February 20, 2008. Such a threat is implied in some analyses of China's activities in Africa. The implication is that Chinese activities in a given sphere, such as sectoral investments or bilateral cooperative development ties, would preclude or crowd out the possibility of U.S. pursuit of similar activities.

[256] Helmut Reisen and Sokhna Ndoye, "Prudent versus Imprudent Lending to Africa: From Debt Relief to Emerging Lenders," *Working Paper No. 268*, February 2008.

[257] In 2005, just under 2% of 141,087 foreign students, or about 2,757, were from Africa. In 2006, the number of African students had risen to 3,737, or 2.3% of about 162,000.

[258] Yan Liang, ed., "More foreign students come to study on Chinese mainland," Xinhua, March 13, 2008; Cen Jianjun, *China's International Education Cooperation and Exchanges* [presentation], Ministry of Education, 16 June 16, 2006; (continued...)

in China are undergraduates and masters-level students, not Ph.D. candidates, and most primarily seek education in technology and engineering, medical science, and language training.[259]

The education of most African students in China is funded by the PRC. Between 2000 and 2006, an average of about 1,200 Africans received Chinese government scholarships to study in China each year. In November 2006 during the Forum on China-Africa Cooperation (FOCAC) summit, Chinese officials pledged to double the number of such scholarships by 2011.[260] Such a rise would substantially increase the number of African students receiving such scholarships, which totaled nearly 19,000 between the early 1950s, when China began to provide them, and 2006.[261] Meanwhile, between 2003 and 2005, 2,808 "self-supporting" or non-PRC-financed African students were enrolled in Chinese higher education institutions. The number of "self-supporting" African students rose during the 1990s, as did the number of African students seeking postgraduate education. Two factors are seen as giving rise to this increase: increasing university development cooperation between Africa and China and the relatively low cost of living and studying in China, as compared to the West.[262]

China has educational exchange and cooperation relations with 50 African countries, and provides education capacity-building assistance to African countries. Such development activities are the focus of an ongoing FOCAC "follow-up activity" called the Sino-African Education Minister's Forum. China has reportedly deployed over 700 professional teachers to 33 African countries to aid development of higher and secondary school education since the 1950s. Such cooperation nearly doubled during the 1990s. Teachers being sent to Africa are now increasingly deployed by Chinese universities in support of university-designed training, exchange, and cooperation programs, using grant funding from the PRC's Ministry of Education and African Human Resources Development Foundation, rather than being deployed by the central government.[263] Such programs typically support higher education instructional or management

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Wang Qian, "China Sees Rising Influx of Foreign Students," China.org.cn, July 9, 2006; Xinhua, "China Has Educational Exchanges with Over 50 African Countries," October 18, 2006; China Daily, "Foreign Students Drawn to China's Schools," October 12, 2007; and Xinhua, "More African Students Coming to Chinese Universities," December 17, 2007.

[259] In 2005, of a total of 2,757 students, 30% were undergraduates; 25% were masters students; 17% were in short-term programs; 16% were placement students (students doing applied work studies, e.g., in industry or engineering); 11% were doctoral students; and 1% were students seeking a certificate. Of these students, 29% were in technology and engineering; 13% in medical science; 9% in management; 21% in language; and 28% in other disciplines. See Gu, *The Emerging Education Sector..., op cit.*

[260] The Forum on China-Africa Cooperation (FOCAC), discussed below, is a Chinese-backed effort to promote Chinese-African relations and ties..

[261] There were 24 scholarships given to African students in the 1950s; 164 in the 1960s; 648 in the 1970s; 2,245 in the 1980s; and 5,569 in the 1990s. From 1967 to 1972, after losing diplomatic recognition by several African countries, China halted its hosting of new African students. Jianxin Gu, *The Emerging Education Sector in China's Aid Policy to Africa*, Japan International Cooperation Agency, 2007; Xinhua, "China Has Educational Exchanges with over 50 African Countries," November 27, 2005 and article of same title, October 18, 2006; PRC Ministry of Education, "International Students in China," n.d.; Jianjun, *China's International Education., op cit.;* and He Wenping, "Educational Exchange and Cooperation between China and Africa," *Journal of the Institute of West Asian and African Studies*, No. 3, March 2007.

[262] Wenping, "Educational Exchange...," *op cit.*

[263] Wenping, "Educational Exchange..," *op cit.* The foundation, created in 2002, is reportedly jointly administered and used by various PRC ministries including Foreign Affairs, Commerce, Education, Science and Technology, Agriculture and Health to train Africans in their respective areas of activity. Drew Thompson, "China's Soft Power in Africa: From the "Beijing Consensus" to Health Diplomacy," *China Brief* (Jamestown Foundation), 5:21, October 13, 2005; and (continued...)

training to vocational and grade-school teacher training. Separately, China sponsored 60 or so assistance programs between the 1950s and 2006 aimed at helping develop "disadvantaged" disciplines and boosting science, technology, teaching, and research capacities in 25 African countries.[264] Some Chinese assistance is provided for basic education; in 2006, president Hu Jintao pledged that China would build 100 rural schools in Africa by 2009. A small number of Chinese students study in Africa.[265]

Training

Since 2000 under FOCAC, China has increased its support for vocational education in Africa, as well as for Chinese language training and short to medium term professional and applied technology training courses, both in China and Africa. This training focuses on such diverse topics as diplomacy, journalism, malaria and healthcare, solar energy, and agriculture.[266] These activities are increasingly funded by the PRC African Human Resources Development Fund, which China set up after the adoption of the FOFAC *Program for China-Africa Cooperation in Economic and Social Development* in 2000.

At the second FOCAC gathering in Ethiopia in 2003, China offered to train 10,000 African personnel over three years, beginning in 2004 under the aegis of the African Human Resources Development Fund. It also offered to increase scholarships for African exchange students in China. In 2004, China's ambassador to South Africa stated that China had trained 6,000 Africans in agriculture, diplomacy, medicine and other fields from 2000 through 2003 and sent over 500 experts and teachers to offer short term courses.[267] Prior to the 2006 FOCAC Summit in Beijing, he stated that China had more than fulfilled its commitment to train10,000 African personnel, having trained 14,600. He also stated that China had deployed a youth volunteer team to work in Ethiopia, the first of several planned for various African countries, and that in 2005, China had

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Xinhua, "China to Train 10,000 African Personnel in Three Years," December 17, 2003.

[264] Xinhua, "China Has Educational Exchanges...," October 18, 2006 and Gu, *The Emerging Education Sector...*, *op cit.*, and Liu Guijin, "China's Role in Meeting Africa's Developmental Needs," [conference speech], *China in Africa in the 21st Century*, October 16, 2006.

[265] The PRC Education Ministry reported that in 2003, about 1.8% of all Chinese students overseas, or about 2,111, studied in Africa. Third party data citing Education Ministry and other PRC information suggest that in 2005, that number had dropped to about 600. On Chinese students in Africa, see PRC Education Ministry, "Work Related to Students and Scholars Studying ," n.d.; Wei Shen, "Student Migration Between China and Europe Politics, Policy and Prospects," *6th Berlin Roundtables on Transnationality, "Population Politics and Human Rights,"* February 2007; and Ministry of Commerce (MOFCOM), "Indispensable Knowledge for Negotiation," excerpt from *China Trade in Services Report*, 2006.

[266] A development cooperation agenda emphasizing such activities is contained in the *Programme for China-Africa Cooperation in Economic and Social Development*, adopted by the FOCAC Ministerial Conference in 2000, and the PRC's 2006 *China's Africa Policy* white paper. China's program of professional and applied trainings, many undertaken by Chinese universities and research institutions, began in 1998. In addition to their immediate functional purpose, they typically are also used to teach students about Chinese politics, economy, and society. Wenping, "Educational Exchange...," *op cit.*; He Wenping, "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; and Guijin, "China's Role...," *op cit.*

[267] Liu Guijin, "China-Africa Relations: Equality, Cooperation and Mutual Development," Speech at a Seminar on Sino-African Relations, Institute for Security Studies, November 2004; Xinhua, "China to Train 10,000...," *op cit.*; and PRC Foreign Affairs Ministry, "Report by H.E. Mr. Li Zhaoxing Minister of Foreign Affairs of the People's Republic of China to the Second Ministerial Conference of the China-Africa Cooperation Forum," December 16, 2003.

sponsored the attendance of 4,600 Africans from 50 countries at 139 workshops held in China.[268] At the 2006 FOCAC summit, PRC President Hu pledged that by 2009 China would 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 the construction of model treatment centers; 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.[269]

China has also contributed to the IMF-sponsored African Capacity Building Foundation, which supports technical aid projects and vocational courses in Africa under the Technical Cooperation Among Developing Countries (TCDC) framework of the United Nations-hosted Special Unit for South-South Cooperation.[270] *China's Africa Policy*, a formal strategy document issued in 2006, also envisions increasing support for distance learning in Africa.[271]

Confucius Institutes in Africa

China actively promotes the teaching of Chinese language and culture. There are 12 existing or soon to be completed Confucius Institutes in sub-Saharan Africa.[272] China has also assisted several universities to create Chinese language learning centers, some dubbed "Confucius Classrooms." As of 2005, there were reportedly nearly 120 schools in 16 African countries that offered Chinese language courses, and over 8,000 African students learning Chinese. Such programs are assisted by 200 or more Chinese language teachers from China.[273]

Other Exchanges

Officials of the Chinese Communist Party, a variety of ministries, and export promotion and finance agencies regularly host guests from Africa, ranging from state leaders and government ministers to mid-level African party officials and state functionaries, and they regularly participate in exchange visits to Africa.[274]

PRC Youth Volunteers in Africa

China has initiated a program called the Overseas Youth Volunteer Program, which has been compared to a nascent PRC "Peace Corps," and this is expected to increase in size. In 2006,

[268] Liu Guijin, "China's Role...," *op cit.* Xinhua reported that the number was larger, and that 11,750 Africans had been trained in China from 2004-2006. Xinhua, "China trains 11,000 African professionals since 2004, October 19, 2006.

[269] Address by Hu Jintao, Forum on China-Africa Cooperation, Beijing, November 4, 2006.

[270] PRC Foreign Affairs Ministry, "Report by H.E. Mr. Li Zhaoxing Minister of Foreign Affairs of the People's Republic of China to the Second Ministerial Conference of the China-Africa Cooperation Forum," December 16, 2003; and Special Unit for South-South Cooperation, "About Us," http://tcdc1.undp.org/aboutus.aspx.

[271] *China's Africa Policy*, discussed below, is a formal document released in early 2006. It lay out China's political, economic, and diplomatic policy goals with respect to Africa.

[272] They are: Botswana, Cameroon, Kenya, Madagascar, Nigeria (2), Rwanda, South Africa (3), Sudan, and Zimbabwe. See Confucius Institutes Online, "Worldwide Confucius Institutes," http://www.confuciusinstitute.net/confucius_institutes/search.

[273] Xinhua, "China to Open More Confucius Institutes in Africa," June 21, 2006.

[274] CPC Central Committee International Department, "Africa," *Annual Reports*, http://www.idcpc.org.cn/english/reports/2007/indexf.htm.

President Hu committed to deploy 300 PRC program volunteers to Africa by 2009. Volunteers reportedly are vetted under a very competitive screening process and are currently deployed in Ethiopia, Seychelles, and Zimbabwe.[275]

PRC Media

The PRC is paying increasing attention to shaping the media landscape relating to Chinese-Africa relations. In December 2007, the Xinhua News Agency launched a China African News Service (CAFS). CAFS seeks to expand coverage of Chinese and African news of mutual interest to Chinese and African audiences.[276] The PRC State Council Information Office, in coordination with other state ministries and agencies, has held annual two-week seminars in China for African journalists since 2004. These highlight Chinese views and policies relating to Africa, teaching African participants about the Chinese media system and promoting "China-Africa exchanges and cooperation in the field of journalism" in support of "friendly cooperative" Sino-African ties. The last seminar was reportedly attended by over 40 press officers from 30 African countries. Such exchanges are a goal of *China's Africa Policy*, which proposes to facilitate ties between state agencies in China and Africa centered on exchanging strategies on ways to handle relations with domestic and foreign media.[277]

PRC Health Diplomacy

China has long deployed medical teams to Africa as part of what it calls "health diplomacy," which China views as an essential way of building citizen-to-citizen relations. China supplies drugs, medical materials and diverse other healthcare development aid for Africa. In 2006, China's envoy to South Africa stated that from 1963 to 2005, 16,000 Chinese doctors had worked in 47 African states, treating almost 240 million medical cases; that large quantities of drugs and medical equipment had been donated; and that 30 hospitals in Africa had been built with PRC assistance. In 2004, he stated that 35 PRC medical teams comprised of 880 doctors were working in 34 African countries.[278] In late 2006, President Hu pledged that by 2009, China would build 30 hospitals; provide about $40 million in grants for anti-malaria drugs, prevention, and construction of model treatment centers in Africa.

