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China’s international assertiveness since the global economic crisis has been in evidence across a broad sweep of issues, from maritime disputes in East Asia to climate-change negotiations in Europe. While its shrill tone has softened, many of the underlying factors driving the shift in Chinese foreign policy remain unchanged.

The upside is that after some initial missteps, the U.S. policy response has been increasingly effective, both regionally and globally, and China has had to recalibrate its approach accordingly. Moreover, in concert with its friends and allies, the United States has the means to ensure that an unconstructive approach remains costly for Beijing to pursue.

The open question, however, is whether the Chinese leadership is willing, or even fully able, to go through a deeper process of revisiting its strategy as a result. If not, competition and confrontation are likely to become ever more central features in U.S.-China relations, and in Asia more broadly, in the years to come.

Dealing with a more assertive China

“China’s assertiveness” has become the tagline for international anxiety about Chinese foreign policy behavior, but it is not assertiveness per se that is the real concern. After all, the United States and other countries have spent many years encouraging China to take a more active leadership role on the international stage. The disquiet has rather resulted from Beijing’s narrow, nationalistic conception of interests.

In the past China had largely followed Deng Xiaoping’s basic precepts to avoid confrontation and compromise where necessary, whether on border demarcation, global security issues, or broader diplomatic strategy. China’s need to prevent the establishment of countervailing coalitions and to preempt any external threats to its growth trumped the discomfort that these compromises entailed. But in the last couple of years, that calculation appears to have shifted.

In Asia, it is China’s greater willingness to escalate bilateral disputes and to harden its insistence on territorial claims that has been felt most acutely. After Japan arrested a Chinese fishing boat captain in September 2010, Beijing cut off rare earth exports, and demanded an apology even after his release. India has seen a creeping escalation of pressure on border disputes: China started provocatively issuing paper visas for residents of Jammu and Kashmir and Arunachal Pradesh, protested Prime Minister Manmohan Singh’s visit to the north-eastern state, and denied a visa to the Northern Army Command chief. In South East Asia, the sustained debate in China over whether the status of

the South China Sea should be upgraded to a Chinese “core interest” on a par with Taiwan and Tibet created profound concerns for its neighbors there. South Korea watched China give virtual carte blanche to North Korean aggression after the sinking of the Cheonan, a South Korean corvette, in March 2010, and the artillery attack on Yeonpyeong island in November. Beijing also issued an unprecedented set of warnings over U.S.-Korean military exercises in the Yellow Sea.

On the global stage, China has also proved less willing to compromise and more ready to be in a minority of one than it was before. While continuing to seek political and diplomatic cover from Russia and other developing world powers in multilateral negotiations, Beijing has stepped out of their shadow on a growing number of occasions. In the UN Security Council, China took the lead role in watering down sanctions on Iran and in blocking criticism of the North Korean attacks. In the Copenhagen climate talks, China exasperated world leaders with its refusal to countenance emissions targets, and was widely accused of wrecking the prospects of a deal. And Beijing has unilaterally pressed ahead with its sales of nuclear reactors to Pakistan without seeking an exemption from the Nuclear Suppliers Group, despite virtually universal agreement that it will be in violation of NSG guidelines.

None of these incidents are purely cases of obstreperous Chinese behavior and blameless third parties: the Japanese government played a role in bungling the fisherman’s arrest, a number of countries bear culpability for the Copenhagen failure, and so on. But the pattern has been too extensive to be explained away on a case-by-case basis. Moreover, the reaction to China’s assertiveness has been magnified by its often undiplomatic form. Standout incidents include the threats to impose sanctions on U.S. companies after the announcement of the arms sales package to Taiwan; the sending of junior officials to negotiate with – and wag fingers at – heads of state and government in the Copenhagen climate talks; and foreign minister Yang Jiechi’s rebuke to South-East Asian states at the ASEAN Regional Forum in Hanoi that “China is a big country and other countries are small countries and that is just a fact”. But these represent only the tip of the iceberg. For much of 2009 and 2010, an accumulation of smaller incidents left officials and politicians the world over varyingly wearied, frustrated and irate over their dealings with Beijing and disposed to think quite differently about their future relations.

