

Contest for Global Influence: China vs. US Soft Power

By Benito O. Lim

“What is stunning about China is that for the first time we have a huge, poor country that can compete both with very low wages and in high tech, combine the two, and America has a problem.”

Richard B. Freeman, economist, Harvard University

Introduction

Since the 1980s the Chinese economy has been developing at a spectacular rate. China has emerged as one of the major economic giants and it is playing a significant role in the global economy. Moreover, China has the largest foreign exchange reserves in the world. This phenomenal economic growth is affecting not only China's domestic economy and social order, but the international geopolitical and economic environments as well. China's continued economic ascent has provoked uncertainty and the suspicion of the USA, the world's dominant economic power since 1945 that wants to hold on to its paramount control over global affairs. According to many US policy makers, China's economic rise has engendered competing economic and political interests that in turn cause divisions and conflicts around the world. They attribute to China's "aggressive economic and trade practices," the intense fierce competition for vital raw materials such as oil, natural gas and metals as well as access to markets. The US and most western European countries ignore the fact that since the late 17th century, some of them have been practicing conquest of territories and subjugating peoples around the world for their own economic benefit. China so far has not engaged in any similar colonial and imperialist practices.

Chinese leaders proclaim that China has no ambition to be the "world's hegemon." China's main goal is to raise the living standards of its vast population and engage peacefully with all countries of the world. Her main concern is how to quell the separatists of outlying provinces in Xinjiang and Tibet where violent protests and terrorist activities occur periodically. While the current leadership allows some measure of criticism intended to improve government operations, it is wary of political opposition that they suspect is instigated or fomented by some Western countries. Having witnessed the break-up of the USSR, the violent upheavals in Chechnya and the Ukraine, US intervention in Afghanistan, Iraq, Libya, Egypt, Syria, and most of all US continued support for an independent Taiwan, China tends to view most large public demonstrations whether in China or abroad as part of the Western scheme to dismember China.

All these developments pose policy challenges for both Beijing and the rest of the world, particularly the US and the EU, whose dominant role in global affairs is being challenged. Chinese leaders view these developments as a dialectic between 'danger' and 'opportunity,' opportunity to make innovative changes in accordance with global changes. Western leaders on the other hand tend to see China's actions as 'provocations' and 'threats.' Contrary to US and Western views, it should be pointed out that since the founding of the PRC in 1949 its foreign policy has been attempts to preserve its continued national survival and to adopt its development goals to changing conditions of the world. Chinese leaders insist that China has no ambition to dictate the world social-political-economic order except to adhere to the guiding principles promulgated by the United Nations.

Apart from viewing Chinese economic prowess as a threat to the US, what hinders better understanding of China's role in world affairs, is the view perpetuated by most of the western-dominated mass media that China is the exporter of violent revolution and international proletarianism bent on overthrowing the prevailing capitalist economic and democratic world order. China is often portrayed in stereotypes as mindless proletarian revolutionaries during its alliance with the Soviet Union in the 1950s when Marxist-Leninist ideology was espoused. The US and its allies depict China as one of their most

dangerous enemies to the world order they created. Their portrayal of China and its role in the world has become a political, strategic, and economic issue. It is well to remember that Mao's success during the early revolutionary years was due to his modification of European and Soviet Marxism and Leninism to fit the realities of Chinese social and political conditions of the time. The Chinese may claim that they always take into account the foreign policy objectives enunciated by Mao Zedong and Zhou Enlai, but they also modify them according to the realities and the demands of changes around the world, which they view as "socialism with Chinese characteristics." Clearly to the Chinese ideologues, so-called Communist principles are not immutable and to be applicable must adjust to changing internal and external conditions.

The Chinese Communist Party leadership took steps to accommodate international practices, especially on trade and investments. Indeed the amendments to the 1982 Chinese Constitution showed that over a given period, China's Communist Party also adopts some Western ideas and technology to serve Chinese development objectives. China's use of "soft power" as one of the instruments of its foreign policy objectives demonstrates China's pragmatic adaptation of Western ideas and practices to serve China's national goals. Since the end of the Cold War Marxist, Leninist, and Maoist ideas and principles have been modified to accord with China's national and international policy objectives.

Today China's policies on international trade, investment, finance, foreign aid, and environmental issues are driven by the desire to continue to improve the living conditions of the Chinese people, modernize Chinese society and economy, expand its market, undertake joint economic development with the Third World, and actively oppose what it regards as attempts by other powers to ease China out of the world market.

In the mid-1950s when China leaned towards the Soviet Union, its foreign policy followed Stalin's view on proletarian internationalism. Then in the 1960s when China parted company with the Soviet Union, Mao laid a new foundation for a modern socialist China under the banner of "self-reliance" or a "China true to itself through a long

period of Cultural Revolution 1966-1969.” However Mao’s program led to domestic chaos and after his death in 1976, Deng Xiaoping reversed this policy. Deng instituted the Four Modernizations and a reform program which opened up China to the world.

China’s foreign policy towards the Third World particularly in Southeast Asia, Central Asia, Africa and Latin America since the end of the Mao era also underwent significant changes, especially in its development assistance programs. The China EXIM Bank, and China Development Bank, two of the three policy banks, started to actively engage Third World countries in support of its new ‘go out’ policy or “mercantile stratagem.” Chinese development assistance personnel and aid recipients have coordinated their corresponding responsibilities toward more effective implementation of the refined assistance program for the Third World countries. The move to formulate a better, more coherent and effective foreign aid policy has led China to create institutions for consulting and coordinating aid programs with Third World aid recipients. Chinese leaders have learned from experience, that they can gain more support from their Third World colleagues by downplaying ideological issues. Instead, China today follows a more pragmatic economic assistance policy focused on improving local capacities for production in the form of infrastructure, capital investments and technical assistance.

In 1982 China started to institutionalize its international involvement in overseas development assistance program. The government categorized its development assistance program into grants, interest-free loans, debt cancellations, and concessional and preferential loans and integrated them with bilateral agreements in trade, investment, joint ventures, education, technology transfer, and energy development contracts.

During the global economic slowdown in 2008, there were shifts and modifications in China’s foreign policy objectives. Chinese development assistance was changed dramatically to suit changing political and economic developments. They increased and widened the scope of aid-spending commitments so that some researchers from the Organization for Economic Cooperation and Development’s Development Assistance Committee (OECD-DAC) commented that

the Chinese government gives a “broad and at times vague definition of what constitutes foreign aid. They claim that Chinese aid programs do not fit OECD definition or configuration of ‘aid.’”

Chinese new initiatives in the development assistance program allowed it to compete with Western aid programs. This has caused Western anxiety over the efficacy of China’s ‘soft power’ and has led the West, particularly the US, to place China’s foreign policy objectives under close scrutiny.

China’s foreign aid projects to the Third World have been undertaken for more than half-a-century and have achieved a high degree of success. China’s current assistance programs to the developing countries have won over most of the Third World away from traditional Western donors. This has led some geopolitical analysts to label the new program as “coalition engagements.” Accordingly these engagements have developed into “a vibrant commercial and resource security strategem for China’s continuous industrial development and economic growth.” They provide “Third World countries an alternative and rich source of foreign aid without pressure and political conditionalities.” Since China does not set preconditions and does not interfere in the internal affairs of other countries, China easily gains entry and maintains its presence in the Third World. To some developing countries getting overseas development assistance from China is one of the ways of “casting off the earlier economic fetters” they had entered into with Western nations that require adherence to conditionalities. Third World countries believe that Chinese assistance programs are extended without the kinds of strings the West attach and therefore are more helpful and profitable. These “coalition engagements” between China and some African and Latin American countries led many of them to withdraw from World Bank aid programs. The decision to withdraw from the World Bank aid programs is considered by the US and EU as controversial but is now pursued by more Third World countries.

To most Western aid donors, the most controversial features of Chinese development assistance program, aside from the absence of precise and official definition of aid, is that China sets “no conditionalities” (political-social conditions such as holding of regular elections, promotion of human rights, etc.) and “non-interference” in the

domestic affairs of aid recipients. Most American critics claim that refusal by the Chinese leadership to set political conditions in their aid projects “wear away the very framework of Western aid which is to promote democracy, liberty and good governance; at the same time to alleviate poverty and mitigate suffering by promoting self-sustaining growth.”

Defenders of the Chinese development assistance program claim that unlike the traditional donors, China has a unique dual role as donor and recipient. Chinese scholars argue that despite its phenomenal economic rise, China is still a developing country, and faces similar challenges with the rest of Third World countries. China has achieved a high degree of success in reducing domestic poverty, and accordingly “the programs, lessons, and measures have been useful guides for giving aid to other poor countries.”

According to the Chinese leadership, China’s foreign policy and development assistance approach has been commitment to the realization of the five principles of (1) mutual respect for sovereignty and territorial integrity, (2) mutual non-aggression, (3) non-interference in each other’s internal affairs, (4) equality and mutual benefit, and (5) peaceful co-existence in developing diplomatic relations and economic and cultural exchanges with other countries, enunciated by two of China’s founding fathers, Mao Zedong and Zhou Enlai.⁵

I. An overview of China’s soft power

The emergence of China as an economic and political force in the global order is, for many Chinese leaders, one of the defining moments of Chinese history. Its dynamism and international recognition is beginning to help reshape the global system, presaging a new phase of international world order. Under the Chinese aid program, economic renewal means sharing development and power both with the First World and the Third World. This new era is distinct from the earlier Western practice of colonization, the 20th century imperialist wars and the two World Wars, mid-century proxy wars in the

⁵ “Preamble,” Constitution of the People’s Republic of China 1982.

Korean Peninsula and Vietnam, and most recently the American “war on terror” in Afghanistan, Pakistan, and Iraq.

China’s global imprints would be in terms of its business, economic and political actions and their geopolitical implications are likely to be markedly different from what has gone before. According to the World Bank, since China’s open-door policy in the late 1970s, it has lifted more than 400 hundred million people out of absolute poverty. China alone accounted for over 75 percent of poverty reduction in the developing world over the last 20 years.⁶ Since 1981, the estimated share of the population living on less than US\$1 per day has been reduced from 64 percent to 16 percent, and as mentioned earlier, lifting over 400 million people out of absolute poverty.⁷ China’s robust diplomatic and economic engagements around the world especially in the Third World, has helped to develop and transform their economies as well as upgrade their lifestyles. Many countries are enjoying rapidly rising revenues due to Chinese demand for their exports. China’s manufacturing strength has encouraged either joint ventures or outsourcing in order to gain a competitive advantage. However, China’s investment in developing economies sometimes competes directly with Western multinationals, particularly in the extraction of natural resources. This provides an opportunity for Third World countries a choice to get the best deal in forging joint ventures and foreign investments. China’s emergence has caught many Western leaders by surprise and prompted increasing worldwide examination and criticism of China’s domestic order, foreign policy rationale and objectives.