PRC medical teams reportedly deploy for two-year stints, and China's civilian medical cooperation is administered by PRC provincial health bureaus. These provincial bodies reportedly offset many program costs, such as team airfares, living stipends, and some medical supplies used

[275] Danna Harman, "China Takes up Civic Work in Africa," and "Young Chinese Idealists Vie to Join Their 'Peace Corps' in Africa," *Christian Science Monitor*, June 27, 2007 and Kenneth King, "Aid within the Wider China-Africa Partnership: A view from the Beijing Summit," China-Africa Links Workshop, CCTR/HKUST, November 2006.

[276] Xinhua, "Notice: Xinhua opens China African News Service," December 23, 2007. Xinhua, the official press agency of the PRC government, has two main functions: to report and publish conventional current events news and to summarize, distribute, and publicize official PRC news, policies, and views. Xinhua operates under the direct supervision of the PRC State Council, which wields executive control over PRC state political power and administration. [Gov.cn/Central People's Government of the People's Republic of China, "The State Council," n.d., http://english.gov.cn/2008-03/16/content_921792.htm.

[277] Communist Party of China new release, "CPC official: China to further strengthen press cooperation with Africa," September 6, 2007; State Council Information Office, "Speech by Cai Wu, minister of the State Council Information Office," December 27, 2007; FMPRC, "Assistant Foreign Minister Zhai Jun Meets with Members of Fourth Seminar for African Press Officials," September 3, 2007.

[278] Liu Guijin, "China's Role...," *op cit.*

by the teams. Such programs reportedly may face long-term pressures associated with declining provincial tax revenues, the health demands of PRC citizens, and the increasingly profit-based character of Chinese healthcare, which deprives the public sector of doctors willing to serve overseas. China has also sponsored various tropical disease and HIV/AIDS training sessions, such as those sponsored by the Jiangsu Institute of Parasitic Diseases.[279] In 2007, China also offered such assistance on a multilateral basis by giving $8 million to the World Health Organization designated for Africa.[280]

U.S. Educational and Cultural Cooperation

The United States hosts a large number of foreign students and visitors each year, including a considerable number of Africans. Of the 582,984 international students studying in the United States in 2006/2007, 32,102 were African, representing 5.5% of the total. Of these, 61.7% were undergraduates.[281] Diverse U.S. government agencies support and facilitate a wide variety of visits to the United States by African students, scholars, and professionals for purposes of study, research, cultural exchange, applied training, and teaching. In 2006, the total number of such visitors from Africa totaled 68,973, or 7.8% of the global total.[282] Approximately 100 sister city relationships between African and U.S. cities and towns also support U.S.-African cultural and civic exchanges.[283]

Fulbright Programs

Many U.S. publicly funded exchange activities are education-focused. One of the major vehicles for advancing educational cooperation with foreign countries is the Fulbright family of grant programs. Some Fulbright programs study abroad by U.S. graduate students, while others fund study and research by foreigners in the United States and help to develop foreign institutional capacities.[284] In academic year 2006-2007, 246 grants, or 6.1% of the global total, went to African students, academics and professionals. (See **Table 9**) For the entire history of the Fulbright program (1949-2006), the number of grants made to Africans totaled 9,462, or 4.7% of the total. A large percentage of these were Humphrey Fellows, i.e., professionals undergoing advanced

[279] Liu Guijin, "China's Role...," *op cit.*; Drew Thompson, "China's Soft Power in Africa: From the "Beijing Consensus" to Health Diplomacy," *China Brief* (Jamestown Foundation), 5:21, October 13, 2005.

[280] Letian Pan, ed., "China Donates $8 Mln to WHO for Africa," Xinhua, May 16, 2007.

[281] In 2005/06, 7,008 U.S. students studied in Sub-Saharan Africa, a rise of 18.3% over the previous year. Institute of International Education, "International Student Mobility by Region - Sub-Saharan Africa, 2006/07," Open Doors 2007 Report on International Educational Exchange.

[282] Interagency Working Group on U.S. Government-Sponsored International Exchanges and Training, "Appendix C," *FY 2007 Annual Report.*

[283] Sister Cities International website: http://www.sister-cities.org.

[284] Fulbright programs of this nature include the Foreign Student Program, which supports study, training and applied experience courses, or artistic study by graduate students and young professionals; the Foreign Language Teaching Assistant Program for overseas English teachers; the International Science and Technology Award doctoral study program; the U.S. Scholar Program, which sends American scholars abroad for teaching or research; the Senior Specialists Program sends U.S. faculty and professionals to help develop overseas academic institutions; the Visiting Scholar and Scholar-in-Residence programs, which bring foreign scholars to the United States for teaching and research purposes; the New Century Scholar Program, an international interdisciplinary collaboration forum; the Teacher Exchange Program, supporting one-to-one teacher exchanges, mostly of K-12 teachers; and the Hubert H. Humphrey Fellowship Program, which brings mid-career professionals from developing countries for study and professional development.

U.S. training. Another major U.S. program to provide Africans with U.S. higher education degrees was the now defunct African Graduate Fellowship Program (AFGRAD; 1963-1990), and its successor, the Advanced Training for Leadership and Skills program (ATLAS; 1991-2003). These USAID-administered programs trained over 3,200 African professionals in U.S. PhD and masters degree programs in key developmental fields and cost $366 million in 2004 dollars.

Table 9. African Fulbright Grantees, 2006-2007

(Numbers and Percentage Share)

Region	Students	Research Scholars	Lecturing Scholars	Teacher Exchange/ Seminars	Hubert H. Humphrey Fellows	Total
Africans	166	22	12	7	39	246
African Share of Global Total (%)	5.9	3.8	7.4	2.4	24.1	6.1

Source: J. William Fulbright Foreign Scholarship Board, "Chapter 8: Facts and Figures," *Fulbright Annual Report 2006-2007*.

Higher Education Assistance to Africa

In addition to promoting educational cooperation through exchange programs, the United States also provides support for higher education development in Africa.[285] Such aid may grow. In April 2008, the Bush Administration sponsored a conference, the Higher Education Summit for Global Development, which was designed to act as a springboard for strengthening higher education institutions in developing countries, including in Africa.

Several Africa-focused higher education programs are administered by USAID. A primary one is the Higher Education for Development (HED) Program of the USAID Economic Growth, Agriculture and Trade Bureau's (EGAT) Office of Education (ED). HED supports partnerships between U.S. higher education institutions and foreign ones by linking U.S. colleges or universities with developing country counterparts. Its goal is to foster the role of higher education in international development, with a focus on human and institutional capacity building. HED assistance is provided through a grant competition process. There are current or recent HED programs in 21 African countries, as well as several regional projects.[286]

Other USAID bureaus, country missions, and USAID-backed public-private alliances also administer programs that promote higher education development or do so indirectly as part of larger efforts to advance health, agricultural, or ICT development. Notable among USAID programs that aid tertiary education in Africa are several backed by the EGAT Agriculture Office

[285] Most U.S. development assistance for education in Africa is devoted to basic education, in accordance with Congressional foreign operations appropriation directives.

[286] Apart from the ATLAS and AFGRAD programs (see above), other past USAID programs that have supported higher education in Africa include the United Negro College Fund Special Programs (UNCFSP) International Development Partnerships (IDP) project, which was extended to run through 2008. IDP supports collaboration between Historically Black Colleges and Universities (HBCUs) with institutions of higher education in Africa and elsewhere. Others included the Education for Democracy and Development Initiative (EDDI; 1998-2003), which sponsored HED-type programs, and the Tertiary Education Linkages Projects (TELP I, 1995-2002, and TELP II, 2003-2006). These were designed to increase black South Africans' access to tertiary education.

(AG). It supports higher education partnerships, innovative pilot programs in collaboration with the Board for International Food and Agricultural Development (BIFAD), which advises USAID on agricultural development issues and monitors program activities. EGAT/AG also implements Collaborative Research Support Programs (CRSPs). These draw on the capacities of U.S. land grant universities and foster numerous agricultural research and development projects in Africa. EGAT/AG also sponsors the Collaborative Agricultural Biotechnology Initiative (CABIO) and the Consultative Group on International Agricultural Research (CGIAR).[287] In addition to its dedicated assistance to higher education in Africa, since 2003 USAID has supported short and long-term training for over 680,000 Africans, including in-country, in third-countries, and in the United States.[288]

Other Outreach, Public Diplomacy, and Cooperative Efforts

The United States supports public diplomacy and information outreach efforts in or targeting Africa in the form of American Corners, Virtual Presence Posts, Information Resource Centers, and through the broadcast and Internet presence of the Voice of America (VOA). American Corners, of which there are 77 in Africa, provide access to information about the United States in the form of published and digital media, exhibits, speakers, and the like. They are hosted by national institutions under contract with the State Department, and are often located outside of capital cities. They tend to reach younger audiences with little exposure to U.S. culture or ideals. "Virtual Presence Posts" (VPPs) are Internet sites that substitute for a U.S. government physical presence where insecure environments or funding constraints preclude them. There are three in Africa, serving northern Uganda, Somalia, and the Seychelles. Thirty-seven U.S. embassies in Africa maintain Public Diplomacy Information Resource Centers (IRCs). These are designed to provide direct, timely, authoritative information to foreign audiences in support of U.S. policy goals and to provide a point of contact between local nationals and U.S. embassy personnel. They function essentially as Internet-capable libraries, and host speakers and educational presentations.[289] VOA broadcasts to Africa in 10 indigenous African languages as well as in English, Portuguese, and French. There are also two Regional English Language Offices in Africa, serving Southern and West Africa respectively.[290] Peace Corps programs in 26 African countries promote both development and cultural exchanges and personal linkages. Peace Corps programs appear to foster long-term U.S. African ties. Anecdotal information suggests that a substantial number of U.S. government personnel who work on African affairs or development issues are former Peace Corps volunteers.[291]

[287] CABIO helps African and other developing countries to access and apply modern biotechnology in order to improve agricultural productivity, environmental sustainability, and nutrition. CGIAR is a network of international agricultural research centers that support development of staple food and other key crops. Four CGIAR centers are located in Africa.

[288] Franklin Moore/USAID, Hearing on "Higher Education in Africa," testimony before the Subcommittee on Africa and Global Health House Foreign Affairs Committee, May 6, 2008.

[289] State Department, personal communication; various State Department Press Releases; and State Department, *Foreign Affairs Handbook*, Volume 10.

[290] These offices organize and participate in teacher training seminars and support local national English teaching efforts at the teacher and institutional level by providing advice and guidance. State Department, "Regional English Language Officers Worldwide," http://exchanges.state.gov/education/engteaching/eal-elos.htm.

[291] Peace Corps FY 2009 budget request; and anecdotal information gathered during past CRS research pertaining to Africa.

Diplomacy

China's African Policy

China's political-economic goals and relations in Africa are defined in a formal document released in early 2006, entitled *China's African Policy*. It lays out a PRC goal of creating "a new type of strategic partnership with Africa" consisting of multifaceted cooperation grounded in long-standing "guiding" Chinese foreign policy principles.[292] It explicitly conditions official relations with African governments on their adherence to the PRC's "one-China principle" vis-a-vis Taiwan, but makes no other political demands. It seeks to increase reciprocal official leadership visits and diverse lower level cooperative exchanges, and pledges PRC-African cooperation in international forums. It also seeks increased Sino-African trade, offering PRC duty-free treatment for some African exports, seeking free trade agreements in the region, and providing access to export credits for PRC investment and business activities in Africa, notably in infrastructure. It advocates enhanced trade 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 debt relief and unconditional economic aid 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. It also pledges increased medical assistance, including 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.

FOCAC

China is pursuing its policy goals in Africa both bilaterally and through the Forum on China-Africa Cooperation (FOCAC). Created in Beijing in 2000 during a summit of PRC and 43 African country leaders, FOCAC is a comprehensive effort initiated by China to build mutually beneficial economic development, trade, and political relations with Africa rooted in principles of "South-South Cooperation." Each FOCAC summit or major meeting has produced a concrete action plan for Sino-African cooperation. The PRC also uses these gatherings to offer African countries debt relief and diverse development assistance, and to sign multiple business, trade, and cooperation agreements with them. It also highlights China's record of fulfilling its past assistance pledges. The most recent FOCAC Summit took place in Beijing in November 2006. It was reportedly the largest international event ever held in China; it drew China's top leaders and 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.

[292] These arise from a series of policy frameworks laid out by the PRC 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.

- 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 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 to 4,000 per year.

Vehicles for PRC Diplomacy

China maintains an extensive network of diplomats in Africa, many conversant in local languages. There are PRC embassies in all but the four African countries with which Taiwan has ties (apart from Somalia, where its embassy is closed for security concerns). It also has commercial counselor offices in 40 African countries and seven consulates-general in five of them. Frequent leadership exchange visits, notably including multiple trips to Africa by top PRC officials such as President Hu Jintao and Premier Wen Jiabao, bolster its diplomatic presence. China's foreign ministers have visited Africa annually since 1990. Visiting PRC political VIPs, often accompanied by large business and ministerial delegations, sign major bilateral cooperation agreements and announce large, often PRC state-financed business deals. Top African leaders make frequent reciprocal visits. Diverse lower-level exchange visits also occur, and often include training for African officials including diplomats, economic officials, business professionals, journalists, and other key decision and opinion makers. There are also exchanges between legislatures, the PRC Communist Party and African political parties, and local governments, to which China periodically provides in-kind material assistance.

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, 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 related to commodities, infrastructure, agriculture, manufacturing and industry.