The drivers of China’s assertiveness

Many of these developments can be seen as an acceleration of existing trends rather than as an entirely new phenomenon. But it is evident that the financial crisis was a tipping point. China’s sense of economic resilience and faith in its state-directed model was certainly strengthened by surviving a virtual meltdown in its principal markets. But more important has been China’s perception of the scale of the shift in relative power with the United States. Where previously China had the sense that it was making healthy progress in catching up, the crisis appeared to catalyze this into a belief in full-blown U.S. decline. A series of official U.S. statements and visits in the first year of the Obama administration reinforced this strand of thinking in China. Intended

as goodwill gestures to open the door to closer cooperation, they were instead seized on as signs of U.S. weakness.

Greater popular confidence induced by these developments has also put pressure on the Chinese leadership. An array of voices, from nationalist bloggers and PLA generals to major Chinese companies, has been fuller-throated in demanding that China should assert its territorial, economic and resource interests more boldly and refuse to compromise on issues ranging from sanctions on Iran to emissions targets. Many Chinese leaders doubtless sympathize with these demands – indeed, some of them have fanned the flames rather than sought to restrain them – but they appear more nervous about getting on the wrong side of public opinion than past leadership generations, and have consistently sought to minimize the risk of internal criticism.

The weakening capacity of China's central leadership to make effective strategic decisions and navigate between strong competing interest groups is evident across a range of domestic policy matters too. At times, Chinese leaders and officials appear to have been caught off guard by the speed with which China's position on the global stage has strengthened and have struggled accurately to assess both its degree and its import. While it was clear that China's power position had been augmented in the aftermath of the global downturn, it was less clear what advantages that power would translate into, with the seeming result that a range of constituencies in China have pushed out on almost all fronts to see what they can "get".

Moreover, for all the extension in its economic reach, China still tends to behave as a major power with a minor power mindset. While the United States operates as if it has a set of global and systemic responsibilities to manage, China's framework is more limited. Regional and global security issues such as Iran's nuclear program are ultimately viewed by China less as mutual concerns than as Western problems, and requests for cooperation as opportunities for trade-offs. For now, China sees its strengthened power position as giving it greater scope to defend a narrow range of economic and political interests rather than necessitating any genuinely shared responsibility for dealing with global challenges.

The limits to China's assertiveness

The results of this assertive stance on China's part have, however, largely been unhappy. The United States quickly pushed back, moving ahead with the Taiwan arms sales package and President Obama's meeting with the Dalai Lama. Washington threatened a Treasury citation for currency manipulation and raised the prospect of a shift in U.S. force posture if Beijing continued to grant North Korea a free hand. The response from most of China's neighbors has been to upgrade cooperation with the United States, and with each other. Beijing's relations with Seoul and Tokyo have sharply deteriorated. In Japan's case, Beijing also lost the opportunity to take advantage of the election of a new, more China-friendly government that was embroiled in a troubled set of negotiations with Washington over the Futenma marine base. The ASEAN Regional Forum meeting wreaked lasting reputational damage and undermined years of patient Chinese diplomacy in the region. Relations with

India have steadily declined. And in each case, the United States has been able to step in and improve not only its own security and political relationships but encourage heightened degrees of cross-cutting and triangular cooperation: Japan-South Korea, South Korea-Australia, Japan-India and so on. Whether quietly or publicly, states have adjusted their China policies and broader defense strategies, and consultation between concerned countries has grown. This has been true well beyond Asia. 2010 saw the first wholesale revision of the EU's China policy for years, with a view to toughening it up; transatlantic consultations have been expanded; and Beijing's heavy-handed threats following the award of the Nobel Peace Prize to Liu Xiaobo forged an impressive display of European unity in response.