Many American policy makers are troubled by China’s increasing external influence in many parts of the world. These analysts are even more anxious since Chinese expanding influence coincides with America’s military adventures in Iraq, Afghanistan, and Pakistan that made the US neglect the rest of Asia. Hence, China’s increasing influence prompted the US “to pivot to Asia.” These same analysts are doubly troubled especially when such adventures, they believe, contributed to America’s financial meltdown in 2008. There is a sense that the

⁶ World Bank Office Beijing, 2007.

⁷ UNDP China wins 2006 Poverty Eradication Awards.

prediction of many 'global historians,' including Paul Kennedy⁸ and Kevin Phillips,⁹ is coming true that the US economic structural fabric is beginning to come apart soon. Consequently, the US Congress and other US policy makers have appointed top American geopolitical analysts, scholars and Third World experts to examine closely whether China's foreign policy and its "soft power" projection threatens US economic and strategic interests around the world.

Whether the fear of some American political leaders have basis or not, the objective fact is that China's sheer size, its vast population, the antiquity of its civilization, and its unique socialist political system, are some of the main reasons why the US feels threatened. However, the more liberal Americans and businessmen have different views of China. To them China is no longer "the sick man of Asia" or the "living fossil" but is a major economic power within a time span of only 60 years. This to them is the greatest "economic miracle" in modern times. In fact, regardless of the lingering fear and suspicion of China, China's economic rise has led to a considerable expansion in US-China economic relations. Total trade between the two countries has surged from \$4.9 billion in 1980 to an estimated \$409 billion in 2008. For the United States, China is now its second-largest trading partner, its fourth-largest export market, and its second-largest source of imports. Inexpensive Chinese imports have increased the purchasing power of millions of American consumers. Nearly all the largest US multinationals have manufacturing operations in China "both to sell their products in the growing Chinese market and to take advantage of low-cost labor for outsourced goods." In 2005, foreign firms generated 88 percent of China's high-tech exports—and 67 percent by wholly-owned foreign firms.¹⁰

While these figures show dramatic Western participation in China's economic rise, still many Western analysts view these developments

⁸ Paul Kennedy, *The Rise and Fall of the Great Powers*, 1987. See also Paul Kennedy, *Preparing for the Twenty-first Century*, 1994.

⁹ Kevin Phillips, *The Politics of Rich and Poor*, 1990.

¹⁰ See Arthur Kroeber, "China's industrial and foreign trade policies; what are they and how successful have they been?" *China Economic Quarterly*, May 2006.

with alarm, contending that they are indications that Chinese firms will eventually compete and challenge US high-technology products. In 2005 the US-China Economic and Security Review Commission warned in its 2005 annual report to the US Congress that the technology that China is developing and producing is increasing in sophistication at an unexpectedly fast pace. Advances in China's technological infrastructure and industries, along with similar advances in other developing countries, pose a significant competitive challenge that is eroding US technology leadership.¹¹ On the other hand, a joint study by the Center for Strategic and International Studies and the Institute for International Economics disagreed. It claimed that data on China's high technology trade is deceptive, since more than 90% of China's exports of electronic and information technology are produced by foreign firms in China using imported components, and that China adds relatively little value to products such as computers and mobile phones before export. The study concluded that Census data on US trade with China "hardly reflect a dramatic deterioration in US competitiveness. Rather they reflect China's emergence as the location for final assembly of a small number of very popular consumer electronic products."¹² Moreover, US corporations in China actually profit a lot from their business operations. Yin Zhongli, an economic researcher of the Chinese Academy of Social Sciences said, "foreign importers took most of the profits" created by China's factories.¹³ Moreover, "China's purchases of US Treasury bonds have funded federal deficits and helped keep US interest rates relatively low."¹⁴

It is apparent that US anxiety, while unfounded, must have been set off by the speed of China's economic rise and its success in winning

¹¹ US-China Economic and Security Review Commission, *2005 Annual Report*, pp. 86-87, at [http://www.uscc.gov/annual_report/2005/annual_report_full_05.pdf].

¹² Center for Strategic and International Studies and the Institute for International Economics, *China: The Balance Sheet*, 2006.

¹³ Quoted in Lan Xinzhen's "30 Years of Development," *Beijing Review*, November 13, 2008.

¹⁴ See Craig Elwell and Marc Labonte, "Is China a Threat to the US Economy?" *CRS Report to Congress*, Jan. 23, 2007.

over the Third World markets. Throughout the Mao era no individual believed in the possibility of a Chinese economic miracle; many believed that Mao Zedong's implementation of a centrally planned or command economy doomed the Chinese economy forever.¹⁵ A large share of the country's economic output was directed and controlled by the state, which set production goals, controlled prices, and allocated resources throughout most of the economy. In 1950-1952 land reform was carried out in order to "eliminate feudalistic socio-economic relations in the rural areas." This policy was reversed in 1953 when the redistributed individual household farms were collectivized into large communes, presumably to support the Communist Party's plan for rapid industrialization. However when Mao was eased out of power between 1960-1965 the central government, headed by Liu Shaoqi and Deng Xiaoping, undertook large-scale investments in physical and human capital. But when Mao regained power this plan was discredited and replaced with communes during and after the Great Proletarian Cultural Revolution (1966-1969).¹⁶ A central goal of Mao after the Cultural Revolution (1969-1976) was to make China's economy relatively self-sufficient. Foreign trade was generally limited to obtaining only those goods that could not be made in China. Although some growth occurred, these policies kept the Chinese economy relatively inactive and unproductive, mainly because there were few material incentives for State Owned Enterprises (SOEs) and farmers. Competition was virtually nonexistent, and price and production controls slowed down economic growth. Chinese living standards were substantially lower than those of other developing

¹⁵ Mao Tse-tung, *On People's Democratic Dictatorship*, (Peking: Foreign Language Press, 1959). See also *New China's Economic Achievements* (Peking: Foreign Language Press, 1952). Li Fu ch'un, "Report on the First Five Year Plan for Development of the National Economy of the People's Republic of China in 1953-1957." Translated in Robert Bowie and John Fairbank, *Communist China 1955-1959: Policy Documents with Analysis*, 1962. Audrey Donnithorne, *China's Economic System*, 1967.

¹⁶ Maurice Meisner, *Mao's China: A History of the People's Republic*, 1977.

countries. During this period private enterprises and foreign investment were not allowed.¹⁷

Contrary to the general belief that the shape of Communist politics and policies changes at a snail's pace, China underwent speedy and revolutionary changes after Mao's death in 1976. Deng abolished the communes and the political structures established during the Cultural Revolution. Beginning 1978 while acting with relative caution with regard to the dismantling of Mao's programs, Deng decentralized nearly three-fourths of industrial production; they were no longer subject to centrally planned output targets. According to the National Bureau of Statistics, "state-owned enterprises created 77.6 percent of China total industrial output in 1978. But after 1978 the number dropped to 29.5 percent."

Two important factors that contributed to China's rapid economic growth since the institution of Four Modernizations Program and "open door" policy were large accumulation of capital or savings and vast improvements in productivity that have resulted from economic reforms. Accordingly improved productivity increased growth and generated funds used for new investments.¹⁸

China had a very large pool of domestic savings to draw from to finance investment when reforms were begun. In 1979 domestic savings as a percentage of GDP stood at 32%. Most Chinese savings during this period were generated by the profits of state-owned enterprises (SOEs), which were used by the central government for domestic investment. Economic reforms, which included the decentralization of economic production, led to substantial growth in Chinese household savings. These accordingly accounted for half of Chinese domestic savings. As a result, savings as a percentage of GDP has steadily risen; it reached 51.1% in 2006, among the highest savings rates in the world.¹⁹

¹⁷ *ibid.*

¹⁸ *op. cit.* Craig Elwell.....

¹⁹ Lan Xinzhen, "30 Years of Development," *Beijing Review*, November 13, 2008. See also China Bureau Statistics; Craig Elwell and Marc Labonte, "Is China a Threat to the US Economy?" *CRS Report to Congress*, January 23, 2007.

From 1978 to 2007, after the implementation of its reform program, China's real gross domestic product (GDP) grew at an average annual rate of 9.8%, far higher than the 3 percent average annual world growth rate during the past three decades. China's GDP in 2007 stood at \$481 billion or 23.7 percent of that of the US, 74.9 percent of Japan's GDP, and 99.5 percent of Germany.²⁰ The size of China's economy increased over 11-fold, its real per capita GDP grew over 8-fold, and its world ranking for total trade rose from 27th to 2nd. In 2007 China's per capita income had risen to \$2,360. In the same year China ranked first in the world in the output of agricultural products such as grain, meat and cotton, and industrial products such as steel, coal, cement and fertilizer.²¹ China's National Bureau Statistics reports that by the end of 2007, "foreign investors had acquired stakes in 21,800 domestic enterprises." In view of the US economic meltdown in 2008, some economists predict China could be the largest economy within the next decade. Others believe that this is an exaggeration, but concede that it could happen, since China was already the second largest economy by 2010.

American Sinologists who followed closely the "twists and turns" of China's domestic development policies from Mao Zedong to Deng Xiaoping have not been alarmed or taken by surprise. They understand that these changes occur with some regularity since the Communist Party of China captured political power in 1949. To these experts, what is more important is to determine the underlying reasons that led to these changes and the new objectives that motivate Beijing's foreign policy drive. Factors that fueled rapid economic rise are the following: the most important is the "emancipation of the Chinese mind." First of all, Deng's method of social mobilization was no longer fired by "class struggle," but replaced by the principle of "harmonious cooperation of all classes." This entailed adoption of a more flexible and pragmatic social-political-economic policy as well as the incorporation of Western economic practices that gave significant role to intellectuals,

²⁰ China National Bureau Statistics 2008 cited in Lan Xinzhen's "30 Years of Development," *Beijing Review*, November 13, 2008.

²¹ *ibid.*

professionals, and businessmen. State-owned enterprises no longer assured lifetime employment and provision of a wide array of social services such as health and child care, subsidized housing and education but were required to minimize production cost and earn profit. Deng's economic policy reversed communal production and wages but allowed private economic initiatives for economic gain. Most of all attraction of foreign direct investments and technology transfer were pursued vigorously. In addition, Chinese undertake systematic search for new markets for China's manufactures, search for energy resources and raw materials to sustain its double-digit annual growth. All of these measures explain the reasons behind China's economic rise.

Doubtless after World War II, aside from military muscle, foreign assistance or 'soft power' during the Cold War has been used by the two superpowers, the US and the USSR, to win over following to their respective camps. At the end of the Cold War, after the disintegration of the Soviet Union in the early 1990s, the purpose of the program, size, and components have been drastically changed.