- 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, among others.

African Union

China has stepped up ties with the African Union (AU), attending key AU summits in 2006 and 2007. It is an observer in several African sub-regional organizations. In May 2007, after appointing its first Special Representative on African Affairs and Darfur, Liu Guijin (China's former ambassador to South Africa and Zimbabwe, and the former head of the PRC Foreign Ministry's African Affairs Department) China agreed to finance the construction of a $100-$150 million AU headquarters, fulfilling President Hu's 2006 FOCAC summit pledge. The PRC has also provided funding for the AU peacekeeping missions in Sudan's Darfur region and in Somalia, and occasionally provides some humanitarian assistance in Darfur and elsewhere.

Military and Security Issues

Beijing provides training in China for African military officers, technical aid related to its sale of military equipment in Africa, and other capacity-building help for African militaries, but public information on the scope and content of such activities is lacking. There are PRC military-to-military exchange accords with a reported 25 African countries. Only nine of a global total of 107 Chinese military attaché offices are located in Sub-Saharan Africa, however, and no African states have to date participated in joint military exercises with the PRC. In its *China's African Policy* paper, the PRC pledged to boost military aid and help Africa fight crime by offering judicial and police training and cooperation, and by setting up a channel for intelligence exchange targeting" non-traditional security threats," including terrorism, small arms smuggling, drug trafficking, and transnational economic crime. International peacekeeping is an emerging area of Chinese engagement in Africa. Chinese military or police personnel have been seconded to all but one of the current U.N. peacekeeping operations (PKO) in Africa. China has deployed a unit to the 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.

China has long sold arms to Africa. Apart from small arms, these exports have consisted mostly of artillery, armored personnel vehicles, naval boats, and aircraft. In recent years, arms deals with Sudan, Nigeria, countries in the Horn of Africa, and Zimbabwe, some involving military aircraft transfers, have drawn attention. From 2003-2006, China is estimated to have been the third largest exporter of 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. PRC military vehicles and equipment tend to be simple and rugged, making them attractive in African markets. China is reportedly a key supplier of a variety of cheap small arms in Africa, notably including generic AK-47-type assault rifles and police equipment.

U.S. Relations

The United States has diplomatic relations with each of the 48 countries in sub-Saharan Africa, and maintains embassies in 43 of them. It has also recently established diplomatic ties with the African Union; the AU and the United States both maintain ambassadors who are entirely devoted to supporting their mutual relations. African countries without U.S. embassies (Comoros, Guinea-Bissau, Seychelles, Sao Tome, and Somalia) are served by U.S. embassies in neighboring countries. African countries also host regular bilateral visits by U.S. officials, but top U.S. officials tend to visit Africa less frequently than do their Chinese counterparts. However, the Assistant Secretary of State for Africa, Jendayi Frazer, and other officials of the State Department's African Affairs Bureau, travel frequently to Africa, and are extensively engaged in U.S. diplomacy aimed at conflict mediation, democracy promotion and other issues.[293]

Under both Republican and Democratic administrations, U.S. policy toward Africa has generally emphasized five policy areas: democracy-building and adherence to human rights, including conflict mitigation; socioeconomic development; trade promotion; investment; and, to a lesser extent, environmental protection and management. Since early 2006, these objectives have been integrated into the U.S. Foreign Assistance Framework, which defines the goals of U.S. engagement with Africa, as well as other world regions. It is a part of the Bush Administration's "Transformational Diplomacy" policy agenda, which endeavors to use U.S. "diplomatic power to help foreign citizens better their own lives, build their own nations, and transform their own future."[294] Efforts to combat Africa's HIV/AIDS epidemic, authorized by the 2003 President's Emergency Plan for AIDS Relief (PEPFAR), have been a large priority as well.

The United States, together with other leading western donor governments, has also prioritized African development within the context of the G8 Group of countries, which have formed an entity called the Africa Partnership Forum (APF). It is made up of key donor governments, representatives of the African Union, Africa's eight regional economic communities, and a variety of multilateral intergovernmental organizations. It monitors how effectively policy and financial commitments to African developmental goals by donor and African governments and

[293] Key problems or countries that have received substantial engagement at the AS level in recent years include conflict mitigation and/or associated humanitarian crises in Sudan, Somalia, and eastern Democratic Republic of Congo (DRC); contested elections in Zimbabwe, Kenya, Nigeria, and the DRC and post-elections developments; and efforts to strengthen U.S. counter-terrorism security relations with countries in the Horn of Africa, especially in Ethiopia, while also promoting U.S. democratization, development and human rights goals in the region. The creation of the emergent U.S. Africa Command (see below) has also continued to engage Ms. Frazer.

[294] See State Department, *Congressional Budget Justification, Foreign Operations*, FY 2009. The Framework is a product of the "F Process," a component in the "Transformational Diplomacy" agenda, was an effort to "modernize and revitalize foreign assistance." It resulted in the creation in January 2006 of the Office of the Director of U.S. Foreign Assistance, the State Department's F Bureau. It is designed to meet the following objectives (in **bold**) and program areas (in *italics*): **Peace and Security**: *Counter Terrorism, Combating WMD, Stabilization Operations and Defense Reform, Counternarcotics, Transnational Crime, and Conflict Mitigation and Response*; **Governing Justly and Democratically**: *Rule of Law and Human Rights, Good Governance, Political Competition and Consensus-Building, and Civil Society*; **Investing in People**: *Health, Education, Social Services and Protection for Vulnerable Populations*; **Economic Growth**: *Macroeconomic Foundation for Growth, Trade and Investment, Financial Sector, Infrastructure, Agriculture, Private Sector Competitiveness, Economic Opportunity, and Environment*; and **Humanitarian Assistance**: *Protection, Assistance and Solutions, Disaster Readiness, and* Migration Management. The Framework divides countries into the following categorizes: *Rebuilding* (those in conflict or rebuilding after conflict); *Developing* (poor countries meeting limited developmental benchmarks); *Transforming* (low to middle income with substantial development achievements; *Sustaining U.S. Partnership* (relatively wealthier states that receive U.S. support to sustain bilateral partnerships, progress, and peace); and *Restrictive* ("states of concern" with significant governance issues). Most African states are in the first three categories.

governmental organizations are being pursued. It also looks for ways to improve or better coordinate such efforts, many of which revolved around meeting the U.N. Millennium Development Goals.

Unlike China's putative policy of "non-interference" in countries' internal affairs, under the Clinton and Bush administrations, U.S. policy in Africa has increasingly tied U.S. assistance to recipient countries' performance in meeting criteria relating to economic, governance, and human and political rights benchmarks. In Africa, as elsewhere, with some exceptions, U.S. non-humanitarian bilateral assistance is suspended automatically when undemocratic changes of government take place or when countries substantially fail to repay U.S. loans.

Most recent U.S. administrations, including the present one, have also emphasized the key role that trade and investment play in increasing Africa's long-term economic growth and development; reducing its need for foreign aid; and spurring democratization by empowering its people economically. U.S. trade with Africa is small, comprising in the range of 1-2% of U.S. global trade in most years, but is growing. Trade volumes are dominated by U.S. imports from Africa, but U.S. exports to Africa are also steadily growing. Just over 18% of U.S. oil comes from Africa, and oil makes up over 76% of the value of all imports from Africa. A primary vehicle for fostering trade is the African Growth and Opportunity Act (AGOA), enacted in 2000 and amended several times since. It provides duty-free treatment for most imports, and certain other trade capacity-building benefits. AGOA seeks to boost bilateral U.S.-African trade, spur African manufacturing export growth, and help integrate Africa into the global economy. It also seeks to foster African economic reform efforts, provide improved access to U.S. credit and technical expertise, and maintain a biennial high-level dialogue on trade and investment, the U.S.-sub-Saharan Africa Trade and Economic Forum. Forty African countries are AGOA-eligible. A variety of other programs also fund trade capacity building in Africa and the promotion of U.S. exports to Africa.

Following the September 2001 terrorist attacks upon the United States, security and military relations began to play an increasingly important role in U.S.-Africa official relations, particularly in the areas of regional and international peacekeeping mission assistance, peacekeeper training, and bilateral counter-terrorism (CT) cooperation. This increase followed a post-Cold War decline in arms sales and security cooperation. The United States has helped mediate ends to multiple African civil wars and crises. It has assisted in the deployment of multiple regional peacekeeping missions, and it substantially funds U.N. peacekeeping missions that have in most cases been subsequently deployed.[295]

The creation and dialogue over possible modes of regional deployment of the new U.S. military Africa Command (AFRICOM) has recently played a high-profile role in U.S.-African diplomatic

[295] Key U.S. policy goals in the region, underpinned by diverse types of assistance, are to consolidate peace and post-conflict democratic transitions in Liberia, the Democratic Republic of the Congo (DRC), Angola, Burundi, northern Uganda, Sierra Leone, southern Sudan, and elsewhere, and end conflicts in the Darfur region of Sudan, Somalia, eastern DRC. There are CT partnerships in the Sahel and East Africa, and U.S. Central Command maintains a regional oriented forward operating base in Djibouti, the Combined Joint Task Force-Horn of Africa (CJTF-HoA). The United States has assisted African Union and/or regional organizations to deploy troops in Sudan, several West African and Great Lakes countries, and elsewhere. It also provides support for support military restructuring and reform in countries emerging from conflict; capacity-building efforts for regional organizations; and peacekeeper training under the African Contingency Operations Training and Assistance (ACOTA), a program that provides country-tailored peacekeeping training and equipment to selected African countries and is part of the U.S. Global Peace Operations Initiative (GPOI) program.

relations. AFRICOM is being designed to include a significant State Department and USAID component, and to foster increased coordination between U.S. military and civilian foreign policy goals, though such ends have been the focus of some criticism. AFRICOM is being designed primarily to support U.S. strategic objectives by working with African states and regional organizations to strengthen regional stability and security through military professionalization and capacity building. CT programs and an emergent set of counter-narcotics programs will also be integrated into AFRICOM's mission.

Foreign Assistance

Chinese Assistance

China is providing an increasing amount of official development assistance (ODA, i.e., aid that is at least 25% *gratis*) to Africa, but the vast majority of Chinese "assistance" to Africa consists of a large and growing amount of state-backed commercial and bilateral credit that bolsters Sino-African trade and investment ties. This makes comparisons with U.S. development assistance difficult. Much Chinese credit is "tied"—that is, its recipients must agree to use such assistance to buy or accept goods, services, or credit from China. Tied aid was long a common feature of U.S. and European aid to Africa, but with some exceptions, in recent years many Western donor governments have begun to provide most of their assistance to Africa as grants. Levels of Chinese ODA are reportedly significantly lower than those of major developed country donor governments, but this is in part due to the manner in which China offers assistance. The PRC describes a variety of grants, interest-free bilateral state loans, and concessional, low-interest and market rate loans to and from state or state-owned enterprises (SOEs) that benefit or relate to Africa as "assistance," and these resources are often merged conceptually and in practice. In addition, there is a lack of public data about them. They are therefore difficult to reliably measure and disaggregate, reportedly even for the Chinese government. There are some reports that China may develop a unified official aid structure, which would allow China to more effectively measure and assess the amounts and effectiveness of its aid.

Aid Structure

Key sources of PRC "assistance" in Africa include the state-owned Export-Import (ExIm) Bank of China, which provides 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 activities by controlling the bidding and vetting processes for projects undertaken by PRC firms using soft loans. It also loosely regulates and aids these firms in Africa. The China Development Bank (CDB), a "development-oriented financial institution"supervised by the PRC State Council, the PRC's supreme administrative decision-making organ, administers the new China-Africa Development Fund. Functional ministries (e.g., Health, Education, Agriculture) deploy technical advisory and training teams to Africa. 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 Chinese assistance to Africa. Ministry of Foreign Affairs (MOFA) and MOC officials advise top decision-makers on African assistance policy and vet other agencies' projects. Aid policy guidance is provided by the State Council in coordination with the Communist Party's foreign affairs unit and the State Development and Planning Commission, which sets out PRC economic goals.

About 30% of China's bilateral treaties signed in 2005 and 2006 were with Africa. Most relate to economic, medical, and technical cooperation, or the provision of PRC loans or aid, but others pertain to legal, tax, and diplomatic ties. China's aid programs are designed to support goals of PRC foreign policy. Large projects often consist of integrated packages of bilateral, commercial, and military aid and/or political agreements. However, aid projects reportedly also tend to be designed and managed on a country-by-country basis, largely in the absence of a common defining functional or regional policy. This somewhat piecemeal approach appears driven by the large, operationally autonomous, and sometimes rival nature of the ministries and firms that execute PRC assistance projects, and by tensions between PRC foreign policy goals and the profit-driven incentive structure of the many Chinese firms that execute many PRC bilateral projects in Africa. PRC business activities that may conflict with or undermine PRC foreign policy goals in Africa pertain to working conditions; worker safety; pay levels; competition with African firms; environmental abuses; and alleged poor quality workmanship. The PRC is making some efforts to regulate Chinese firms in Africa and avoid such practices, but these are reportedly limited by bureaucratic barriers, conflicting chains of authority, and political rivalries among PRC institutions.