As the strength of the international reaction has become obvious to Beijing, it has reined itself in. The abrasive rhetoric has largely been pared back. China climbed down from the wilder threats it made in the aftermath of the Taiwan arms sales package. Following strong additional representations from Saudi Arabia and Israel, China ultimately acquiesced to a further set of sanctions on Iran, and has halted new investments there in the aftermath of the UN Security Council resolution. It quietly agreed to a climate deal in Cancun, albeit one of extremely minimal ambition. It appeared to play some belated role in restraining Pyongyang after tensions on the peninsula brought the two Koreas uncomfortably close to conflict at the end of 2010. It has sought to patch up relations in South East Asia and Europe, with buying trips and awkward attempts to explain that "small countries" also matter to China. More recently, the revolutions in the Middle East have pushed Beijing even further off balance, as it reluctantly allowed military operations in Libya to proceed under UN authority, and launched its own internal crackdown on activists. While China's assertiveness persists, its hubristic edge appears to have disappeared.

China's new dollar diplomacy?

If foreign and security policy has won China few friends over the last period, through the lens of post-financial crisis economic diplomacy the picture is more mixed. In absolute terms, China's external investment remains modest in scale, at \$56.5 billion in 2010, and it accounts for only 6% of the world's total Overseas Direct Investment (ODI) stock. In the context of the global economic crisis, however, the counter-cyclical nature of China's investments and the fact that it is the country making the biggest difference at the margin has given outsized political play to its actions. Where ODI from other countries has been declining or flat, China's is increasing rapidly. It is predicted to grow to \$100 billion in 2013, with \$500 billion in total stock. Moreover, where in the past the most dramatic Chinese investments have been in large developing markets such as Brazil, which last month announced \$30 billion worth of deals with Chinese companies, China has exhibited a newfound willingness to gain footholds in more advanced economies.

During the first half of 2010, China's ODI to the United States and the European Union increased by 360% and 107.2% respectively, year-on-year. In Europe, the changed political climate induced by the euro-crisis and the downturn has seemingly presented opportunities for China to overcome previous resistance to its advances. Among the most headline-grabbing

announcements have been COVEC's controversial \$456 million contract to build a section of the highway between Berlin and Warsaw; an MOU to lend \$1 billion to Moldova; a three-year currency swap deal of \$2.3 billion with Belarus; a \$5 billion "Greek-Chinese shipping fund"; over \$4 billion of infrastructure projects in Italy; and public statements of willingness to buy Portuguese and Greek bonds at the peaks of their respective crises. There have also been large-scale trade deals of a more traditional sort announced, such as the \$22.8 billion package announced during Hu Jintao's November 2010 state visit to France.

However, the political significance of these steps should not be oversold. While there may have been some modest accumulation of chits – China was seen to be playing a constructive role through what has been a sensitive period for the EU project – it has taken place in a context where European business believes it is suffering from tougher operating conditions in China and threats from technology theft. The last few months have seen the start of internal debate in the European Commission over the establishment of a European equivalent of the Committee of Foreign Investment in the United States (CFIUS), almost entirely in response to China's additional investment activity. The COVEC road deal has prompted calls for China to be barred from public procurement deals in Europe, given the scale of Chinese subsidies and the restrictions on European access to the Chinese public procurement market. And while Chinese statements of support for the euro and European bonds have had some market-moving effect, China is still a very small investor in relative terms and the reserves invested remain a fraction of those sunk into U.S. Treasury bills.

In Africa, Central Asia, South Asia other than India, and bordering South-East Asian states such as Laos and Burma, China's capacity to reshape the economic landscape is dramatic. But the model that works successfully in many of these countries – integrated capacity across the political and economic realms – is precisely what evinces discomfort in wealthy democracies, even those in difficult economic straits. In Europe and the developed Asian economies, "dollar diplomacy" is of less political consequence for now than the more traditional facets of China's gravitational pull: its market, and the real and potential power of the Chinese economy to drive growth. For specific countries and in particular sectors, this is now biting in a way that it never has before. The difference between South Korea and Japan being in growth or recession last year can be attributed to China's economic resilience through the downturn, and December 2010 was the first month in which Germany's exports to China surpassed those to the United States. Chinese assertiveness has created pressures for countries such as Japan to be economically hedged against the political risks that ensue from greater dependence. But for now, even as they quail at the prospect of Chinese investments, a number of countries faced the fact that their economic and security needs are moving in different directions.