The focus of US foreign aid policy has shifted from winning over adherents away from the Soviet camp to alleviating poverty, humanitarian aid, economic development and liberalization, promotion of human rights, good governance, and democracy. No doubt all these activities are still geared to support US political and security objectives. After the terrorist attacks of the World Trade Center in New York City on September 11, 2001, US foreign assistance objectives changed to support its war on terror.²²

²² For a more comprehensive examination of the subject see Alberto Abadie, *Poverty, Political Freedom, and Roots of Terrorism* (Harvard University and NBER) 2004. Bennis Anderson and J. Cavanagh, 'Coalition of the Willing or Coalition of the Coerced? How the Bush Administration Influences Allies in its War on Iraq' (Washington, DC: Institute for Policy Studies) 2005. Human Development Report, *International Cooperation at a crossroads: Aid, trade, and security in an unequal world*, (US: UNDP) 2005. Looney Robert, 'The role of foreign aid in the war on terrorism,' *Strategic Insights*, 6, at <http://www.ccc.nps.navy.mil/si/july02/aid.asp> accessed 15 July 2006. Richard. Manning, 'Will 'emerging donors' change the face of international cooperation,' *Development Policy Review*, Vol.

Soft power versus hard power

The term “soft power” was used by Harvard Professor Joseph S. Nye, Jr. to describe a country’s ability to get what it wants from another using economic support, political ideal, and policies in contrast to hard power which involves the use of military force. In his *Soft Power: The Means to Success in World Politics* Nye wrote, “Soft power rests on the ability to shape the preferences of others.... [It] is the ability to get what you want through attraction rather than coercion or payments. It arises from the attractiveness of a country’s culture, political ideals, and policies.”²³

Nye testified before the US Committee on Foreign Relations that “for the US to advance its global interest it must deploy its ‘soft power’ or the non-military tools to complement its ‘hard power’ or military force.”

It was President Harry Truman who first conceived the idea of using aid to win over victims of WWII in the form of loans and grants to aid victims to restore their war-torn economies in 1947.²⁴ The Truman program, now famously known as the Marshall Plan, has served as the blueprint for subsequent US foreign aid policy.

In his Commencement Address at Harvard, Secretary George Marshall told the graduating students why the US must rebuild post-WWII Europe from the ground:

24, No. 4. 2006. Barry Mason, ‘Industrial nations tie foreign aid to support for ‘war on terror’, at http://www.wsws.org/articles/2004/jun2004/aidd-j17_prn.html OECD. 2003. A Development Cooperation Lens on Terrorism Prevention (www.oecd.org) OECD/DAC. 2003. Development Cooperation Lens on Terrorism Prevention: Key entry points of Action, <http://www.oecd.org/dataoecd/17/4/16085708/pdf> OECD, 2005. The DAC Journal, Development Cooperation Report 2004, Vol. 6, No. 1. OECD, 2007. OECD Journal on Development, Development Cooperation Report 2006, Vol. 8, No.1

²³ Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics*, Public Affairs, NY, 2004.

²⁴ President Harry Truman in his address to the US Congress on December 19, 1947 asked the legislators to appropriate \$17 billion for the reconstruction of Europe. See Department of State, *A Decade of American Foreign Policy, Basic Documents, 1941-1949*. pp.820-831.

It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full cooperation I am sure, on the part of the United States Government. Any government, which maneuvers to block the recovery of other countries, cannot expect help from us. Furthermore, governments, political parties, or groups which seek to perpetuate human misery in order to profit from them politically or otherwise will encounter the opposition of the United States.²⁵

One of the most significant accomplishments of the Marshall Plan was the successful reconstruction of war-torn Europe. Since then foreign assistance or 'soft power' has become an important component of international relations and is widely accepted as an essential instrument of foreign policy for pursuing geopolitical ends.

Using military basics and 'soft power' to stay and remain ahead

How does America respond to the challenge of rising Asian powers? Former US President George W. Bush's "new strategic doctrine" called for absolute US military superiority, which would modify American strategy not only to fight the terrorist threat but also the Chinese threat to US economic power. When necessary, protectionism would be revived in the name of security interest.²⁶

²⁵ Secretary of State George Marshall, "Commencement Address at Harvard University," Cambridge, Massachusetts, June 5, 1947.

²⁶ See Robert Skidelsky, "The Chinese Shadow I," *NYRB*, November 17, 2005 and "The Chinese Shadow II," *NYRB*, December 1, 2005. Clyde Prestowitz, *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East*, Ted Fishman, China, Inc., 2005.

American neo-conservatives campaigned for a return to the Cold War strategy of containment of China. They want the US to maintain military alliances and forward military presence in the Asia Pacific region which include Japan, South Korea, Taiwan, Australia, the Philippines, and Guam. They argued against the engagement in the 1970s and 1980s when the US and China had joined together in a quasi-strategic alliance against the former Soviet Union. For most neo-conservatives, America should be able "to bring China to heel without landing on its mass of humanity—especially if it is clear that Beijing's good behavior would be a postponement of the current regime's rendezvous with the ash heap of history."

Indeed many Republican congressmen insist that China is not a legitimate power unless it accepts the framework of world order set up by the West after the Cold War. According to the Cox Report of 1999 since China did not undertake significant political reform, continued US government engagement with China could mean "trading US security for Beijing funds."

The Cox report warned that trade with China could threaten America's economic and military paramountcy. As a consequence some congressmen submitted bills to legislate the revaluation of China's currency. Some charged that US trade deficit with China means that the Chinese producers are taking away US jobs.

An influential segment of American policy makers envisioned during the George W. Bush administration a world order under American leadership that will dictate the configuration of the 21st century world; "peace may not reign, but challenges will be suppressed and wars will be waged if necessary"—and unilaterally at times, as in the war against Iraq. The US must not inhibit itself when bargaining with rising powers, but must make clear its inherent industrial potential, nuclear and electronic superiority. American political leadership must make clear that US global power is a given, and "as a status quo power it is prepared to resist and to bring about strategic changes favorable to the US."

Moreover the US has embarked with Japan, Taiwan, India, and the EU on a combination of political, strategic, and military programs to address whatever potential strategic threat that the Chinese poses

as they gain increased economic, social and cultural exchanges with countries around the world.

Many American economists do not agree with the view that military might is the right way to contain China's rising economic power. Military pressure will only ensure that China will reciprocate with equal hostility. It will only start another round of arms race. As for weapons innovation, America may have the comparative advantage now. But given China's wealth, human and technological resources, there is no guarantee that its scientific personnel will not achieve breakthroughs in weapons' technology. It is exceedingly wrong to assume that America and her Western allies will always have the technological edge over China. The Cold War years have shown that both countries have missed a lot of lost opportunities precisely because of this antagonistic relationship. Moreover, given China's charm offensive policy, it would be exceedingly difficult to contain China, based on the developments in Africa and Latin America. The US would find little support from countries that have good economic relationships with China and there are many of them.

These same economists believe that "there is no need to be stampeded into prematurely dealing with China as an adversary. China cannot become a great power overnight. America has survived trade, especially import challenges, in the recent past from Japan, South Korea, Mexico and EU. It is better to keep in mind that China's development will not always be as an exporting machine. The reason why many American and EU multinationals are building their state of the art factories in China stem from their belief that China will eventually become the number one market of the world. They compared the growth pattern of the Chinese economy to the US; much of its strength comes not only from its natural resources and productivity but from its enormous internal market. This early the Chinese are consuming as much as they export. Moreover Chinese, US, Japanese and European data all show that mainland export prices have started to rise since 2006 and that rural migrant worker wages are going up by 10 to 15 percent. Rising wages and rising currency will eventually bring the end of traditional low-end manufacturing in China, as production migrates to cheaper markets like Vietnam, India,

Indonesia and even the Philippines. By engaging China closely, the West will learn whether it is possible to work out a *modus vivendi* to share power and influence with China. Time will also provide the US with the opportunity to learn whether a more powerful and stronger China will intervene in America's vital interests.

Policy of accommodation

No doubt the US and its allies in Asia present the most significant foreign policy challenges to China. In their 2005 defense declarations Japan and the US jointly declared that "China's military expansion" constituted a threat to their respective interests in the region. To allow Japan to re-arm and behave like a "normal nation" the US even raised the status of its partnership with Japan to the level of a NATO ally.

And yet to Chinese defense analysts, China's main strategy the past twenty years has been in essence a policy of accommodation wherein China seeks to gain influence and ensure smooth relations by not fighting for its rightful place in the international community—China's economic and foreign policy is to continue its modernization program and preserve domestic stability. Despite China's acquiescence to the prevailing global economic-political system, major powers remain nervous about China's economic rise and have continued to pursue "whatever policies necessary" to contain China.

The latest EU criticism of China's aid policy in Africa is another example of hostile reaction to China's increasing influence in the region. The EU claims that China's loans and other aid projects to these countries do not meet the conditionalities set forth by the US and the EU, China thereby hindering the rise of democracy in the region. In response to these criticisms, the Chinese invariably undertook damage-control efforts, moderating rhetorical reply to charges that China is dismissive of human rights violations and that Chinese aid projects lack transparency in its international activities. Lately the Chinese are beginning to question the reasons behind EU advocacy of democracy and human rights in developing countries. Chinese question the EU why earlier when the members of the EU had unhampered access to African oil, mineral, and diamond resources, they never demanded that these countries come up with a dateline for

democratizing their country nor did the EU demand promotion of human rights in Africa when the continent was under their colonial rule. The Chinese question why the US and the EU members do not demand that Saudi Arabia, Kuwait, Oman, the United Arab Emirates democratize their political system, uphold human rights and institute free elections. The Chinese charge that the US and the EU do not apply preconditions to the mid-eastern countries because these countries agree to sell cheap oil to them and buy expensive military weapons from them.

In answer to all these criticisms, the 16th Chinese Communist Party Congress presented a conciliatory blueprint on China's external strategy and foreign policy. Accordingly China will pay closer attention to improving its relations with developed countries, particularly with the United States, and with neighboring countries. The new Chinese leadership will make foreign policy a means to facilitate China's modernization program. They will continue to adopt a low-cost and low-risk foreign policy. The new Chinese leadership will be pragmatic and less ideological in handling foreign relations. The Chinese leadership is keenly aware that despite its phenomenal economic growth, there is great discrepancy between China's major power status and its actual military capabilities. The only way to maintain its status is not to intervene or to stay out of big power showdowns. China is also aware that the international situation is constantly changing. For instance, the US has emerged as the lone superpower and has become more assertive and pugnacious. Moreover, European countries like Germany, Britain and France are striving for a bigger say in international affairs and have condemned Bush's unilateral war in Iraq. Russia is now trying to regain some of its lost influence in international affairs. Japan too is demanding that it be allowed to re-arm giving as an excuse its territorial dispute with China, and its fear of North Korea's nuclear threat. On the other hand, China insists that she has no imperial ambitions and will "never be a hegemon, never practice power politics, and never pose a threat to its neighbors or to world peace."