While PRC business and foreign policy goals may in some cases clash, in others they dovetail. PRC subsidies for SOEs, for instance, may prompt them to pursue projects that are economically inefficient, but accomplish long-term strategic PRC investment and commodity access goals. Such subsidies may allow commodity purchases at above market prices in order to guarantee supply, or foster unprofitable bids for projects that seek to curry favor for future contracts or better bilateral ties.

PRC African Aid Levels

Accurate, uniform data on PRC aid flows to Africa are not available. Educated guesses as to the total annual level of these flows range widely, in part because some try to break out ODA and non-ODA components, while others do not. Africanist scholar Deborah Brautigam reports that PRC foreign aid to Africa 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 that figure to estimate PRC ODA for Africa at $462 million in 2006 and $625 million in 2007. She 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.[296] However, as previously noted, much of China's assistance for Africa takes the form not of ODA but of a variety of cheap loans. Total outstanding Ex-Im 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. 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-Africa Development Fund. In 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. PRC ODA to Africa currently cannot be compared directly to ODA flows to Africa from other donors due to lack of data and because it is counted

[296] Deborah Brautigam, *China's Foreign Aid in Africa: What Do We Know?*, Conference on China in Africa: Geopolitical and Geoeconomic Considerations, September 2007 (Revised) and *China's African Aid: Transatlantic Challenges*, German Marshall Fund, 200.

differently; China reportedly only counts subsidized bilateral loan interest, for instance, while Western donors count such loans' full face value.

U.S. Assistance

Direct U.S. bilateral and regional assistance to Africa has steadily risen under the Bush Administration. The United States also provides assistance to Africa indirectly, through international aid and development organizations. Bilateral assistance supports the goals and program areas outlined under the Foreign Assistance Framework (see above under section on "U.S. Relations" with Africa). The allocation of such funding by account (funding levels) and by objective and program area (percentage share) is shown in **Tables 10** and **11**, below. In comparison to China, the United States provides most of its assistance to Africa in the form of conventional Official Development Assistance (ODA), rather than trade finance, export promotion or trade capacity building assistance. U.S. funding for such efforts is significantly lower than that from China, and is also much smaller than that for other types of U.S. development aid provided to Africa. Trade promotion and capacity building assistance has, however, grown steadily, from $80.8 million in 1999 to $504.8 million in 2007.

Most conventional U.S. development assistance to Africa is provided by USAID, as shown in the tables below. The Bush Administration, however, has provided an increasing amount of such aid under novel foreign aid mechanisms. Two signature, multibillion dollar bilateral assistance programs proposed by the Bush Administration and authorized and funded by Congress that have had a major impact in Africa are the President's Emergency Plan for AIDS Relief (PEPFAR) and Millennium Challenge Corporation projects.

PEPFAR

PEPFAR was enacted into law in 2003 as an initiative to provide $15 billion dollars over five years to combat HIV/AIDS, tuberculosis (TB), and malaria, with the majority of funding supporting AIDS programs. PEPFAR substantially benefits Africa, the global region most severely affected by AIDS, and thus represents a very large U.S. commitment to assist Africa in the areas of disease prevention, treatment, and care. From 2004 through 2008, the Congress appropriated approximately $17.4 billion for programs coordinated under PEPFAR, the largest single bilateral healthcare assistance effort globally. Of this amount, roughly $9.7 billion supports AIDS programs in sub-Saharan Africa. A high proportion of PEPFAR AIDS funding is channeled to 15 "Focus Countries" where the AIDS disease burden is very high, and 12 of these countries are in Africa. Over 90% of PEPFAR funding in Africa goes to them. The United States also provides AIDS funding to Africa through multilateral organizations, notably the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

MCC

The Millennium Challenge Account (MCA), proposed by President Bush in 2002 and authorized by Congress in 2004, is managed by the Millennium Challenge Corporation (MCC). It provides assistance to developing nations that must meet eligibility requirements related to governance, investments in people, and the fostering of entrepreneurship and free markets. There are two kinds of MCC programs: compacts, which are multifaceted, benchmarked development agreements that a recipient country agrees to carry out using MCC funding; and threshold programs, which support the efforts of qualifying prospective compact countries to formulate

compact proposals. Currently, the full amount of assistance to be provided in support of a multi-year compact is obligated when the compact is signed. Compacts worth a total of $3.1 billion and ranging from $109.8 million to $698.1 million each have been signed with Benin, Cape Verde, Ghana, Lesotho, Madagascar, Mali, Mozambique, and Tanzania. There are also threshold programs with Tanzania, Zambia, Kenya, Uganda, Niger, and São Tomé and Príncipe worth a total of $111.26 million. The MCC also funded threshold programs for several countries that now have compacts. In addition, Mauritania and Rwanda are threshold program-eligible, and Namibia and Senegal are compact assistance-eligible, but none of these countries have signed MCC assistance agreements.

Table 10. U.S. State Department Bilateral Assistance to Africa: Main Bilateral/Regional Accounts

($ Millions)

Program	FY 2007 Actual	FY 2008 Estimate	FY 2009 Request
Development Assistance (DA)	609.98	674.16	651.02
Economic Support Fund (ESF)	163.53	183.25	461.82
Democracy Fund (DF)		14.23	-
International Narcotics and Law Enforcement (INL)	19.7	21.64	37.38
Nonproliferation, Antiterrorism, Demining and Related Programs (NADR)	34.7	23.72	31.43
International Military Education and Training (IMET)	10.46	13	13.8
Foreign Military Financing (FMF)	14.82	6.46	12.55
Peacekeeping Operations (PKO)	107.5	130.22	104.25
Child Survival Health (CSH)	548.14	n.a.	580.42
Global HIV/AIDS Initiative (GHAI)	2279.2	Na	3169.58
Global Health and Child Survival (GHCS)	Na	3935.95	Na
PL. 480 Food Aid	1,222.88	220.94	235.5
Totals	**5,010.92**	**5,223.56**	**5,297.73**

Source: FY 2008 Section 653a Notification to Congress, except for NADR, CSH, GHAI, And P.L. 480, which are taken from the FY 2009 State Department Foreign Operations Congressional Budget Request.

Note: Africa also receives additional funding from several central functional accounts that are allocated to countries or regions throughout the year in response to need. P.L. 480 food aid is among these. It is likely that the full amount of food aid will rise in 2008. Several U.N. peacekeeping missions in African countries are also substantially U.S.-funded.

Table 11. U.S. Non-MCC Assistance by Foreign Policy Framework Objective/Program Area

(Percent)

Objective/Program Area	FY 2007 Actual	FY 2008 Estimate	FY 2009 Request
Peace and Security	**8.81**	**4.23**	**5.12**
Counter-Terrorism	*0.75*	*0.37*	*0.73*
Combating Weapons of Mass Destruction (WMD)	*8.79*	*n.a.*	*n.a.*
Stabilization Operations and Security Sector Reform	*7.53*	*3.44*	*3.71*
Counter-Narcotics	*3.8*	*0.03*	*0.03*
Transnational Crime	*0.04*	*0.02*	*0.06*
Conflict Mitigation and Reconciliation	*0.48*	*0.37*	*0.59*
Governing Justly and Democratically	**3.54**	**3.31**	**5.15**
Rule of Law and Human Rights	*0.71*	*0.59*	*0.78*
Good Governance	*1.25*	*0.95*	*1.88*
Political Competition and Consensus-Building	*0.71*	*1.2*	*1.49*
Civil Society	*0.87*	*0.57*	*0.99*
Investing in People	**59.32**	**83.01**	**77.33**
Health	*55.02*	*77.46*	*72.67*
Education	*3.62*	*4.99*	*4.08*
Social Services and Protection for Especially Vulnerable People	*0.68*	*0.56*	*0.58*
Economic Growth	**7.78**	**8.71**	**11.85**
Macroeconomic Foundation for Growth	*8.55*	*5.78*	*0.13*
Trade and Investment	*0.45*	*0.35*	*0.96*
Financial Sector	*0.25*	*0.2*	*0.32*
Infrastructure	*1.14*	*1.84*	*2.18*
Agriculture	*3.72*	*3.93*	*5.3*
Private Sector Competitiveness	*0.61*	*0.46*	*1.2*
Economic Opportunity	*0.2*	*0.46*	*0.4*
Environment	*1.4*	*1.46*	*1.36*
Humanitarian Assistance	**20.32**	**0.32**	**0.18**
Protection, Assistance and Solutions	*20.18*	*0.29*	*n.a.*
Disaster Readiness	*0.14*	*0.03*	*0.18*
Program Support	**0.22**	**0.43**	**0.37**
Program Support	*0.22*	*0.43*	*0.37*

Source: CRS Calculations based upon estimated amounts reflected in the State Department's Foreign Operations Congressional Budget Request for FY 2009.

Public Opinion

The United States is viewed favorably in much of Africa, according to a 2007 Pew global opinion poll and other polls.[297] Indeed, the United States is more popular in most African countries than in most other world regions. According to the same Pew poll, however, many Africans hold highly positive views of China and of the manner in which it is spreading its influence and engaging in Africa. In most countries, respondents viewed both Chinese and U.S. influence in their countries as substantial, but in many countries, they saw that of China as growing more rapidly than that of the United States. On average among all surveyed countries, 70% saw China's influence as growing more rapidly than that of the United States.

In the 2002 Pew Global Attitudes Survey, conducted in seven nations, the United States was favorably viewed by 74% of respondents. Five years later, in a 2007 survey of those same countries plus three others, it garnered a 72% favorable rating. Levels of support were divided along religious lines, with support measured in the mid-90th percentile among Christians but with favorable/unfavorable ratings roughly evenly divided among Muslims in Nigeria and Ethiopia, Africa's two most populous countries with sizable adherents of both religions. Tanzania's large Muslim and Christian populations were divided by only 8% on this measure, and both groups generally held less favorable views of the United States than respondents in many other countries. "American ways of doing business" were viewed more favorably in Africa than in any other world region, in several cases in the range of 74% or higher. In general, African Muslims viewed the United States more favorably than Muslims in other regions.

Majorities in most African countries believed that U.S. foreign policy does take the interests of countries like theirs into account. In all African countries surveyed except one (Cote d'Ivoire), support for the U.S.-led war on terror waned between 2002 and 2007, in some cases substantially, although Christian populations tended to view such efforts more favorably than Muslim ones. Opinions on whether U.S. troops should be withdrawn from Afghanistan and Iraq, however, differed substantially among countries surveyed. AIDS and infectious diseases were viewed most commonly by Africans as the leading global threat, which would indicate that substantial U.S. AIDS and heath sector assistance is likely to be viewed favorably and as highly relevant in Africa. The growing gap between the rich and poor was generally named by Africans as the second most pressing global threat, which would suggest that U.S. trade and development assistance are likely to be welcomed by Africans.

Across Africa, the impact of U.S. engagement in Africa is viewed positively in most countries, but substantially more respondents see the results of China's involvement in Africa as beneficial. An average of 78% of respondents in 10 African countries viewed Chinese influence as good, while 13% viewed it as bad. By comparison, 60% saw U.S. influence as good, and 27% saw it as bad. In several countries, favorable views of China were in the range of 10% to 20% higher than favorable views of the United States.

[297] See Pew Global Attitudes Project, 2007, op. cit; and, for instance, BBC World Service Poll, "Global Views of USA Improve," April 2, 2008

Middle East[298]

Chinese leaders have made a concerted effort to expand diplomatic and commercial relations with the Middle East and North Africa since the mid-1990s. As in other regions, growing commercial ties facilitated the development of closer political relationships between China and many of its Middle Eastern counterparts. State-owned and private Chinese firms have signed billions of dollars of construction, infrastructure, and technology contracts with regional counterparts over the last ten years, and Chinese leaders and diplomats have carefully cultivated a wider array of political relationships based on perceived mutual interests. While the United States remains the dominant external political and military actor in the Middle East, the decline in public support for U.S. policies in many Arab states and Chinese efforts to establish broad commercial linkages across the region have strengthened China's position relative to the United States in some non-official channels.

Figure 38. Map of the Middle East

Today, observers in the Middle East, Asia, the United States and Europe are increasingly referring to renewed ties between China and the Middle East as a revival of the old Silk Road, anchored by the long-term logic of Chinese demand for energy resources and desire in the Middle East for domestic and foreign investment opportunities. A shared focus on commercial development has helped stabilize these renewed ties in spite of potential political differences; as one analyst has observed, the governments of China and many of its Arab counterparts have demonstrated an

[298] Written by (name redacted), Analyst in Middle East Affairs.