Assertive – but constrained

Nonetheless, many of the developments in the last two years have done more to demonstrate China's weaknesses than its strengths.

It is clear that the Chinese leadership's sense of political vulnerability remains acute, a fact further reinforced by the current crackdown. The corollary of this is that they are still unwilling to risk too precipitous a downturn in relations with the United States and other major powers, especially not all at once. For all China's accusations of containment and of interference in its domestic affairs, in practice much of the world shows a high degree of restraint over sensitive Chinese political issues and supports a very permissive environment for Chinese economic growth. China's risk-averse leaders do not appear to believe it to be worth jeopardizing this through a serious worsening of political tensions.

The capabilities gap for China also remains substantial. While its economic activities have expanded considerably, China is really a long way from being a globally capable power. This is most evident in the military realm: when it comes to real security crises, its capacity to project force far from its shores is still arguably less than any of the other permanent members of the UN Security Council. But there is also a manifest lack of political comfort for Beijing when operating in regions such as the Middle East, where, although China is highly exposed economically, its capacity to shape events is still very limited.

Most importantly, China is disadvantaged by its lack of friends. The total economic and military power wielded between the U.S. and its allies, let alone emerging partners such as India, will dwarf China for decades, perhaps indefinitely. While Beijing can, for instance, encourage Sudan or Pakistan to make the diplomatic running on its behalf in certain forums, there is nothing comparable to the combined weight of the advanced industrial democracies. Moreover, far from China making headway in eroding the U.S. alliance system, its behavior in the last couple of years has largely served to push it closer together, and to stimulate closer coordination between powers with little tradition of it (such as Japan and India) or facing major historical obstacles to doing so (such as Japan and Korea). Even as its capabilities to operate as a global power grow, this constraint is likely to prove the most enduring one as long as the United States is able to marshal the conditions for it effectively.

Channeling China's assertiveness

The United States has already done a great deal to respond to Beijing's behavior: facing China down when it appears to be threatening basic principles such as the freedom of international waters; providing active and determined support to allies such as South Korea and Japan in the course of disputes; deepening relations with other pivotal states in the region, such as India, Indonesia, and Vietnam; expanding the range of minilateral consultations, where United States can help to forge closer ties between states in the region; building issue-based coalitions to ensure that coordinated tactics are in place to address challenges where China has been playing a difficult role, such as Iran; and taking steps to establish an economic architecture that minimizes the level of countries' potential dependency on China. In practice, some of these areas are considerably more advanced than others: aside from the Trans Pacific Partnership initiative and the KORUS FTA, the trade agenda is still notably lagging; U.S.-led multilateral

cooperation vis-à-vis China is increasingly well developed in Asia but much less so elsewhere; and there are still issues, such as the Chashma nuclear deal with Pakistan, where there has been no attempt even to impose the most modest of costs on China's behavior. But while there is much further to go, the last year has amply demonstrated that determined efforts to shape China's strategic environment can still pay off even in relatively short order.

Despite all this, as things stand there is little indication that China is rethinking its broader strategy. While the balance of opinion in Beijing now seems to hold that they over-reached in the past 18 months, there is still a lack of complete consensus even on this point. And at present, the leadership in Beijing has neither the willingness nor the capacity to corral the various interest groups into supporting a foreign policy strategy that is appropriate for a globally engaged power. But the United States does not have to find a way of convincing China that cooperation is desirable – only that it is the path of least resistance. The United States may struggle to change the minds of Chinese leaders, but what it can do is promote a framework in which China systematically gains from taking on a constructive international leadership role and faces continued obstacles when it seeks to advance a narrow, nationalistic view of Chinese interests. The foundations of that framework are now in place, and it is Chinese assertiveness more than anything else that has made it possible.