Despite Chinese assuring statements of its peaceful goals, it appears that conservative American defense analysts are not convinced. They claim that when China gains more economic, political and military

power, China will be a threat to international peace and stability. US defense analysts justify this view claiming that China right now is already encroaching into America's political and economic interests in many developing countries. China's soft power or "charm offensive" has already led many African leaders to ignore American loan conditionalities that require adherence to democracy, liberalization and the open market.

Since there is so far no guarantee that China when it becomes the top economy of the world will continue to cooperate with the US, some American political and defense analysts have already insisted that it is best "to prepare for the worst." It is "better to be safe than sorry," later. In short it is best to take a hard line against China now.

The more neutral Western commentators have claimed that they cannot predict the future—whether China will genuinely continue her peaceful intentions or not. World developments and realities in the next twenty years are impossible to foretell. But for those who want to engage China on commercial matters and ally with America on security issues, they argue that there is no reason why they should ever have to choose between the two countries.

Take Australia's former Prime Minister John Howard's statement after he signed security arrangements with the US and Japan: "Our relations with China, as with other nations in the Asia-Pacific, and our alliance with the US are not mutually exclusive." He elaborated that China has a legitimate interest in protecting its own security but he is wary of China's military expansion, particularly the development of new and disruptive capabilities such as the anti-satellite (ASAT) missile tested in January 2007. The ability of China to launch ASAT could create misunderstandings and instability in the region.

The uncertainty about the direction of China's foreign policy has led Western policy makers to try to shape the direction of China's rise. Some have suggested that since this is a period of "strategic opportunity" the West should continue to cooperate with China in areas of common interests such as: trade, fighting terrorism, dealing with the proliferation of weapons of mass destruction, environmental protection, and public health crises which will provide incentives for Beijing,

Washington and the EU to cooperate and work hard to manage and minimize conflicts.

II. Process of foreign policy making

Chinese view on foreign policy and foreign relations or 'soft power'

The current Chinese foreign development assistance program has been crafted in accordance with Chinese foreign policy objectives. Chinese development assistance program has varied elements which have confounded many foreign observers. To understand Chinese aid programs, it is necessary to look into Chinese foreign policy, and to consider Chinese assumptions, definitions and expectations about the role of the Ministry of Foreign Affairs and other key ministries.

The Chinese have a holistic view of foreign affairs, which covers the whole spectrum of external activities used for pursuing national interest goals by the leadership. Most Chinese use foreign policy (*duiwai zhengce*) interchangeably with foreign affairs (*waishi*). Diplomacy (*waijiao zhengce*) is only one aspect of foreign policy. Foreign affairs embraces all political, economic, cultural, security and diplomatic relations with other nations along with government communications and exchanges, as well as international cultural and educational contacts; trade and investments; development assistance; scientific and technological activities; foreign, nonmilitary information gathering and propaganda activities; people to people exchanges, and some types of international security activities that involve the military, e.g., military exchange programs between China and the Philippines; military consultations between China and the US; joint military exercise between China and Russia formally supervised by the Ministry of National Defense; and various arms control and nuclear disarmament negotiations. Clearly foreign policy covers a wide range of political, economic, scientific and technological, and cultural activities, including security concerns linked with the military.²⁷

Since the expansion of China's engagement with the international community, its development assistance commitments have increased

²⁷ Lu Ning, *The Dynamics of Foreign-Policy Decision making in China*, Boulder, Colo.: Westview Press, 1997.

correspondingly. Foreign assistance is a part of China's larger policy strategy, closely tied to such efforts as gaining diplomatic recognition, trade, investments, loans, grants, debt forgiveness, science and technology, education and culture, foreign expertise, intelligence and information, foreign publicity, technology transfer, and so on. And in its dealings with Third World countries it includes building of viable economies in these countries. In many ways this view parallels George Marshall's view of doing "whatever it is able to do to assist in the return of normal economic health in the world...." Foreign assistance "is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world as to permit the emergence of political and social conditions in which free institutions can exist...."

The leadership, structure, and processes of foreign policy making are fairly well defined in the 1982 Constitution of the People's Republic of China. The National People's Congress and its Standing Committee decides on appointment and recall of plenipotentiary representatives abroad; decides on the ratification or abrogation of treaties and important agreements concluded with foreign states; institutes systems of titles and ranks for military and diplomatic personnel and other specific titles and ranks; decides on the proclamation of a state of war in the event of an armed attack on the country or in fulfillment of international treaty obligations concerning common defense against aggression. An example is the sending of troops abroad as UN Peace Keeping Force.

The implementation of such policies is delegated to the State Council with the Ministry of Foreign Affairs in cooperation with other ministries in the conduct of foreign affairs and signing of treaties and agreements with foreign states.²⁸

In China the foreign policy making process is far more routinized and bureaucratic than those of the national strategic objectives. Major players include top-level political leaders of the Communist Party of China (CPC) and the National People's Congress (NPC). The same people often hold top positions in both institutions. When a policy

²⁸ See Constitution of the People's Republic of China, 1982. Fourth edition.

is instituted the second-level leaders of major party and state organs responsible for various aspects of foreign policy meet to thresh out the strategy and details for carrying out the policy. More specifically the personnel in the decision making mechanisms are: (1) the CPC Central Committee's Foreign Affairs Leading Small Group (FALSG) (and within the FALSG, the State Council Office of Foreign Affairs (OFA)) and (2) the CPC Central Committee General Office (CCGO).

On the formal level, the Political Bureau of the Standing Committee (PBSC) of the Communist Party of China (CPC) and the Standing Committee of the NPC make foreign policy and exercise ultimate decision-making authority over foreign policy, as it supposedly does over defense policy.

Sometimes conflicts do arise when some issues fall within a gray area. Theoretically foreign policy organs usually handle external policy issues if it is defined as being within the foreign affairs (*waishi*) realm, as opposed say to the military affairs (*junshi*) (i.e., defense policy) realm. Many of the above issues sometimes fall within a gray area (i.e., neither purely *waishi* nor *junshi*) and thus require intervention and a formal "ruling" from higher leadership levels. Disagreements between the foreign and defense policy authorities do happen, and every so often revealed by the media. Officially senior officers of the PLA are not allowed to get out of the chain of command to voice any form of policy dissent. Over the years the PLA has cooperated closely with the Ministry of Foreign Affairs on issues that are linked to its institutional function and responsibilities or are in general judged to require security clearance. For instance some regional and global diplomatic and/or foreign policy issues fall within military and defense areas of concern. They include disputes over the Spratly Islands, Taiwan, nuclear testing and nuclear proliferation policies, handling of the US spy plane, sensitive technology transfer negotiations, multilateral security discussions, and critical bilateral relations that affect aspects of military modernization, such as relations with Russia and the EU (important sources of advanced weaponry) and with the United States and Japan. Yet it should be noted that there are times when PLA strategists have analyzed elements of China's foreign policy in their writings, as well as the specific views of civilian strategists.

The Ministry of Foreign Affairs and the Ministry of Commerce (MOFCOM) are chiefly concerned with maintaining friendly and amicable diplomatic relations with most Third World countries as well as the major global powers, for the purpose of preserving a peaceful external environment conducive to continued economic growth and political stability. While the PLA's most important responsibility is to ensure an effective defense against potential enemies by building a more modern military force and generally to prevent the emergence of threatening behavior among major regional or global powers.

Ministries that conduct business with foreign countries carry out foreign policy initiatives in cooperation with the Ministry of Foreign Affairs. Often the overall foreign policy strategy is either undertaken directly by the Ministry of Foreign Affairs or, in the case of key policy actions, recommended by the Ministry of Finance, Ministry of Commerce, Ministry of Defense, Ministry of Education, Ministry of Science and Technology, and/or any agency with the required expertise such as the Academy of Sciences or Academy of Social Sciences and formally approved by the National People's Congress as a body. Among senior party leaders, the President and the Premier of the State Council in general, exercise primary leadership authority over foreign policy.

China's 'soft power' as an evolving diplomatic tool

In view of China's ascendancy as the "factory of the world," Beijing has become interested not only in raising China's international stature but also in designing new ways (especially non-military means) to compete more successfully with the major powers of the world for markets and access to the world's rare resources. To attain these objectives, China has crafted an array of foreign policy strategies using diplomacy, trade, investment, development assistance, bilateral agreements, partnerships, and joint ventures. China also actively participates in existing multilateral organizations, and even initiated in the founding of new multilateral institutions (BRICS—Brazil, Russia, India, China and South Africa). This, no doubt, is a shift of focus from Beijing's earlier foreign policy effort to win official recognition from countries that still recognize Taiwan, to forging a variety of bilateral

and multilateral cooperative ventures focused mainly on business and trade.

What appears to be worrisome for the West, particularly for the US, is the observation that "Beijing's economic engagement with Third World countries appears to be going hand-in-hand with expanding political influence," in some cases considered mainly by the US and EU as "undemocratic" or "authoritarian" governments. Moreover China's economic engagement has extended to key US allies or to regions where US dominance to date has been paramount and unchallenged.²⁹ This development has led some American defense analysts to warn Washington that "Beijing could one day challenge US global power."

Given this context many US policy makers are now raising concern over the growing US trade deficits with China, which have risen from mere \$10.4 billion in 1990 to an estimated \$409 billion in 2008, while China's trade surplus for the same year hit \$266.3 billion. Since 2001 when Chinese trade volume with the US exceeded that of Japan, many American officials and legislators have accused China of using unfair trade practices by "undervaluing its currency" and "giving subsidies to domestic producers" in order to flood US markets with low-cost goods and to restrict US exports. Such practices, accordingly threaten American jobs, wages, and living standards.³⁰

More alarming to many, China is now producing relatively less low-value products and exporting more high-value products such as communication satellites, cars, railway systems, ships and computers. Yet some executives of American car companies that went bankrupt after the 2008 financial meltdown such as General Motors and Chrysler claim that they would have a better chance of recovery in China than elsewhere in the world. Another concern has been efforts by Chinese state-owned firms to acquire US companies and thus raising the specter of China's partial control of the US economy and

²⁹ See Kerry Dambaugh, "China's Foreign Policy: What Does It Mean for US Global Interests?" *CRS Report for Congress*, July 18, 2008.

³⁰ *op. cit.* Labonte...

overtaking the United States as the world's largest trade economy in a few years and as the world's largest economy within the next decade.