"absolute lack of interest in interfering in one another's domestic policies."[299] China's non-interference approach has provided a stark contrast to the reform-oriented and at times interventionist policies pursued by the United States since 2001. Tang Zhichao, a researcher at the China Institute of Contemporary International Relations in Beijing, has argued that "China's development model is very popular in the Middle East and [Chinese] investment has helped lessen the region's dependence on the US."[300]

Cultural and Educational Exchanges

China's Cultural Diplomacy

As noted above, a long history of Chinese cultural and commercial interaction with the Middle East has given participants on both sides of the recent revival a rich selection of precedents and symbols to draw on when framing new relationships. The idea of a revival of the ancient Silk Road has proven to be the most popular of these symbols, but others, such as the 15th century naval voyages to the Middle East by a Muslim Chinese imperial explorer named Zheng He, also have reemerged as common reference points.[301] In order to build on these symbolic and historical linkages, Chinese and Arab leaders have incorporated cultural and educational programs into their broader commercial and diplomatic outreach efforts. The China-Arab Cooperation Forum (see below) has provided an umbrella for many of these programs, including Chinese efforts to train Arab managerial and technical personnel[302] and a three-week Arab Cultural Festival that was held in Beijing and Nanjing in 2006.[303] At the 2008 Forum ministerial meeting in Bahrain, China and its Arab counterparts announced plans to expand existing training programs and to alternate hosting arts festivals in the future. A series of follow-on conferences are planned through 2009.[304] In addition to the educational training offered under the auspices of the Forum, China also has offered scholarships to hundreds of Arab students studying computer technology, agriculture, medicine, and social sciences.[305]

Arab governments have made similar efforts to strengthen cultural and educational links to China. Saudi Arabia has created Chinese language study programs to prepare Saudis to work in the Jizan Economic City, where planned Chinese investments in aluminum production and other industries will create thousands of new jobs (see below). Saudi Arabia also has offered loans to support Chinese government education projects.[306] Arab television stations regularly feature Chinese

[299] Eamon Gearon, "Red Star in the Morning, Business Warming," *The Middle East*, July 2006, p. 28.

[300] Roula Khalaf, Richard McGregor and Sundeep Tucker, "How energy-hungry Beijing hews its Mideast links," *Financial Times* (UK), February 11, 2007.

[301] Qatar's Al Jazeera satellite television channel aired a three-part Chinese documentary about Zheng He in 2007 entitled "Zheng He's Voyages down the Western Sea."

[302] As of May 2008, China stated it had trained 1,500 Arab personnel in various fields. "PRC FM Yang Jiechi Makes Keynote Speech at China-Arab Forum in Manama 21 May," OSC Document - CPP20080522705002, May 22, 2008.

[303] *Xinhua* (Beijing), "China Boosts Arab Ties With Grand Arts Festival," June 24, 2006.

[304] Syria will host the second China-Arab Friendship Conference in October 2008 and Tunisia will host the third symposium on China-Arab civilization dialogue in 2009. "Chinese FM Wraps up Bahrain Tour With China-Arab Ties On a High," OSC Document - CPP20080522968328, May 22, 2008.

[305] "Yearender: China And Arab Nations' Cooperation Enters New Stage of Development," *Xinhua*, December 21, 2006.

[306] "Saudi Arabia To Offer 25 Mln USD Loan To Assist Education in northwest China," OSC Document - CPP20080107968158, January 7, 2008.

documentaries, and prominent Arab television networks like Al Jazeera have signed cooperation agreements with China's Central Television network (CCTV) covering training and program sharing.

U.S. Education Programs[307]

The U.S. government has long supported educational programs across the Middle East. There is no single U.S. government agency or office responsible for coordinating educational outreach in the Middle East. Instead, several agencies and initiatives both at the bilateral and multilateral levels focus on education. They include the following:

The Middle East Partnership Initiative (MEPI)[308]

MEPI is managed by the State Department's Partnership Initiative Office (PI), which oversees MEPI grants to foundations and non-governmental organizations. MEPI spends approximately 25% of its overall budget (approx $75 million in FY2007) on education reform programs. Since FY2002, MEPI has distributed small grants to fund English language and early reading programs, women's literacy initiatives, student exchanges, and Arabic books for elementary school children.[309] In general, MEPI programs tend to be relatively small with individual grants ranging from $500,000 to $5 million. Programs also tend to be focused on a regional scale rather than on one particular country.

USAID

The United States Agency for International Development (USAID) supports educational development and reform programs in Iraq, Egypt, Jordan, the West Bank and Gaza Strip, Lebanon, Morocco, and Yemen. In the education sector, USAID has identified three key challenges to educational development in the Middle East and Asia: (1) poor quality of education; (2) limited access to schooling for girls; (3) inadequate relevance of the type of content taught in many schools, specifically an over-reliance on religious education.[310] See **Table 12**.

According to USAID officials, the United States has helped fund the following textbook and curriculum reform programs in the Arab world:[311]

- Egypt—A book program for classroom libraries in primary schools in Alexandria will be modeled as a new National Book Program. USAID also helps sponsor the production of *Alam Simsim* (Sesame Street), which draws an annual audience of 3.5 million children.

[307] Written by Jeremy Sharp, Specialist in Middle Eastern Affairs.

[308] For an overview of the MEPI program, see CRS Report RS21457, *The Middle East Partnership Initiative: An Overview*, by (name redacted).

[309] For information on MEPI educational reform programs, see http://mepi.state.gov/c10126.htm.

[310] For details on specific USAID education programs in the Middle East and Asia, see http://www.usaid.gov/locations/asia_near_east/sectors/education/index.html.

[311] CRS analyst's conversation with USAID Asia and Near East Bureau, October 7, 2005.

- Jordan—USAID supports 100 public kindergartens, field-tests new curriculum, and is developing an accreditation system in partnership with the government of Jordan.
- Yemen—Teacher and student kits for more than 540 students and 37 teachers in grades 1-9 have been developed for dissemination.

ASHA Program

Through foreign operations appropriations legislation, Congress has funded the American Schools and Hospitals Abroad program (ASHA)[312] as part of the overall Development Assistance (DA) appropriation to USAID. According to USAID, ASHA is designed to strengthen self-sustaining schools, libraries, and medical centers that best demonstrate American ideas and practices abroad. ASHA has been providing support to institutions in the Middle East since 1957, including grants to the American University of Beirut and the American University in Cairo—two of the most prestigious higher education institutions in the region.

The Bureau of Education & Cultural Affairs

The State Department's Bureau of Educational and Cultural Affairs, now headed by Assistant Secretary of State Goli Ameris, an Iranian American, has received additional funding in recent years for outreach programs to the Middle East.[313] One such program, the Youth Exchange and Study (YES), was established in October 2002 to provide scholarships for secondary school students from countries with significant Muslim populations to spend up to one academic year in the United States. The Bureau also sponsors the West Bank Global Connections and Exchange Program, which assists schools in the West Bank communities of Ramallah, Bethlehem, and Hebron and brings Palestinian students to the United States to study at U.S. universities.

[312] According to USAID, recipients of ASHA grants on behalf of overseas institutions must be private U.S. organizations, headquartered in the United States, and tax-exempt. The U.S. organization must also serve as the founder for and or sponsor of the overseas institution. Schools must be for secondary or higher education and hospital centers must conduct medical education and research outside the United States. Grants are made to U.S. sponsors for the exclusive benefit of institutions abroad. See http://www.usaid.gov/our_work/cross-cutting_programs/asha/.

[313] For a complete program description, see http://exchanges.state.gov/.

Table 12. The FY2009 Budget Request for Education Reform in Arab Countries

($ millions)

Country/Program	Totals
Egypt	$72.6
Jordan	$19.5
MEPI	$16.0
Lebanon	$6.2
Morocco	$6.5
Yemen	$11.0
West Bank/Gaza	$11.6
Total	**$143.4**

Source: U.S. Department of State, Congressional Budget Justification FY2009.

Note: This table includes only a partial listing of U.S.-government-sponsored activities.

U.S. Public Diplomacy Efforts[314]

Since the September 11, 2001, terrorist attacks, many experts have stated that the fight against terrorism cannot be won using force alone; it must be accompanied by a sophisticated public diplomacy effort that seeks to counter anti-American views commonly found in the Arab world and in Muslim-majority countries. The 9/11 Commission Report also stressed that while U.S. public diplomacy, trade and cultural exchange, and international assistance programs are necessary, ultimately, it is U.S. policies in the region that fuel anger and resentment. According to the report, "Right or wrong, it is simply a fact that American policy regarding the Israeli-Palestinian conflict and American actions in Iraq are dominant staples of popular commentary across the Arab and Muslim world." Increasingly, public debate over how best to win the "struggle of ideas"in the Arab and Muslim world has shifted away from the "means" (policy instruments) and toward the "ends" (overall direction of U.S. policy). Critics charge that U.S. efforts to highlight its outreach and assistance to Muslim societies has been overtaken by the negative Arab and Muslim reaction to alleged human rights abuses, such as at Abu Ghraib and Guantanamo Bay. Furthermore, many Arabs and Muslims feel that the United States continues to place its strategic regional interests above those of human rights and democracy by insufficiently protesting alleged abuses committed by friendly regional governments under the guise of the war on terror or regional stability.

Evolution of U.S. Public Diplomacy Strategy in the Middle East

There has been a discernible shift in Administration strategy toward communicating with overseas Arab and Muslim audiences since 2005. Whereas the Administration's initial strategy following the terrorist attacks of September 11, 2001 focused on marketing "shared values" and promoting American culture, the U.S. State Department and the Broadcasting Board Governors (BBG) have focused more recently on engaging foreign audiences in a discussion and explanation of U.S. policies. This change in the U.S. approach toward public diplomacy may reflect

[314] Written by Jeremy Sharp, Specialist in Middle Eastern Affairs.

recommendations published in numerous government and independent reports over the past several years that have chronicled the shortfalls in previous U.S. public diplomacy strategy.[315] Critics asserted that former U.S. initiatives, such as the now-defunct "Hi" magazine, a U.S. State Department-financed monthly Arabic-language lifestyle magazine which was geared toward readers between the ages of 18 and 35, lacked depth and focused too heavily on U.S. popular culture and education, areas that are generally appreciated and respected by millions of young people in Arab and Muslim-majority countries.

As overall U.S. funding for public diplomacy has increased, policymakers have redirected U.S. efforts toward confronting pan-Arab media channels, such as the Qatari government-funded Al Jazeera, which has an admitted anti-American editorial slant to its broadcasts. In 2006, Under Secretary for Public Diplomacy and Public Affairs Karen Hughes instituted new programs, such as a Rapid Response Unit to counter negative media stories about the United States in the Middle East. Under Secretary Hughes also allowed diplomats and ambassadors to appear more frequently on stations like Al Jazeera to give interviews. In her testimony before the House Appropriations Committee in April 2007, Hughes noted that the U.S. presence on Arab media had increased by 30% since late 2006. Overall, some observers have praised the new direction in U.S. public diplomacy toward the region, while arguing that much remains to be done to overcome earlier setbacks. Others continue to highlight shortcomings and call for a redesigned policy.[316]

Diplomacy

Until the late 1990s, Chinese-Arab diplomatic relations were limited in scope, and focused on China's pursuit of diplomatic recognition, Chinese attempts to purchase advanced military technology from states such as Israel, and Middle Eastern governments' purchases of various arms systems from China.[317] China's economic growth and subsequent turn toward more active global diplomacy heralded an expansion of political relations with states across the Middle East, as in other regions. Many analysts have sought to explain the expansion of Chinese political relations in the Middle East as a function of China's growing demand for energy resources.[318] Chinese diplomats acknowledge their interest in developing energy linkages to the Middle East, but argue that the broadening of China's political relations in the region creates mutual benefits independent of increasing trade in energy resources.[319] China's leaders highlight their

[315] In addition to the 9/11 Commission Report, other relevant reports include the Center for Strategic and International Studies, "A Smarter, More Secure America," November 2007; and, the Government Accountability Office, "U.S. International Broadcasting: Management of Middle East Broadcasting Services Could Be Improved," GAO-06-762, August 4, 2006.

[316] Craig Whitlock, "U.S. Network Falters in Mideast Mission," *Washington Post*, June 23, 2008.

[317] For an overview of Chinese relations with the various governments of the Middle East from 1948 through 1994, see Lillian Craig Harris, "Myth and Reality in China's Relations with the Middle East," in Thomas W. Robinson and David L. Shambaugh (eds.), *Chinese Foreign Policy: Theory and Practice*, Oxford University Press, 1994, pp. 322-347. The author argues that during this long period, "all" Chinese policy changes toward the Middle East, "including arms sales and an end to calls for revolutionary armed struggle, mirror changes or conflicts in China's domestic political currents and economic priorities."

[318] See for example, "Energy First: China and the Middle East," *Middle East Quarterly*, Spring 2005, pp. 3-10, in which the author argues that "Chinese passivity in the region may end in coming years, as the Chinese government's need to achieve energy security forces a more active policy."

[319] "Beijing Qingnian Bao Interviews PRC Special Envoy Sun Bigan on Middle East Conflict," OSC Document, CPP20070803710008, August 3, 2007.

longstanding rhetorical support for Arab and Palestinian causes and the steady growth of mutual investment in non-energy related fields as indicators of their wider interest in the region.

China's diplomatic engagement with the Middle East region has grown through successive gestures, initiatives, and commitments. China's rhetorical support for nationalist causes in various regions was an established feature of its Cold War era diplomacy. During the 1990s, Chinese leaders began making stronger and more clear policy statements on controversial Middle East policy questions such as Israeli-Arab peace negotiations. Chinese leaders now frequently describe their public positions on the Israeli-Palestinian issue as being based on a belief in "the Palestinian people's just cause"[320] and the principle of "land for peace," while endorsing international benchmarks such as the Quartet Roadmap and a two-state solution to the conflict. At times, Chinese leaders have outlined regional policy differences with the United States in sharper terms, such as then Chinese President Jiang Zemin's 2002 statements in Iran that "Beijing's policy is against strategies of force and the U.S. military presence in Central Asia and the Middle East region," and that "one of the primary issues for China is to protect developing countries from the pretensions of the United States."[321] For the most part, however, China has sought to position itself as an honest broker on most issues, while facing challenge in balancing its interests with international expectations on issues such as the international confrontation with Iran over its uranium enrichment activities.