These speculative calculations have led the more pessimistic American policy makers and legislators to view China's rise as America's descent. And predictably, it led to negative perceptions of China's economic practices which in effect led many US congressmen to set off numerous bills, including some that would impose sanctions against China unless it reforms its currency policy. Other US leaders threatened to apply US countervailing laws such as Super 301 on Chinese exports to the US. For instance, in 2006, US legislators rejected, for security reasons, a Chinese offer to buy the Union Oil Company of California (UNOCAL). Indeed after the US financial meltdown in 2008, the major bailout laws signed by newly elected President Barack Obama have a built-in obligation to use the bailout funds to induce Americans to "buy American."³¹

Of greatest alarm to American policy makers has been China's success in the Third World with its current foreign policy strategy which American analysts described as "soft power" or a "charm offensive."³² Accordingly China uses a blend of trade, investment, grants, concessional and preferential loans, debt cancellation, and joint ventures to help Third World leaders address their development problems. The "no conditionality" feature of Beijing's development assistance program appears to be most attractive to foreign governments that seek swifter, more efficient, and less intrusive solutions to their development problems compared to what Western lenders have to offer. According to a Chinese Embassy official I interviewed but refused to be named: "No conditionality means respect for sovereignty and non-interference in domestic affairs." For most aid recipients, it also means recipient countries determine what projects are required in line with their national development priorities.³³

³¹ See "Trade Test," Editorial, *Washington Post*, January 28, 2009.

³² See section on "Chinese 'Soft Power': Definition and Assessment" below for more extensive discussion on the subject.

³³ See Dr. Martyn Davies, "How China delivers development assistance to Africa," Center for Chinese Studies, University of Stellenbosch, February 2008.

The truth is that there are conditions in Chinese development assistance programs: among them, support of one China policy and tied loans. China's EXIM Bank claims that the criteria for concessional loans is that "Chinese enterprises should be selected as contractors/exporters of equipment, materials, technology, and services needed for the implementation of projects." This means that Chinese experts, technology, equipment and materials "should be procured from China" instead of from other countries. "No less than 50 percent of the procurement shall come from China."³⁴ For most of the cases, however, other conditions can be changed except for adherence to one China policy. Most African countries have negotiated for reduction in the number of Chinese workers and the amount of materials coming from China.

Western policy makers claim that, aside from not setting preconditions, Chinese multinationals have great advantage over their Western counterparts as they have deeper pockets, no shareholders to answer to, and can afford short-term losses in pursuit of longer-term and more strategic gains. These advantages on China's part may no longer hold true since the US government under President George Bush in 2008 and later, President Barrack Obama in 2009 handed out trillions of dollars in bailout money for the US financial and banking institutions as well as multinational corporations, who if they choose to do so can counter Chinese economic aid projects in developing countries.

While China has gained extensive economic ground with its diplomatic and economic engagements through the use of its 'soft power' in the form of development economic assistance programs, China's 'soft power' compared to American 'soft power,' in the view of American 'soft power' guru Joseph Nye, is not without weak spots.³⁵ Accordingly China's 'soft power' has many structural limitations. In Nye's view China's "fuzzy mix" of aid and commercial projects is now facing

³⁴ Chinese EXIM Bank webpage. Cited in Dr. Davies' "How China delivers..."

³⁵ Joseph S. Nye, Jr., "Soft Power: The Means to Success in World Politics," *Public Affairs*, NY, 2004. See also Joseph S Nye, Jr., "The Decline of America's Soft Power: Why Washington Should Worry," in *Foreign Affairs*, May/June 2004.

difficult challenges from political opposition among some aid recipient countries and rival international aid donors.

Foreign policy goals: driving force of China's 'soft power'

Many Western analysts who view the world primarily from their own ideological perspective are puzzled by the driving force behind China's soft power; so they are equally baffled by China's foreign policy goals. However, China's foreign policy and economic assistance projects are not totally opaque. Their most important policy goal is based on domestic needs and objectives such as: to sustain economic growth in order to raise the living standards of its enormous population, to reduce social-economic inequities due to the adoption of market-oriented economic activities, to sustain social stability by building socialism with Chinese characteristics and to attain China's rightful place in the international community. The new Chinese political principle is characterized by pragmatism, flexibility, and innovative, timely and appropriate adjustments to changing conditions in China and the world. For example, the PRC leadership has amended the 1982 Constitution several times to adjust to the demands of changing international realities since its entry into the World Trade Organization.

In pursuit of its goal of sustainable economic development, China gives high priority to maintaining a "peaceful international environment" regionally and internationally. China seeks to pursue mutually beneficial joint development projects in exploration and exploitation of rare energy resources with developing countries while it tries to maintain stable and relatively tension-free relations with the United States and the EU. As indicated earlier, Beijing is keenly aware that in the current world order, even a slight hint that it has ambitions to forge its own exclusive regional and global spheres of interests could provoke the United States to counterbalance and frustrate China's international outreach. China refrains from taking any action that could incite US economic and military retaliation for doing so could impede China's economic rise. The PRC State Council issued in December 2005 a White Paper reiterating this point: "China's development needs a peaceful international environment." To this end,

PRC leaders reassure other countries that China's economic development is an opportunity for, rather than threat, to its neighbors. These reassurances have taken on many forms. Chinese leaders have characterized Chinese investments as "peaceful" endeavors that are mutually beneficial to both China and to recipient countries. However, on issues like disputes on territorial boundaries, Beijing finds itself at the opposite side of the fence. China tried to seek peaceful resolution to border disputes with Russia and India. To ease tensions with its neighbors over competing territorial claims in the South China Sea, China has been offering bilateral negotiations and the crafting of a Code of Conduct without the intervention of outside parties who are not claimants to the disputed territories. In the meantime while territorial disputes in the South China Sea continues, the PRC also has cooperated on regional joint cooperation initiatives through the ASEAN ARF, Six Party Talks, UN Peacekeeping Force, and joint anti-terror activities with the US.

Over the years the United States has been the focus of China's initiatives to foster a "peaceful environment." Beijing's priority is to keep stable and relatively tension-free bilateral relations with all countries around the world. In 2003 Beijing toned down the most acerbic anti-US rhetoric and criticism by some Chinese officials and by Chinese citizens carried out in China's mass media. On the US side, Robert Zoellick stressed that the US should not obstruct China's "peaceful rise" and should not frustrate China's aspiration to assume, by her size and ancient civilization, her rightful place in the international community.

In the face of the swift expansion of China's foreign engagements, its policy reforms have been cautious and pragmatic. China maintains, as much as possible, positive diplomatic, political, and economic relations with virtually every foreign country, especially with nearby Asian states. It has appropriated the largest development assistance budget for these countries. It involves recognition of the concerns and needs of China's neighbors and new partners for a comprehensive strategy that combines political, cultural, and economic approaches to address problems of development.

Thus Beijing's diplomatic approach remains largely keyed to the search for political, economic, and strategic leverage and independence of action through moderate management and harmonization of relations among both major and emerging powers. Chinese characterize their foreign policy methods as cooperative coordination with all countries, large and small, that contrasts radically with the United States penchant for unilateralism that runs counter to an emerging multi-polar world.

Chinese soft power in the third world: western reception and initial response

Americans and Europeans claim that since China's economic rise, "Chinese imprints and Chinese products are everywhere." Whether in press accounts or scholarly treatises or traveling through the regions where Beijing is active, Chinese presence can be readily felt.

Chinese ubiquitous presence in the Third World in trade, in development assistance, in joint business ventures, infrastructure building and mining and energy exploration projects, particularly in areas considered to be under American "sphere of influence," has given cause for American hawks and neo-conservatives to magnify presumed PRC strengths and intrusions as well the impending danger China poses to America. Contrary to the observation of Nye, these observers attribute China's competitive strengths to its use 'soft power' that they claim surpasses US soft power. The PRC, they claim, uses soft power particularly in Latin America and Africa, areas where the US political system and US values have been rejected or have worn out their welcome, or have lost their credibility. More worrisome to the American neo-conservatives is that the PRC's development program for Third World countries is easing out US and Western influence.

The Chinese reply to the neo-conservative accusations is that they have in fact adopted some Western concepts of foreign development assistance; its rationale hews closely to the concept advanced by George Marshall who emphasized that foreign development assistance "is directed not against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of

political and social conditions in which free institutions can exist.” The provision of assistance must not be on a piecemeal basis since economic development requires many other elements to succeed. Such assistance should provide a cure rather than a mere palliative.

The leaders of the People’s Republic of China have spoken of development assistance in various terms and, at times embracing some aspects of Marshall’s concept on aid and other times have some objectives that are comparable to the official OECD-Development Assistance Committee (DAC)’s definition of Official Development Assistance (ODA).³⁶ OECD-DAC defines ODA as grants or loans given by government or government bodies to developing countries at preferential or concessional financial terms in order to promote economic development and welfare. Some Chinese grants fall under this category while others do not. As noted above, the Chinese concept of development assistance differs from DAC’s definition, since it covers a wider range of activities, which include trade, investment, concessional and preferential loans, grants, debt forgiveness, business and industrial cooperation, scientific and technological cooperation, and joint exploration of natural and other resources. Often the Chinese use terms like aid, grants, assistance, and loans to cover trade, investments, and bilateral business agreements, making few qualifications or distinctions since they deem that all these activities assist in economic development.³⁷ Moreover, Chinese government agen-

³⁶ See Appendix I for OECD-DAC’s position on ODA.

³⁷ Sometimes Chinese officials do make distinctions on the types of their assistance. For instance the difference between development assistance and “humanitarian aid.” China gives “humanitarian aid” under extreme disaster conditions brought about by typhoon, flood, volcanic eruption, tsunami, earthquake, famine, epidemics or such similar event, to alleviate suffering. The Ministry of Social Welfare handles humanitarian aid. Whereas President Hu Jintao’s reiteration of China’s promise to “double aid by 2009” to Africa last December 2008, is development assistance. The Chinese also distinguish types of official aid. For instance, when the Chinese talk about cooperation, they refer to foreign direct investment contracts with Chinese companies or commercial joint ventures. Whereas when they talk about development assistance, they usually refer to preferential or concessionary loans, debt relief and grants, etc.

cies have been modifying and adapting China's assistance program in response to the changing developmental needs of aid recipient countries. The Ministries of Commerce, Foreign Affairs, Finance, Defense, and even China EXIM Bank have revised, from time to time, the scope of China's development assistance in accordance with the objectives agreed upon between China's top leadership and the leaders of aid recipient countries. As early as the 1980s the Chinese after consultation with aid recipients maintained "assistance and cooperation should be based on the continuous restructuring of the unjust and inequitable international economic relations."³⁸ Failure to do so will only defeat the objectives of the assistance program.

Chinese foreign policy rationale: national interests

China's extension of foreign development assistance is largely based on a frank assessment of Chinese national interests. Unlike in the 1970s when China focused mainly in persuading countries to adopt "one China policy," and isolate Taiwan, today Beijing wants to expand its economic and political engagements around the world, a continuation of the 1980-2000 policy to promote domestic and foreign commercial activities through trade and investment, extending loans, to gain access to rare natural, mineral and energy resources to feed China's industrial needs. These objectives are the drivers of China's foreign policy and use of 'soft power' today. Of course, all these could change with changes in China's national interests and world affairs.

The resources that China needs most today are energy, particularly oil and natural gas, as well as minerals. Yet prior to 1993 China was a net oil exporter; in 2006 after extensive industrialization China needed around 500,000 barrels per day (bpd) according to the US Department of Energy estimate, which was based on a growth rate of 10% per year. And even if Chinese consumption were to go down by 2 or 3 percent, China will still remain the largest single consumer of oil and natural gas up to the next decade. In June 2006, China for the first time became an importer of natural gas from Australia.

³⁸ Andrew J. Nathan, "Human Rights in Chinese Foreign Policy," *The China Quarterly*, September 1994.

One of the most important roles of the Ministry of Foreign Affairs therefore is to cultivate friendship through aid and at the same time accompany the means that will secure supplies of oil and natural gas needed by China.

Chinese leaders also use soft power as tools to secure ownership of foreign upstream production assets by Chinese companies. This means all development assistance projects, whether labeled humanitarian or economic, are intended as inducements to gain support for the objectives of China's foreign and economic policy. The stated purpose of Chinese development assistance for the Third World is to promote mutually beneficial projects. But a substantial component of economic assistance projects is to expand business opportunities such as gaining access to markets for Chinese goods and services. This is why many Chinese development assistance projects have been delivered in kind rather than cash. Assistance comes in the form of Chinese products, equipment, professional-technical personnel, and labor. Thus Chinese concessional and preferential loans are mainly tied-in loans.

An important reason for Chinese adherence to tied loans is to minimize corruption since aid is given in kind, not in cash. The rationale is that material assistance could help solve or minimize corruption by exerting pressure on recipient countries to make good use of Chinese goods, which hopefully will improve local economic-social conditions. Admittedly, many unforeseen complications can surface, a topic which will be dealt with in another paper. Suffice it to say that Chinese economic development assistance is part and parcel of Chinese overall national and foreign economic policy.

The Export-Import Bank (EXIM Bank) explicitly supports Chinese businesses abroad by providing loans for domestic firms assigned to undertake projects abroad. Chinese corporations, especially government corporations, compete with each other to win contracts for projects abroad. While such assistance programs are officially passed on as aid to help spur development in the Third World countries, most of it must be given to Chinese companies, and spent on Chinese goods and services. As a consequence Chinese development assistance programs in Third World countries have been the entry points for

Chinese companies and at the same time lay down opportunities for other business arrangements.

Because funding of development assistance has been delivered in kind, estimating the value of Chinese technical assistance by foreign researchers becomes a problem; it is difficult to price Chinese equipment, professional personnel and labor. What is more the State Council does not appropriate in the national budget or does not release an itemized list of projects and their corresponding amounts for development assistance. Accordingly, in practice, China's State Council will give instruction to the Department of Finance to set aside a basket of funds to be allocated for foreign assistance at the start of every fiscal year with no specified targets. These funds may be disbursed for assistance projects and as grants for interest-free and concessional loans, or are to be spent to provide technical assistance, as new situations arise. Well-informed staff in the MOFCOM who refused to be identified claim that the leadership do not always set down precise and detailed procedures in the allocation and disbursements of funds in order to be flexible in the management of aid resources to the Third World countries.

No doubt China has been criticized by established donors for its reluctance to join the OECD. China does not comply with the OECD-DAC set of regulations or even share information on their development assistance operations. This has elicited different and conflicting views, some in agreement while others diametrically opposed to the Chinese method of providing development assistance. One school claims that the Chinese program advances development in Third World countries, while the other view holds that Chinese assistance hinders the development of good governance and democratic reforms in recipient countries. Still others claim that "it depends on how the recipient countries seize the opportunity to draw maximum benefits from their own traditional endowments."

Success of aid programs also depends on how recipient countries move their economies towards value-added industries and avoid

mere dependence on raw materials exports.³⁹ After examining China's development assistance program in the Third World countries, many Western donors believe that China has no framework and policy-making process as well as established procedure in the implementation of aid programs. For instance Western researchers who interviewed the staff of the Asia-Africa Development Research Institute (AADRI) of the Development Research Centre, a research arm of China's State Council, were informed that they also encountered difficulty in getting timely and accurate information from their own government.⁴⁰

Still other Western scholars argue that the Chinese refusal to provide information about the framework and procedures of their development assistance conceals the strategic intent of Beijing to use aid as a tool to promote China's ultimate foreign policy to dominate the world. Yet whatever are the views and suspicions expressed by the West, one can only rely on the stated policy goals of China. Economic growth propels China to extend international economic aid especially to developing Third World countries. The participants include not only the Chinese state-owned enterprises but also private corporations many of them in joint ventures with western countries. Chinese aid projects come in the form of investment in infrastructure, improved manufacturing processes, technology transfer, trade, and financial grants and loans. The Chinese claim that their economic assistance program is guided by the principle of just and reasonable compensation for investments and equality, and mutual benefit for donor and recipient country. It is essential according to Chinese policy makers to respect the sovereignty of the developing countries and not interfere in their internal affairs or control their economic lifelines.⁴¹

³⁹ Jorge Blazquez, Jaiver Rodriguez, and Javier Santosa, "Angel or Devil? China's Trade Impact on Latin American Emerging Markets," OECD Development Center, June 2006.

⁴⁰ Centre for Chinese Studies, University of Stellenbosch (Dr. Matyn Davies).

⁴¹ See Preamble second to the last paragraph Constitution of the People's Republic of China, 1982.

"China's achievement in revolution and construction are inseparable from the support of the people of the world. The future of China is closely linked to the future of world. China consistently carries out an independent

As noted above, Chinese cooperation and help to Third World countries have been closely intertwined with China's own experience in its founding years as aid recipient from the Soviet Union and later as donor to the Third World countries under Soviet guidance. For this reason, China draws on its knowledge as a recipient of foreign assistance and derives lessons from these programs, which have become the guidelines for its own foreign assistance programs. Chinese officials claim that they have gathered both positive and negative lessons.⁴² Negative lessons are presented as actions that run counter to the Eight Principles stated above and those projects that were harmful to the welfare of the people of China.

Although China does not follow the OECD-DAC definition of development assistance, it does not mean that China defies or rejects Western-crafted procedures in extending aid. Neither does China claim that her aid program is the best and most effective method. The Chinese readily admit that their development assistance programs have many limitations and inadequacies. For these reasons, China works closely with the aid recipients to minimize and eventually eliminate errors and inadequacies. Over the past few years, the Chinese government has called upon its think tanks such as the Chinese Academy of Social Science and the Asia-Africa Development Research Institute, and universities such as Fudan University, Beijing University, and Nanjing University to undertake systematic surveys and evaluation of Chinese assistance programs in the Third World, especially on their perceptions of Chinese aid to Third World countries. Their findings have led to changes in the methods and procedures in providing aid. For example, trade concessions or the provision of commercial loans to companies that may help in a country's development is now classified as aid or development assistance.

foreign policy and adheres to the five principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence in developing diplomatic relations and economic and cultural exchanges with other countries." See also Zhao Ziyang, "For a New International Economic Order," 1981.

⁴² See Maurice Meisner, *Mao's China*, The Free Press, 1977.

Unlike traditional aid donors, the Chinese did not give aid with the professed messianic mission of lifting the poor countries out of the poverty trap.⁴³ F.A. Hayek, the Nobel laureate, has called this Western viewpoint the “fatal conceit.” Chinese leaders, by contrast, are humble pragmatists; they do not claim like most Western and Japanese donors that their economic assistance will ipso facto promote good governance, strengthen democratic institutions, champion human rights, reduce poverty, and speed up economic and industrial development in recipient countries. The Chinese believe that all these beneficial outcomes can only be engendered by the people and leaders of recipient countries and that Chinese assistance can only claim modest accomplishments in specific sectors of society. The Chinese do not adopt the Western practice of setting social-political preconditions before extending aid for in their perception, setting conditionalities amounts to realpolitik whose ultimate goal is to enhance the donors’ power who can intervene in the internal affairs of recipient countries. The Chinese nonetheless make clear that the flow of assistance is not a one-way traffic, rather it should flow both ways. As stipulated in the “Eight Principles for China’s Aid to Third World Countries, there must be “equality and mutual benefit.” If Chinese assistance mitigates suffering and fosters development in Third World countries, the process must also bring about positive benefits to China.

While commercial and resource needs dictate China’s foreign policy objectives in Africa today, political factors often shape the course of its relationship with Africa. For instance, since 1949, Taiwan has been the major aid donor to Africa and other countries. There is little doubt that in time, China would eventually dislodge Taiwan in Africa as the legitimate China. China needs to compromise with some African leaders who play the Taiwan card to raise the ante of China’s development assistance. In Zambia’s 2006 elections China had to increase its aid to neutralize the Taiwan-supported opposition Patriotic Front Party. However, China gives assistance not just to the 48 countries

⁴³ Jeffrey Sachs, *The End of Poverty: Economic Possibilities for Our Time*, 2006. See also Ruth Levine, *Millions Saved: Proven Successes in Global Health*, 2006.

with whom it has formal diplomatic ties, but to all 53 African countries whether they continue to have diplomatic and trade relations with Taiwan or not.

For its all-important role, China's development assistance is not backed by unlimited funds. China's aid policy is guided by the principles of *lisuonengji* and *liangli erxing*, denoting that overseas assistance should be within China's financial capabilities. The Chinese leadership must attend first to assist 30 million people in China living on less than \$1 a day or below the poverty line.

China's engagements in Third World countries have political, economic and security objectives and are influenced by past experiences. No doubt, development assistance programs are influential tools, used to pursue a large part of China's national objectives. China uses grants, concessional loans, and debt relief alongside commercial investments and preferential trade access not only for building stronger political ties but also for establishing cooperation in trade, building industrial enterprises, gaining access to rare strategic resources, which will secure China continuous economic growth. For example, the Chinese government in January 2005 issued the Special Preferential Tariff Treatment (SPTT), which removes tariff from 190 items exported to China from 25 of the least developed countries in Africa. Chinese customs records show that Chinese imports of goods under SPTT in 2005 amounted to \$380 million—about 50 percent more than China's total imports from Africa in the same year. In 2006 China had set up more than 100 trade processing projects to build up its African trade platform. In the same year China promised to establish five trade and economic cooperation zones in Africa by 2009.