Rhetoric aside, the Chinese government created the position of special envoy to the Middle East in 2002 to provide a sustained, high-level, and agile Chinese diplomatic presence in the region. During his three years as the first Chinese special envoy, Ambassador Wang Shijie frequently visited Israel, the Arab states, and Iran.[322] His successor, current special envoy Ambassador Sun Bigan, also frequently visits the region and has enjoyed unprecedented access to regional leaders and multilateral summits organized by the Arab League. For example, he attended the recent Arab Summit in Damascus, which issued a resolution calling for closer relations between the Arab world and China. According to Ambassador Sun,[323] China's special envoys have worked to create a balance in which, "generally speaking, the Arab countries show support to China on the Taiwan issue, the Tibet issue and the issue of human rights" and, "China also supports the Arab countries' sovereignty, territorial integrity and legitimate national rights."[324] Prominent Chinese Foreign Ministry figures and members of China's national leadership have visited the region in support of agendas and initiatives involving trade, cultural exchanges, and political outreach. Leaders and ministers from the Middle East also have visited China with increasing frequency.

Chinese leaders have supplemented exchanges of visits by envoys and ministers with tangible commitments of Chinese military forces to regional peacekeeping operations in Lebanon and with initiatives designed to institutionalize China-Arab cooperation and consultation. A 182-member Chinese engineer battalion deployed to southern Lebanon in April 2006 in support of the long-running United Nations Interim Force in Lebanon (UNIFIL) mission. Following the summer 2006 war between Hezbollah and Israel in which one Chinese peacekeeper was killed and several

[320] "Transcript of PRC FM Spokesman News Conference," OSC Document - CPP20070104038001 January 4, 2007.

[321] Jean-Michel Cadiot, "Jiang ends five-nation tour, deploring expansion of US war on terror," *Agence France-Presse*, April 21, 2002.

[322] Wang Shijie had previously served as China's Ambassador in Bahrain, Jordan, and Iran.

[323] Sun Bigan had previously served as China's Ambassador in Saudi Arabia, Iraq, and Iran.

[324] "China Hopes To Further Expand Cooperation With Arab Countries," OSC Document - CPP20080327968208, March 27, 2008.

were wounded, China expanded its UNIFIL deployment, which focuses on mine and unexploded ordnance removal.

The China-Arab Cooperation Forum, first proposed in 2000,[325] was established in January 2004, at a joint press conference with China's then-Foreign Minister Li Zhaoxing and Arab League Secretary General Amr Moussa in Egypt.[326] The Forum brings together officials from China and the member states of the Arab League, who meet to discuss opportunities for cooperation in cultural, economic, and political fields. Since 2004, three biannual ministerial meetings of the China-Arab Cooperation Forum have been held, along with a number of other associated meetings. In May 2008, Chinese Foreign Minister Yang Jiechi told other attendees at the third biannual ministerial Forum meeting in Bahrain that, "China and Arab states are facing similar challenges and opportunities," and argued that, "China and Arab states should make joint efforts to push for a new partnership and achieve peaceful and sustainable development."[327]

Israel

Israel recognized the People's Republic of China in 1950, but formal diplomatic relations were not established until 1992. Israeli sales of advanced military technology to China have challenged U.S.-Israeli defense relations several times,[328] most notably with regard to Israel's attempt to sell the PHALCON early warning airborne radar system to China during the late 1990s.[329] Israeli-Chinese defense relations developed on the basis of Israel's interest in using overseas defense sales to support domestic defense industries and China's interest in acquiring advanced military technology unavailable because of U.S. and European bans. The most recent confrontation over Israeli military sales to China involved secret sales and planned Israeli upgrades of the Harpy unmanned aerial drone system, and resulted in a serious, though now resolved, freeze in some U.S.-Israeli defense technology cooperation.

Positive Chinese-Israeli defense relations have persisted in spite of harsh Chinese critiques of some Israeli policies and China's vocal support for Palestinian and Arab positions. China's overall approach to the Israeli-Palestinian conflict since the 1990s has called for Israel's security to be guaranteed and for a settlement to be reached on the basis of the principle of "land for peace." These positions are a significant departure from past policy, when China actively supported a variety of hard line Palestinian groups, including some that were involved in terrorism in the

[325] The Arab League Foreign Ministers' Council and then-Secretary General Esmat Abdel Meguid proposed "setting up an Arab-Chinese forum grouping intellectuals and senior officials from both sides." *Xinhua* (Beijing) "Arab League Chief Calls for Development of Arab-Chinese Relations," July 23, 2000.

[326] China's then-President Hu Jintao also announced four principles for Chinese-Arab cooperation to guide regional relations and define the Forum's work: "(1) to promote political relations on the basis of mutual respect; (2) to forge closer trade and economic links so as to achieve common development; (3) to expand cultural exchanges through drawing upon each other's experience; and, (4) to strengthen cooperation in international affairs with the aim of safeguarding world peace and promoting common development." *Xinhua* (Beijing) "China, Arab League issue communique on establishment of cooperation forum," January 30, 2004.

[327] "China's FM makes keynote speech at China-Arab forum in Manama, 21 May," *Xinhua* (Beijing), May 22, 2008.

[328] The final report of the United States House of Representatives Select Committee on U.S. National Security and Military/Commercial Concerns with the People's Republic of China, published in 1999, concluded that Israel "has provided both weapons and technology to the PRC [Peoples' Republic of China], most notably to assist the PRC in developing its F-10 fighter and airborne early warning aircraft." (p.26)

[329] P.R. Kumaraswamy, "Israel-China Relations and the Phalcon Controversy," *Middle East Policy*, Vol. XII, No. 2, Summer 2005.

1970s and 1980s. China invited Hamas government representatives, including then-Foreign Minister Mahmud al Zahar, to attend the second China-Arab Cooperation Forum in Beijing in 2006. Chinese officials meet regularly with Palestinian President Mahmoud Abbas.

Iran

Iran established relations with China in 1971 under Shah Mohammed Reza Pahlavi. Chinese energy imports and Iranian purchases of Chinese missile technology have anchored bilateral relations over the years, with the latter continuing to the chagrin of U.S. officials (see below). Iran was the second largest supplier of oil to China in April 2008, shipping an average of 523,000 barrels per day, which marked a 14% increase from April 2007 and made Iran the largest Middle Eastern oil exporter to China.[330] Chinese firms are now engaged in a range of development projects in Iran including infrastructure construction projects involving highways, industrial plants, the Tehran metro, and airport facilities. According to Chinese statistics, China-Iran trade rose 42% in annual terms to $20.589 billion in 2007.[331]

Iran is now perhaps the most significant political sticking point between the United States and China in the Middle East, as Chinese commercial interests have clashed with U.S. efforts to isolate Iran internationally and prevent further development of its uranium enrichment technology. Chinese investment in Iran's energy industry is the most significant example of this trend, as many in Congress and the Administration believe that investment in Iran's energy sector could provide the Iranian government with additional revenue generating ability that would limit the effectiveness of international financial sanctions. Several potential Chinese investments are currently under scrutiny. China's Sinopec agreed in December 2007 to a $2 billion investment agreement to develop the Yadavaran oil field in southwestern Iran. The overall purchase agreement could be worth over $100 billion.[332] The China National Offshore Oil Corporation (CNOOC) reportedly is close to confirming a $16 billion investment agreement to develop Iran's North Pars gas field, but reports suggest that a final deal has been delayed in part by "international sensitivity."[333]

The Bush Administration has clearly and repeatedly stated U.S. concerns about the North Pars deal. China's Foreign Ministry spokesman Liu Jinchao described the reported CNOOC deal as "nothing beyond a business deal between relevant enterprises," and argued that with regard to international nonproliferation efforts, "actions against Iran should not affect or impair normal economic and energy cooperation with Iran."[334] Speaking in China in April 2008, Iran's Deputy Foreign Minister for Economic Affairs Mohsen Talaie argued that, "Iran and China must cooperate more closely with one another and to consider it a duty to ward off the negative effects of third country's influence in their economic relations."[335]

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[330] *The Oil Daily*, "China's Crude Imports Sink," May 23, 2008.

[331] *Xinhua's China Economic Information Service*, "China's Trade with Iran in December 2007," March 5, 2008.

[332] *Energy Economist*, "No Fear of Sanctions: Sinopec Enters Iran," Volume 31, Issue 315, January 1, 2008.

[333] *Xinhua Financial Network (XFN) News*, "China's CNOOC Still in Talks with Iran on North Pars Gas Field - Source," April 2, 2008.

[334] Ministry of Foreign Affairs of the People's Republic of China. "English Transcript of PRC FM Spokesman News Conference," February 28, 2008.

[335] IRNA (Tehran), "New Phase in Economic Ties Between Iran and China Begun - Deputy FM," April 11, 2008.

Chinese military cooperation with Iran also has proven to be a recurring problem in U.S.-China relations. China reportedly has provided Iran with anti-ship cruise missile and ballistic missile technology along with related technical assistance.[336] Although China agreed to halt missile cooperation with Iran in the mid-1990s, some Chinese-Iranian military cooperation on missile programs reportedly has continued, and the Administration has sanctioned Chinese firms for supporting Iran's ballistic missile development programs in recent years.[337] The broader implications of Chinese support for Iranian missile development have come into greater focus since 2006, when the Lebanese militia and terrorist group Hezbollah reportedly fired a Chinese manufactured C-802 anti-ship missile that struck an Israeli warship off the coast of Lebanon. The presence of similar C-802 missiles along the Iranian coast remains a source of significant concern with regard to naval and oil transport security in the Persian Gulf and around the strategic Strait of Hormuz, through which tankers carrying close to 17 million barrels of oil pass every day.

Saudi Arabia

China and Saudi Arabia established diplomatic relations in July 1990; previously, Saudi Arabia had recognized Taiwan. During the Cold War, Saudi wariness about engagement with communist countries and Chinese views of the Saudi monarchy as reactionary prevented the development of closer political ties. Nevertheless, limited military cooperation proved mutually beneficial, most notably in the sale of approximately 36 intermediate range CSS-2 ballistic missiles to Saudi Arabia in 1987 during the Iran-Iraq war. The sale took most observers by surprise and prompted the United States to seek guarantees from Saudi Arabia regarding the storage and deployment of the missiles.

Chinese-Saudi political relations have expanded since the late 1990s in an atmosphere of growing energy and commercial cooperation. In 1999, China's then-President Jiang Zemin was the first Chinese head of state to visit Saudi Arabia. King Abdullah bin Abd Al Aziz pointedly chose China as his first overseas destination as king in January 2006; Chinese President Hu Jintao subsequently visited Saudi Arabia directly after a visit to the United States in April 2006. Some observers have suggested that Chinese leaders may see ties with Saudi Arabia as beneficial to their efforts to counter terrorism and to influence developments within the Muslim populations in China's western provinces.

Mutual investment has linked the Saudi and Chinese economies in new ways: the Aluminum Corporation of China (Chalco) is a leading investor in a multi-billion dollar aluminum production project in one of the Saudi Arabia's new economic cities near Jizan; China's Sinopec has drilled for natural gas in Saudi Arabia's Empty Quarter; and Saudi Aramco also has invested in a large refinery and petrochemical facility in China's Fujian province designed specifically to use sour or high-sulfur content Saudi oil.[338] Saudi Aramco and Sinopec signed a memorandum of

[336] For background information on Chinese missile sales to Iran see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*, by (name redacted).

[337] Chinese firms are targeted under Executive Order 13382, which blocks the assets of entities supporting the proliferation of weapons of mass destruction and the development of missiles capable of delivering WMD. See for example, U.S. Department of the Treasury, "JS-4317: Treasury Designates U.S. and Chinese Companies Supporting Iranian Missile Proliferation," June 13, 2006, available at http://www.treas.gov/press/releases/js4317.htm. On June 19, 2008, the U.S. Treasury Department removed the Great Wall Industry Corporation of China from the E.O. 13382 designation list after concluding that the company "has implemented a rigorous and thorough compliance program to prevent future dealings with Iran."

[338] Fujian Petrochemical, a 50:50 joint venture between Sinopec and the Fujian government, holds a 50 percent stake, (continued...)

understanding in 2006 that calls for Saudi Aramco to provide 1 million bpd to Sinopec and its affiliates by 2010.[339] Nevertheless, Saudi oil shipments to China in April 2008 amounted to 434,000 barrels per day, a 31% decrease over April 2007.[340]

Iraq

Iraq recognized China in 1958, and during the Saddam Hussein era, China and Iraq enjoyed close political and commercial relations, supported by Chinese imports of Iraqi oil and Chinese exports of weaponry and industrial goods. During the 1990s, China often opposed the continuation and strengthening of United Nations sanctions against Iraq, and several allegations of sanctions violations by Chinese firms created challenges for U.S.-China relations during the late 1990s and the early months of President Bush's first term in 2001. In 1997, Iraq rewarded China for its support with a $1.3 billion contract to develop the Al Ahdab oil field on a production sharing basis. Although China did not act to develop the field, the contract was seen as indicative of the quid pro quo relationships Saddam sought to build with China and other international powers.