China avoids imposing Western policy conditions or using enormous pressure to lock in the recipient government's commitment to adhere to Western geopolitical goals. As past records of Western donors have shown, "traditional policy conditions failed to bring about reform."⁴⁴ Western donors tend to be more interested in pursu-

⁴⁴ See William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, 2006. See also Robert Calderisi, *The Trouble With Africa: Why Foreign Aid Isn't Working*, 2006.

ing their own geopolitical agenda rather than raising the economic capability of recipient countries. A World Bank study of its structural adjustment-lending program concluded that the loans “seemingly hard and all-encompassing conditionality is largely illusory.”⁴⁵ Bank officials did not enforce loan agreements, and loan borrowers know that additional funds will be offered whatever they do. In the Philippines, for instance, despite the recent revelation by World Bank executives that some highly placed government officials used influence peddling in bidding for World Bank projects, nobody was punished, and yet the Bank continued to give loans to the country. For more than two decades major Western aid recipients such as Ethiopia, Sudan, Angola, Tanzania, and Bangladesh are still among the poorest nations on earth.

Between 1968 and 1987 the economies of these developing states were stagnant. Moreover, tying aid to the adoption of required policies clearly undermines political sovereignty as it shifts governmental accountability towards donors rather than on the people responsible in implementing the projects. Most governments of aid recipient countries prefer aid donations to be centralized in national capitals, although field data show that development assistance is more successful when local governments and civil organizations are involved in the entire process, from policy design to monitoring their implementation.

A holistic view of development assistance

China and many developing countries had faced common problems and challenges in their past, which included: preserving national independence, seeking national unity, establishing a viable political administration under the leadership of the Communist Party, and at the same time pursuing the task of social rehabilitation and economic development.⁴⁶ The Chinese leadership learned that prefer-

William Vollman, *Poor People*, 2007. Abhijit Vinayak Banerjee and Dilip Mookherjee, *Understanding Poverty*, 2007.

⁴⁵ Elliot Berg and Alan Batchelder, “Structural Adjustment Lending: A Critical View,” World Bank CPD Discussion Paper no. 1985-21. January 1985.

⁴⁶ This is readily noticeable in the speeches of Chinese leaders who talked on China’s cooperation with African countries. For instance Premier Wen Jiabao’s visit to Cairo to celebrate the 50th anniversary of cooperation

ences for political systems or political ideologies are matters best left to countries themselves. They also believe that popular democracy as practiced in the US is not the only means and end of economic-political modernization. The Chinese do not impose their political system on other countries, and thus they give developing countries more space to develop their economy. It has become part of Chinese praxis when giving assistance to the Third World countries. China takes into account their common historical colonial experiences. Awarding development assistance should be carried out in a way consistent with the recipient countries' respective national aspirations. The Chinese believe that any development assistance program requires a holistic and integrated approach. It must include trade and market access, investment, loans, technological and scientific cooperation, agriculture, education, infrastructure construction, joint business ventures in industrial and resource development, and even debt cancellation, in short all factors that promote economic development, growth and social harmony within the recipient country. As a *China Daily* editorial noted:

China has been offering no-strings-attached financial and technical aid to the most needy in Africa.... It has been encouraging the African countries to develop their economy through trade and investment in infrastructure and social institutions, without dictating terms for political and economic reforms.⁴⁷

China's foreign policy guidelines and aid philosophy articulated in the "Five Principles of Peaceful Coexistence" go back to the joint communiqué between Zhou En-lai and Jawaharlal Nehru over 50 years ago at Bandung, Indonesia and the "Eight Principles Governing Foreign aid" which were presented during Zhou En-lai's visit to Ghana and Mali in the early 1960s. They predate the Millennium Summit

between the two countries. He recalled the significant events during the 50 years of this cooperation and emphasized that China and African countries are developing countries with common interests. This means that close consultation between...

⁴⁷ *China Daily*, 23.6.2006.

of 2000, the Millenium Development Goals and Poverty Reduction Strategy.⁴⁸

As early as October 1956, after the Suez Canal war, Mao quickly created a committee to provide assistance to the people of Egypt. Mao said:

We in China are also ready to do what we can to help Egypt, and our assistance is without any strings attached. If you can pay you may do so, if you cannot, let it be; we shall provide assistance free of charge. Of course a country with national pride, Egypt may wish to pay back our assistance. An account may be kept for future repayment or repayment after 100 years....⁴⁹

In the 1960s some Chinese concessional or preferential loans to developing countries were interest free. In the words of Zhou Enlai it was a kind of help 'among poor friends' for which China "suffers no burden."

The Chinese leadership stress endlessly that their development assistance policies do not constitute a superior-inferior relationship of donor and its recipients. This has been reaffirmed in the Beijing Declaration of 2000 issued by the delegates to the first ministerial meeting of the China-Africa Forum on Cooperation (FOCAC), they emphasize South-South cooperation and symmetry:

We also emphasize that China and African countries are developing countries with common fundamental interests; and believe that close consultation between the two sides on international affairs is of great importance to consolidating the solidarity among developing countries and facilitating the establishment of a new international order.⁵⁰

⁴⁸ Some analysts claim that China's continued reference to these policy statements suggests that China's policies toward Third World countries predate the Millenium Summit of 2000. See Jian Ye Wang, "What Drives China's Growing Role in Africa?" IMF Working Paper 07/211, October, 2007.

⁴⁹ *Mao Zedong Diplomacy*, Foreign Language Press, Beijing 1998.

⁵⁰ See also China, Ministry of Foreign Affairs, 2006 China's African Policy, 12 January 2006, www.fmprc.gov.cn/eng/zxxx/t230615.htm and China, People's Republic of, 2000 'Beijing Declaration' China-Africa Forum on Cooperation, October 12, 2000, Beijing. Commission for Africa 2005.

China's view on development assistance is inseparable from China's integrated foreign policy strategy for promoting China's economic growth, which includes trade, investment, loans, and cooperation in agricultural and industrial undertakings, cooperation in the development of natural and other resources.

There is no doubt that this becomes the framework of China's 'Go Global' or 'Going Out' strategy that encourages Chinese enterprises to invest abroad. The 'going out' policy is the product of the increasing capital accumulation after Deng's 1978 "Four Modernizations Program," that led to market-friendly economic reforms. President Jiang Zemin visited five African countries in 1996, formulating the basis of cooperation to: "maintain traditional friendship and push for new development of Sino-African relations; maintain mutual assistance and benefit and promote common prosperity for China and Africa; maintain close cooperation and protect the interests of developing nations."

The first Forum of China-Africa Cooperation (FOCAC) was held in 2000, and in 2004 President Hu Jintao visited Morocco, Nigeria and Kenya "in a bid to inject new energy into South-South cooperation." After Hu's tour and during the second FOCAC in 2006, China announced its official Africa policy, including aid and investment. This is discussed in further detail below, but first an overview of the mechanisms of making Chinese aid consistent with China's peaceful rise- "Heping Jueqi"

The Chinese leadership argues that development assistance must include the leveling of trade opportunities in the currently inequitable and unrepresentative international financial system in order to promote economic development or uplift poverty in Third World Countries. This is why China has lobbied continuously in the UN and other international organizations for the establishment of a just and rational multilateral trade system that grants the voices of developing countries to be heard in the decision-making of international financial affairs.

According to the Beijing Declaration of 2000, issued during the first ministerial meeting of the China-Africa Forum on Cooperation, they emphasize South-South cooperation and symmetry:

Comparison of Chinese with American 'soft power'

Western Analysts argue that American 'soft power' remains more substantial than any other country in the world. But others are not so sanguine. They argue that American 'soft power' has been declining since the end of the Cold War, but most rapidly at the end of the 20th century. The decline, accordingly, is the result of the United States' own policies and actions such as President George Bush's espousal of American "unilateralism" ("you are with us or against us") and use of military force to invade Afghanistan and Iraq. Former US Ambassador Charles Freeman, Jr., has pointed out in 2007 that although America has huge remaining reserves of 'soft power,' these reserves have become a "non-renewable resource" due to current US war policies.

Ambassador Freeman was referring to the 9/11 attacks on America and President George Bush's declaration of "War on Terror" (WOT), which also prompted the US to revive official development assistance (ODA) which was neglected after the break-up of the USSR.

Incontrovertibly, after World War II, US development assistance served a wide range of US economic, political, social and cultural objectives. In foreign relations the main driving force was to serve geopolitical goals. This is so because ODA actors have been nation states. As has been mentioned earlier, the disbursement of ODA right after World War II was primarily geared toward reconstruction after the ruins of war as in the case of the Marshall Plan which financed expensive economic development projects for the European nations. In the process, former colonies of Europe and the USA gained political independence although their economies were closely tied to the former colonial masters. During the Cold War, ODA was one of the primary economic instruments utilized by the two superpowers, the United States and the Soviet Union, for winning over countries around the world, ward off enemies and keep allies under their wing. The form and scale of ODA served as a benchmark to assess the intensity of competition that raged between the capitalist and the communist alliances for control over the Third World. The economic performance of aid recipient nations and their adherence to political ideology served as the gauge by which the influence of two contending

ideologies were assessed. The economic prosperity of many countries under US influence was viewed as proof of the efficacy of US ODA and by extension the superiority of the US social-economic-political system. Development assistance was used as a way of extending economic models (mainly capitalist or communist) to developing countries. It was also used "to sustain alliances and to reward ideological proxies in the developing world where superpower competition for power and influence was fierce."⁵¹ Vast sums were disbursed to keep regions in the right camp. A few swing states and shrewd leaders seized this opportunity to obtain sizable sums as payment for espousing any one of the two contending ideologies.

While development assistance had been a strategic instrument in Cold War politics to win over non-aligned countries, it also gave many recipient states the opportunity to use such occasions for the realization of some national objectives. Soviet assistance to Eastern and Central Europe strengthened domestic regimes that were socialist. Unfortunately in the case of US assistance to Zaire (now the Democratic Republic of Congo) that emphasized mainly on political relationship, it led to financing and legitimizing what turned out to be the "kleptocratic" and dictatorial regime of Mobutu Sese Seko. In many other similar instances, aid contributed instead to stalling social-economic development, thus defeating the general rationale for which aid was given. But this practice did not stop despite domestic opposition within the US since the overriding goal was to strengthen their influence over aid recipient countries.