China opposed the U.S.-led war in Iraq in 2003, but has not worked to undermine U.S. policy efforts since that time. Rather, China has sought to reestablish a solid relationship with the new Iraqi government; most observers argue that China is seeking to preserve and extend its access to Iraqi oil resources under the new administration. Since 2007, Chinese officials and Iraqi Oil Ministry representatives have been negotiating terms for the reactivation of China's former Al Ahdab concession. China also has agreed to forgive a substantial, but as yet undefined portion of Iraqi debt.[341] China reportedly holds $5.8 billion in Iraqi debt.[342]

Foreign Assistance

Chinese Foreign Assistance

China does not publicize the total amounts of foreign assistance it gives to individual countries. Available public reports suggest that China's foreign assistance to Middle Eastern countries remains limited, particularly in comparison with the sizeable, long-established foreign assistance programs administered by the United States. As in other regions, China has provided both grant assistance and low interest loans to regional governments to support a variety of projects. The primary beneficiaries of these programs have been countries without significant oil or gas reserves, such as Jordan, although some oil exporters such as Syria have received assistance. China's assistance activities in the region are targeted toward individual training or infrastructure investment projects rather than multi-year development or military assistance programs. The

(...continued)

Saudi Aramco and ExxonMobil each have 25% stakes. *Middle East Economic Digest*, "Aramco signs enlarged Chinese refinery deal" Volume 51, Number 9, March 2, 2007.

[339] *Platts Commodity News*, "Saudi, China sign MOU to enhance oil, petrochemical cooperation," April 23, 2006.

[340] *The Oil Daily*, "China's Crude Imports Sink," May 23, 2008.

[341] In May 2007, Chinese Foreign Minister Yang Jiechi stated that "the Chinese government is ready to substantially reduce and forgive the debts owed by Iraq. In particular, it will forgive all the debts owed by the Iraqi government." To date, no further debt forgiveness arrangements have been announced. *Xinhua* (Beijing), "China to grant Iraq 50 million yuan in aid this year: FM," May 3, 2007.

[342] *Agence France Presse*, "China to forgive most Iraq debt if given greater role in rebuilding," February 29, 2004.

projects are usually administered according to the terms of one-time agreements signed between the recipient government and China, and appear to respond to specific needs and requirements outlined by the recipient country. For example, Egypt has accepted several small low interest loans from China to facilitate textile industry development and investment promotion facilities. Jordan has accepted grant and loan assistance for small budget projects ($1-3 million) related to water infrastructure, information technology, and school equipment. Morocco has received low interest loans for dozens of public works projects, including dam construction. As noted above, China also offers training to hundreds of professionals, academics, and government officials from the Middle East in a number of fields under the auspices of the China-Arab Cooperation Forum and other outreach initiatives.

U.S. Foreign Assistance[343]

In contrast, the United States remains the leading provider of foreign assistance to many governments in the Middle East, including Israel, Egypt, Jordan, and the Palestinian Authority, the largest recipients of U.S. assistance in the region. U.S. assistance programs support a wide range of development initiatives, military training programs, and reform efforts in nearly every country from Morocco to the Persian Gulf. Multi-billion dollar annual assistance programs for Egypt and Israel have supported the consolidation of the Camp David Peace Treaty since 1979. See **Table 13**.

Public Opinion

China's attempts to portray itself as an honest broker with regard to several controversial international issues in the Middle East appears to be designed in part to improve its public image in the region relative to the United States. Chinese diplomacy and rhetoric does not regularly draw specific contrasts to the United States, but seeks to position China as a defender of principles of self-determination, non-interference in domestic affairs, apolitical commerce, and solidarity with nationalist causes. To the extent that some regional interest groups and populations favor these approaches, China is likely to win supporters that are unwilling to embrace the United States. Among groups and individuals that are critical of regional governments that China enthusiastically embraces or governments to whom the United States provides assistance, China is unlikely to be able to improve its image relative to the United States.

Limited polling data is available to facilitate analysis of the relative views of the United States and China across the Middle East. The data included below indicates that in some countries China enjoys a relative advantage in its public image, including in some countries where U.S. assistance programs substantially exceed those of China. Future policy choices by China and the United States, particularly with regard to the U.S. military presence in Iraq, the Israeli-Palestinian conflict, and the international confrontation with Iran will likely have significant implications for the relative public images of both powers. See **Table 14**.

[343] For more information, see CRS Report RL32260, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2009 Request*, by (name redacted).

Table 13. A Decade of U.S. Assistance to the Middle East: FY2000-FY2009 Request

(regular and supplemental appropriations; current year $ in millions)

Fiscal Year	Totals
FY2000	6,648.300
FY2001	5,617.700
FY2002	5,567.810
FY2003	8,410.000
FY2004	5,556.383
FY2005	5,752.111
FY2006	5,205.801
FY2007	5,650.812
FY2008 Estimate[a]	5,236.322
FY2009 Request	5,127.133

a. Does not include possible supplemental requests for additional assistance.

Including funds for Iraq Reconstruction:

Fiscal Year	Totals
FY2000	6,648.300
FY2001	5,617.700
FY2002	5,567.810
FY2003	10,646.000
FY2004	23,995.383
FY2005	11,448.727
FY2006	10,615.501
FY2007	7,767.074
FY2008 Estimate[a]	5,257.499
FY2009 Request	5,524.133

a. Does not include possible supplemental requests for additional assistance.

Source: Table prepared by Jeremy Sharp, Specialist in Middle Eastern Affairs.

Table 14. Views of China and the United States in the Middle East (Selected Countries), 2007

	Views of China		Views of the United States	
	% Favorable	% Unfavorable	% Favorable	% Unfavorable
Lebanon	46	48	47	52
Turkey	25	53	9	83
Jordan	46	49	20	78
Egypt	65	31	21	78
West Bank and Gaza	46	43	13	86
Israel	45	45	78	20
Morocco	26	30	15	56
Kuwait	52	17	46	46

Source: Pew Global Attitudes Project, *Global Unease with Major World Powers*, June 27, 2007. Based on Pew telephone and face-to face surveying in April and May 2007; sample sizes for Middle East countries ranged from 500 to 1,000.

Latin America[344]

While China's economic and other elements of soft power with Latin American and Caribbean countries have grown tremendously in recent years, such U.S. linkages with the region are far greater, largely because of geographic proximity and extensive historical and cultural ties. Compared to China's relations with Southeast and Central Asia, security and strategic concerns have not played a significant role in China's relations with Latin America. China is cognizant of U.S. sensitivity over China's increasing involvement in a region traditionally viewed as in the U.S. sphere of influence. As in other regions, China-Latin America relations have deepened because of economic interests on both sides, while both China and Latin America also have a shared interest in promoting the notion of a multipolar world. Moreover, as noted below, China's competition with Taiwan for diplomatic recognition, particularly in the Caribbean and Central America, has been a major driver in its interest in the region.

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. Beijing's additional goal is to isolate Taiwan by luring the 12 Latin American and Caribbean nations that still maintain diplomatic relations with Taiwan (half of all nations in the world that recognized Taiwan) to shift their diplomatic recognition to China.

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.

[344] Written by (name redacted), Specialist in Latin American Affairs.

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. A study that examined the U.N. voting records of several major Latin American countries—Argentina, Brazil, Chile, Mexico, and Venezuela—between 1991 and 2003 concluded that the increased Chinese trade with the region in recent years has had no discernable effect on the voting behavior of these nations.[345] 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 limited by the advantages conferred to the United States by its 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. For example, remittance flows to the region amounted to almost $67 billion in 2007 (with three-quarters from the United States)—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.[346]

In its policy toward Latin America, China has been careful not to antagonize the United States, and appears to understand that the United States is sensitive to Chinese 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.[347] Even China's 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.[348] Moreover, China reportedly has concerns that Venezuelan President Hugo Chávez's efforts at spreading his populist agenda to other countries in the region could unleash instability and ultimately be detrimental to Chinese trade and investment interests in the region.[349]

[345] Jorge Domínguez, "China's Relations with Latin America: Shared Gains, Asymmetric Hopes," Inter-American Dialogue, Working Paper, June 2006.

[346] Inter-American Development Bank, Multilateral Investment Fund, "Remittances 2007: A Bend in the Road, or a New Direction?" March 2008.

[347] 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, pp. 854-858.

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

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

Figure 39. Map of Latin America

Source: Map Resources. Adapted by CRS.

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 state-sponsored 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.[350] 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

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

could also provide the country with new opportunities to collect intelligence data against U.S. forces operating in the region.[351]

Cultural and Educational Exchange Activities

China's Activities

People-to-people contact between China and Latin American and Caribbean countries has been growing in recent years, although it is sill very small compared with widespread U.S. exchanges. In 2006, China established the first Confucius Institute in the region, in Mexico City, with the goal of promoting Chinese language and culture. There is now a second Confucius Institute in Mexico, one in Colombia, and three in Peru. There are almost 100 sister-city relationships between Chinese cites or provinces with their counterparts in 15 countries in the region.[352]

Over the past five years, China has designated 17 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 tourists a year by 2020. Cuba was the first country in the region to receive such status in 2003. Since 2005, 16 more countries in the region have been so designated: Mexico; the South American countries of Argentina, Brazil, Chile, Peru, and Venezuela; the Caribbean nations of Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Guyana, Jamaica, Suriname, and Trinidad and Tobago; and most recently the Central America country of Costa Rica, which switched diplomatic relations from Taiwan to the PRC in 2007. While Chinese tourism to Latin America to date has not been significant, this could change given the recent tourism agreements with the region[353] as well as the marketing campaigns undertaken by various nations in the region to attract Chinese tourists.

U.S. Activities

U.S.-government sponsored cultural and educational exchanges with the region have been going on for some time and are extensive. Between 1985 and 1996, the U.S. Agency for International Development (USAID) offered a scholarship program, the Caribbean and Latin American Scholarship Program, for more than 23,000 students from the region to receive academic or technical training in the United States. A second ongoing USAID program also began in 1985, the Cooperative Association of States for Scholarships, which has provided two-year scholarships to more than 5,000 disadvantage students and rural professionals from Central America, Haiti, and Mexico.[354] The Fulbright Program provides for the exchange of scholars, students, teachers, and professionals, with several hundred scholarships awarded each year for students from Latin America and the Caribbean to study in the United States, and for U.S. scholars and professionals to study and teach in the region. The Bush Administration launched a Partnership for Latin

[351] 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.

[352] Shixue Jiang, "Three Factors in the Recent Development of Sino-Latin American Relations," in *Enter the Dragon? China's Presence in Latin America*, Cynthia Arson, Mark Mohr, and Riordan Roett eds., with Jessica Varat, Woodrow Wilson International Center for Scholars and SAIS, 2007.

[353] He Li, p. 848.

[354] See CRS Report RS22778, *Overview of Education Issues and Programs in Latin America*, by (name redacted).

American Youth in 2007 to bring non-elite students from the Latin America and the Caribbean to study in U.S. community colleges.[355] The State Department sponsors an International Visitor Leadership Program that brings hundreds of professionals from the region to meet with their counterparts in the United States, as well as Citizen Exchanges, with three current projects funded in the region. U.S. cities and counties currently maintain sister-city relationships with 336 counterparts in 13 Latin American and Caribbean countries, with over 70% of these with cities in Mexico.[356]

In addition to government-sponsored exchanges, the United States remains a major destination for foreign students from Latin America and the Caribbean. Overall, almost 16% of the U.S. nonimmigrant visas for students and exchange visitor and their families in 2006 were from Latin America and the Caribbean, more than 183,000 visas.[357] In terms of tourism, while China has approved many Latin American and Caribbean countries as approved tourist destinations, geographic proximity ensures that Latin American and Caribbean countries will continue to be the destination for millions of U.S. tourists each year. Language programs abound for U.S. students visiting the region, and many U.S. universities have accredited programs abroad for students to study in Latin American and Caribbean schools.

Diplomacy

China's Relations

There are two main drivers in China's expansion of its relations with Latin American and Caribbean countries: competition with Taiwan for diplomatic recognition, particularly in the Caribbean and Central America; and strengthened relations with resource-rich countries in the region that could help feed China's resource needs and expanding economy. PRC diplomatic overtures in Latin America also promote China's efforts to foster relations with other developing countries worldwide and further South-South cooperation.

For a number of years, China, with some success, has been trying to woo countries away from recognizing 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 currently maintain relations with Taiwan (see **Table 15**), a disproportionately large percentage compared with other regions. 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. In late April 2008, President-elect Fernando Lugo in Paraguay announced that his government, which takes office in August, would like to establish diplomatic relations with China.[358]

[355] U.S. Department of State, FY2009 Department of State Congressional Budget Justification.

[356] Sister Cities International, website available at

[357] U.S. Department of Homeland Security, *Yearbook of Immigration Statistics, 2006*, Table 29.

[358] "Paraguay's Lugo Announces China Switch," *LatinNews Daily*, April 23, 2008.

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). Taiwan's promises of assistance to the new UWP government included support for public health, education (including the provision of computers and scholarships), and development of the agricultural sector.

Table 15. 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[a]

a. President-elect Fernando Lugo, who takes office in August 2008, announced after his election in April that his government would establish relations with China.

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, Jamaica, and Peru.[359] 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.[360]

The PRC's ability to develop and expand contacts 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.

[359] Jorge Domínguez, "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.

[360] Domínguez, p. 22.

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 established 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 nations (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.

Since Chinese President Jiang Zemin visited Latin America in 2001, high-level visits by senior Chinese officials to the region have been common as have visits by Latin American heads of state to China. Chinese President Hu Jintao's visits to the region in 2004 and 2005 prompted widespread interest in both Latin America and the United States regarding China's growing presence in Latin America. President Hu plans to visit once again in November 2008, when Peru hosts the annual APEC summit.

U.S. Relations

U.S. interests in Latin America and the Caribbean are diverse, and include economic, political and security concerns. Geographic proximity has ensured strong economic linkages between the United States and the region, with the United States being the major trading partner and largest source of foreign investment for most countries in the region. Free trade agreements with Mexico and Canada, Chile, Central America and the Dominican Republic (CAFTA-DR), and Peru have augmented U.S. economic linkages with the region. The region is also the largest source of migration, both legal and illegal, with geographic proximity and economic conditions in the region being major factors in the migration. Curbing the flow of illicit drugs from Mexico and South America into the United States has been a key component of U.S. relations with Latin America for almost two decades. Latin American nations, largely Venezuela and Mexico, supply the United States with over 30% of its imported crude oil.

The United States maintains full diplomatic relations with 32 of the 33 independent nations in Latin America and the Caribbean. The exception is Cuba, but even here the United States and Cuba maintain Interest Sections in each other's capitals and, despite comprehensive U.S. economic sanctions on Cuba, the United States is Cuba's fourth most important import market because of the exception to the embargo that allows for the export of agricultural products to Cuba.

The United States has remained engaged with Latin American and Caribbean nations since its early history when the United States proclaimed the Monroe Doctrine in 1823 warning European

nations not to interfere with the newly independent nations of the Americas. The region has often been described as America's backyard, and extra-hemispheric incursions into the region have met with U.S. opposition. During the Cold War, for example, the United States confronted the Soviet Union over its attempt to install nuclear weapons in Cuba in 1962, and helped nations in the region fight Soviet and Cuban-backed insurgencies and revolutionary regimes in the 1980s.

In the aftermath of the Cold War, the United States initiated a summitry process with hemispheric nations that advanced regional cooperation in a wide range of areas such as trade, energy, the environment, and anti-corruption, counternarcotics and anti-terrorism efforts. The first Summit of the Americas was held in 1994, while there have been three subsequent summits, the last in 2005 held in Argentina, and two special hemispheric summits on sustainable development and on economic, social, and political challenges facing the region. The Fifth Summit of the Americas is planned for April 2009 in Trinidad and Tobago.

The OAS remains the key multilateral forum in the hemisphere, and the United States remains committed to working through the OAS to resolve regional problems and engage Latin American and Carribean nations on topic of hemispheric concerns.[361] The United States—a key player in the OAS—contributes some 59% of regular OAS funding, and also has contributed millions for specialized OAS programs such as the Unit for the Promotion of Democracy and the Inter-American Drug Abuse Control Commission.[362] The United States also plays a key role in international financial institutions such as the World Bank, the International Monetary Fund, and the IDB that provide considerable financial support and development financing for the region.

In the aftermath of the Cold War, U.S. policy interests in Latin America and the Caribbean shifted away from security concerns and focused more on strengthened economic relations, but the September 2001 terrorist attacks in the United States resulted in security interests re-emerging as a major U.S. interest. As a result, bilateral and regional cooperation on anti-terrorism efforts have intensified. The Bush Administration has described the Caribbean region as America's third border, with events in the region having a direct impact on the homeland security of the United States. Cooperation with Mexico on border security and migration issues has also been a key component of the bilateral relationship.

Despite the tensions in U.S. relations with Venezuela over the past several years, overall the United States remains fully engaged with Latin American and Caribbean nations. High-level visits are the norm between the U.S. and countries in the region. President Bush has visited the region eight times during his presidency, including six trips to Mexico and travel to nine other countries in the region. U.S. Cabinet-level and other high-levels visits to the region are common as are visits by Latin American and Caribbean heads of state and other officials to the United States.

[361] U.S. Department of State, "The U.S. and the Organization of American States," available at http://www.state.gov/p/wha/rt/oas/.

[362] See CRS Report RS22095, *Organization of American States: A Primer*, by (name redacted).

Foreign Assistance

China's Foreign Aid

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.[363] 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.[364]

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. 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 increased trade and investment was the primary rationale for the switch to China. 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.[365] 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.[366] 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.[367]

[363] 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.

[364] He Li, p. 847.

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

[366] 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.

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

In 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.[368] The Chinese contribution to the fund, made in February 2008, reportedly will be paid back by Venezuela with fuel oil.[369]

U.S. Foreign Aid

While the lack of data on Chinese foreign assistance (excluding state-sponsored investments) going to the region makes it difficult to compare Chinese and U.S. assistance, 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.[370]

The United States maintains a variety of foreign assistance programs in Latin America and the Caribbean that are designed to achieve a variety of goals, from poverty reduction to economic growth. (See **Table 16**.) Aid to the region increased during the 1960s with the Alliance for Progress, while during the 1980s aid to Central America increased as leftist insurgencies were battling governments friendly to the United States and where a leftist movement in Nicaragua had taken control of the government.[371] Since 2000, U.S. assistance has largely focused on counternarcotics efforts, especially in the Andean region, although the Administration has requested over $1 billion in assistance for Mexico and Central America in the Mérida Initiative that would increase security cooperation to combat the threats of drug trafficking, transnational crime, and terrorism. The United States has also sponsored thousands of Peace Corps throughout Latin America and the Caribbean; there are currently some 2,300 volunteers working in 22 countries in the region. The Inter-American Foundation, an independent agency established in 1969, provides funding to nongovernmental and community-based organizations for self-help projects; currently the Foundation sponsors grassroots development project in 15 countries in the region.

The Bush Administration's FY2009 foreign aid request for Latin America is for $2.05 billion, compared to an estimated $1.47 billion provided in FY2008 (not including a $550 million FY2008 supplemental request not yet acted upon) and $1.55 billion provided in FY2007. The FY2009 request reflects an increase of almost 40% over that being provided in FY2008. However, if Congress funds the $550 million FY2008 supplemental request for the Mérida Initiative for Mexico and Central America, the FY2009 request would be only slightly higher than the overall amount of $2.02 billion that would be provided in FY2008.

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

[369] "Venezuela, China Deposit $6 Bln in Development Fund—Chávez," *Dow Jones Chinese Financial Wire*, February 21, 2008.

[370] Organization for Economic Cooperation and Development, *Geographical Distribution of Financial Flows to Aid Recipients, 2001-2005*, 2007, p. 260.

[371] See CRS Report RL34299, *U.S. Foreign Assistance to Latin America and the Caribbean: FY2006-FY2008*, by (name redacted) et al.

Table 16. U.S. Foreign Aid to Latin America and the Caribbean FY2007-FY2009, by account

(U.S. $ thousands)

Account	FY2007 (actual)	FY2008 (est.)	FY2008 supplemental (request)	FY2009 (request)
DA	238,800	240,427	—	356,570
CSH	138,823	134,201	—	105,518
ESF	124,221	406,413	—	281,566
INCLE	57,328	87,763	550,000	605,551
ACP	660,465	319,848	—	406,757
NADR	10,675	12,141	—	14,045
IMET	12,772	11,389	—	12,574
FMF	102,790	66,249	—	92,531
P.L. 480	101,158	76,957	—	61,500
GHAI	105,941	112,000	—	112,000
Total	1,552,973	1,467,388	550,000	2,048,612

Source: U.S. Department of State, Congressional Budget Justification for Foreign Operations, FY2009.

Notes:
DA = Development Assistance
CSH = Child, Survival, and Health
ESF = Economic Support Funds
INCLE = International Narcotics Control and Law Enforcement
ACP = Andean Counterdrug Program
NADR = Non-proliferation, Anti-terrorism, Demining, and Related Programs
IMET = International Military Education and Training
FMF = Foreign Military Financing
GHAI = Global HIV/AIDS Initiative

U.S. support to counter the HIV/AIDS epidemic in the region has increased significantly in the past several years, with both Guyana and Haiti designated as focus countries under the President's Emergency Plan for AIDS Relief (PEPFAR). For FY2009, the Administration has requested $143 million in assistance to combat HIV/AIDS in the region. In addition to direct bilateral assistance, the United States also provides contributions to multilateral efforts, such as the Global Fund to Fight AIDS, Tuberculosis, and Malaria, which provides assistance to many countries in the region.

Looking at the top foreign aid recipients in the region, five countries—Colombia, Mexico, Haiti, Peru, and Bolivia—account for the lion's share of U.S. assistance going to Latin America; about 73% of the FY2009 request for the region will go to these five countries (see **Table 17**). As it has been for the past eight years, Colombia is the single largest aid recipient in the region, with U.S. efforts supporting Colombia's counternarctics and counterterrorism efforts; in the FY2009 foreign aid budget request, the country would receive about $543 million or about 26% of assistance going to the region. The United States has not traditionally provided large amounts of foreign assistance to Mexico, but the FY2009 requests includes almost $501 million, accounting for about 24% of aid to the region, with almost $478 million of that under the Mérida Initiative that would increase security cooperation with Mexico to combat the threats of drug trafficking,

transnational crime, and terrorism. Assistance to Haiti has increased significantly over the past several years as the United States provides support to the Préval government. The FY2009 request for Haiti is for almost $246 million, or about 12% of assistance to the region. Peru and Bolivia have received significant assistance over the past eight years under the Andean Counterdrug Initiative, now known as the Andean Counterdrug Program. In the FY2009 request, Peru would receive $103 million and Bolivia $100 million.

Public Opinion

As in many parts of the world, the image of the United States has declined in Latin America over the past several years. According to a 2007 study by the Pew Research Center, favorable views of the United States have declined in the region, with sharp declines in several countries. Among seven countries surveyed in 2007, Argentina had the lowest favorable view of the United States, just 16%, while in two countries, Bolivia and Brazil, less than half the population, 42% and 44% respectively, had favorable views of the United States. In four other countries surveyed, however, a majority of the populations had positive views of the United States: Chile, 55%; Mexico, 56%; Peru, 61%, and Venezuela, 56%. While it might seem strange to see Venezuela in this category given the poor state of U.S.-Venezuelan relations, the 2007 figure actually reflects a 33% drop from the year 2000.[372]

Table 17. Top Five U.S. Foreign Aid Recipients in the Western Hemisphere, FY2007-FY2009

(U.S. $ thousands)

Country	FY2007 (actual)	FY2008 (estimate)	FY2008 supplemental (request)	FY2009 (request)
Colombia	561,090	541,130	—	542,863
Mexico	65,382	50,637	500,000	500,995
Haiti	224,862	234,239	—	245,876
Peru	136,174	90,286	—	103,023
Bolivia	122,191	99,456	—	100,399
Total	1,109,699	1,015,748	500,000	1,493,156

Source: U.S. Department of State, Congressional Budget Justification for Foreign Operations, FY2009.

In Latin America's view (with the exception of Mexico), China's increasing presence in the region tends to be perceived as a promising trend rather than as something negative, in large part because China's expanding interest in the region appears to be moderate and nonconfrontational.[373] According to one assessment, public opinion of China in Latin America and the Caribbean tends to be positive because Chinese leaders use such concepts such as growth, development, mutual benefits, and non-interference in national affairs when they speak about

[372] The Pew Global Attitudes Project, 2007, op. cit.

[373] Juan Gabriel Tokatlian, "A View from Latin America," in Riordan Roett and Guadalupe Paz, Eds, *China's Expansion into the Western Hemisphere, Implications for China and the United States*, Brookings Institution Press, 2008.

their aims and goals in the region, characteristics that are viewed positively in the region.[374] For these reasons, the view of China in Latin America, as reflected in the Pew study, tends to be either favorable or mixed. Of the seven Latin American countries in the Pew study, three—Chile, Venezuela, and Peru—had favorable views of China (over 50%), while Brazil, Bolivia, Mexico, and Argentina had mixed views. China's growing economic power is viewed more positively than negatively in six of the seven countries surveyed, while in Mexico, China's growing economic power is viewed as negative and a threat to Mexico's economy by 55% of the population.

The balance of opinion toward China and the United States in Latin America tend to be roughly comparable, according to the Pew study. Two exceptions are Argentina, where China is viewed much more favorably than the United States, and in Mexico, where the United States is viewed much more favorably than China. In all seven Latin American countries surveyed, the United States was viewed as being more influential than China in terms of local developments in their countries.

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[374] Sergio Cesarin, "The Relationship Between China and Latin America: Realities and Trends," in *Enter the Dragon? China's Presence in Latin America*, Cynthia Arson, Mark Mohr, and Riordan Roett eds., with Jessica Varat, Woodrow Wilson International Center for Scholars and SAIS, 2007.