American taxpayers challenged the wisdom of using development assistance for superpower competition, which not only ate up a large part of the national budget but also led to domestic discontent, particularly among the poorer sectors of American society. The question raised was why the US should carry the burden of ODA at the expense of its own people when the anti-communist objective of US ODA did not always help the "free world". Other advanced countries in the free world should share the burden. These charges led US policy makers to

⁵¹ J. Nijman, "Foreign Aid" in J. Krieger (Ed.), *The Oxford Companion to Politics of the World*, (NY: Oxford University Press 2001.).

defend ODA on two grounds: to counteract Soviet influence and to “convey America’s humanitarian interest to help alleviate worldwide poverty.”⁵²

Despite public criticism of US ODA, the US nonetheless established bilateral and multilateral assistance programs. In 1960 the Development Assistance Group was founded, and in 1961 it was renamed the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD). Its purpose was to monitor the performance of ODA and serve as the coordinating mechanism among donor states.⁵³ The DAC later adopted the foreign assistance quantum target of 0.7 per cent of Gross National Product (GNP) for its member countries.

The end of the Cold War and the subsequent emergence of a new international system have reduced the importance of ODA in US foreign policy. The primary reason was the dismantling of the Soviet Union and its Eastern European bloc as aid donors. And more ironic, the former countries that belonged to the USSR became American aid recipients. Another was the emergence of “Cold War ODA Orphans” or countries that had been highly dependent on ODA from the superpowers for their existence. To win over former Soviet allies, the US established two new aid programs, which met particular strategic political interests. The SEED (Support for East European Democracy Act of 1989) and the FREEDOM Support Act (Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992) programs were “designed to help Central Europe and the new independent states (NIS) of the former Soviet Union achieve democratic systems and free market economies.”⁵⁴

ODA from the former Eastern bloc ended with the end of the Cold War while ODA financing from the West was significantly reduced.

⁵² Doug Bandow, “Leaving the Third World Alone,” *An American Vision*, edited by Edward Crane and David Boaz, 1989.

⁵³ See OECD/DAC. 2003. Development Cooperation Lens on Terrorism Prevention: Key entry points of Action, <http://www.oecd.org/dataoecd/17/4/16085708/pdf>.

⁵⁴ Curt Tarnoff, “Foreign Aid: An Introductory Overview of US Programs and Policies,” *CRS Report to Congress*, April 15, 2004.

From the late 1980s to 1997, total ODA from major donors fell from 0.35 percent of their combined GNP to 0.22 percent. Having been a major contender in the Cold War rivalry, the US decrease of ODA was the largest from 0.24 per cent to 0.08 per cent.⁵⁵ This reduction is most remarkable as the US was the largest ODA contributor during the Cold War. At the end of the Cold War, some donors, particularly Japan, surpassed US contributions.⁵⁶

ODA, thereafter has evolved into a peacetime instrument to maintain influence of donors over the recipients. And whether or not donors actually believe their own rhetoric, aid policy shifted toward the elimination or reduction of poverty in recipient states and to help them “become responsible stakeholders in the new international order.”

During the Clinton Administration, the emphasis was the promotion of “sustainable development” as the new, post-Cold War main strategy of those parts of the foreign aid program under the aegis of the US Agency for International Development (USAID). Economic assistance supported six inter-related goals:

- Achievement of broad-based, economic growth; development of democratic systems;
- Stabilization of world population and protection of human health;
- Sustainable management of the environment;
- Building human capacity through education and training; and
- Meeting humanitarian needs.

Early in the George W. Bush Administration these goals were modified around four “strategic pillars”:

- 1) economic growth, agriculture, and trade;
- 2) global health; and
- 3) democracy, conflict prevention, and
- 4) humanitarian assistance.

However in September 2002, after the Al Qaeda attack on America, President George W. Bush made a radical dimension to ODA, he

⁵⁵ See net ODA from DAC countries from 1950-2003, OECD.

⁵⁶ See Economic Cooperation Bureau, Ministry of Foreign Affairs, Japan (2001).

made ODA part of his National Security Strategy for global development. It became the fifth “pillar” of US national security, along with defense and diplomacy. In the same year, he underscored the “war on terror” as the top foreign aid priority, highlighting the need to grant large amounts of foreign assistance to about 30 “front-line” states in the war on terror.⁵⁷

The substantial reconstruction programs in Afghanistan, Pakistan, and Iraq—which total more in FY2004 than the combined budgets of all other aid programs—are also part of the emphasis on using foreign aid to combat terrorism.⁵⁸

In view of President George W. Bush’s declaration of “War on Terror,” the ODA objectives of Western countries were amended, under US pressure to allow almost constant interference with the affairs of other nations in order to help the US achieve its geopolitical ends. Such shifts on ODA can be discerned from the new policies of Denmark, the UK, Japan and Canada, among other states. The most

⁵⁷ For a more comprehensive examination of the subject see Alberto Abadie, *Poverty, Political Freedom, and Roots of Terrorism* (Harvard University and NBER) 2004. Bennis Anderson and J. Cavanagh, ‘Coalition of the Willing or Coalition of the Coerced? How the Bush Administration Influences Allies in its War on Iraq’, (Washington, DC: Institute for Policy Studies) 2005. *Human Development Report, International Cooperation at a crossroads: Aid, trade, and security in an unequal world*, (US: UNDP) 2005. Looney Robert, ‘The role of foreign aid in the war on terrorism,’ Strategic Insights, 6, at <http://www.ccc.nps.navy.mil/si/july02/aid.asp> accessed 15 July 2006. Richard Manning, ‘Will ‘emerging donors’ change the face of international cooperation,’ *Development Policy Review*, Vol. 24, No. 4. 2006. Barry Mason, ‘Industrial nations tie foreign aid to support for ‘war on terror’, at http://www.wsws.org/articles/2004/jun2004/aidd-j17_prn.html OECD. 2003. A Development Cooperation Lens on Terrorism Prevention (www.oecd.org) OECD/DAC. 2003. Development Cooperation Lens on Terrorism Prevention: Key entry points of Action, <http://www.oecd.org/dataoecd/17/4/16085708/pdf> OECD, 2005. *The DAC Journal*, Development Cooperation Report 2004, Vol. 6, No. 1. OECD, 2007. OECD Journal on Development, Development Cooperation Report 2006, Vol. 8, No.1.

⁵⁸ Curt Tarnoff, *Foreign Aid: An Introductory Overview of US Programs and Policy*, April 15, 2004.

dramatic change, the War On Terror has wrought on the direction of ODA flow can be seen in what happened to previously marginalized states—like Pakistan—brought back from isolation with massive ODA infusion to become frontline “War On Terror” states. Even the Eastern European states in view of their support of war on terror, in FY2004, SEED countries are allocated \$442.4 million while the NIS receives \$583.5 million in appropriated funds

This means the humanitarian objectives for the disbursement of ODA have been made secondary to the prerequisites of American security concerns. Clearly the new security imperatives of the post-9/11 era have once again redirected the objective back to earlier practice: the securitization and politicization of ODA.⁵⁹ ‘Soft power’ which was originally conceived as a non-military tool has become intertwined with military objectives.

Kwesi Aning of the Kofi Annan International Peace Centre revealed that this has “two implications: one positive (increment the amount of aid) and the other negative (focused disbursement of aid to front-line countries in the WOT). This has resulted in: (a) a geographical shift in aid disbursements and allocations, and (b) a broadening of the remittances under which development aid can be applied.”⁶⁰ This has been acknowledged in the case of the US and the UK, their aggregate ODA has increased, albeit, only for a few years after 9/11.⁶¹ The more objectionable effects have been the slanted payment of development assistance to client states.

For instance, Curt Tarnoff, a US specialist in foreign affairs and national defense, claims that in FY2004, the US “Congress appropriated

⁵⁹ Kwesi Aning, “Security, the War on Terror and Official Development Assistance,” *Southern Perspectives on Reform of International Development Architecture*, 2007.

⁶⁰ op. cit.

⁶¹ The Reality of AID: An independent review of poverty reduction and development assistance. The report states that, ‘...In 2004, for the first time since the end of the Cold war, military spending globally exceeded US\$1 trillion’, p. 1. Furthermore, the 2005 Human Development report stated that just the increase in military spending since 2000 would have been more than sufficient for all donors to reach the 0.7 per cent target for aid spending.

\$5.4 billion, 26% of total assistance, for five major programs whose primary purpose is to meet special US economic, political, or security interests. The bulk of these funds—\$3 billion—are provided through the Economic Support Fund (ESF), an aid category designed to advance American strategic goals with economic assistance. Since the 1979 Camp David accords and especially since the end of the Cold War, most ESF has gone to support the Middle East Peace Process. Since 9/11, much ESF has targeted countries of importance in the war on terrorism. Although ESF funds can be used for development projects (about 57% of the total in FY2004), or in other ways, such as cash transfers, to help countries stabilize their economies and service foreign debt (about 43% in FY2004).⁶²

Another divergent trend in the post 9/11 aid securitization is that it has become the new norm for traditional donors. “Public declarations by US authorities to the contrary, there are ample evidence of the use of coercion, bullying and acts tantamount to bribery and gunboat diplomacy to garner support for its military actions in the War on Terror.”⁶³ Knowing that US economic and development assistance remains very important to many Third World members of the UN, they have been subjected to the manipulations and pressure of US soft power. Clearly the US wields the most powerful military, economic, political and diplomatic leverage with which it could either reward or punish any individual country that supports or opposes US interests. Following the formation of the “Coalition of the Willing” to garner support for America’s “War On Terror,” there has been a politicization of aid similar to that which caused the Gulf War.⁶⁴

The government of the Philippines had firsthand experience of US economic and political pressure after President Gloria Arroyo withdrew Philippine military troops from Iraq.⁶⁵ In other words, the

⁶² Curt Tarnoff, “Foreign Aid: An Introductory Overview of US Programs and Policy,” CRS Report to Congress, April 15, 2004.

⁶³ *op. cit.*

⁶⁴ *op. cit.*

⁶⁵ President George W. Bush vetoed a bill appropriating \$30 million for training Philippine Police in anti-terror campaign.

contribution of a country to the US war efforts in Iraq and Afghanistan determines its share of ODA from the US government.

In view of strong opposition from Western ODA donors that fighting terrorism had become the primary concern of Western development assistance, President Bush announced two additional key foreign assistance goals to placate his critics: (1) promoting economic growth and reducing poverty under the Millennium Challenge Corporation, and (2) combating the global HIV/AIDS pandemic. The Millennium Challenge Corporation (MCC) is a new aid delivery concept, established in early 2004, that is intended to concentrate significantly higher amounts of US resources in a few low- and low-middle income countries that have demonstrated a strong commitment to US initiated political, economic, and social reforms.

As a result of using Western development assistance as instrument to support war against terror, many critics are claiming that US 'soft power' has also been radically weakened. They point to several global surveys on international views of the United States, showing that America is losing influence even with its closest allies in Europe. Nye in his appraisal of American foreign policy recognized this trend:

Anti-Americanism has increased in recent years and the United States' soft power ... is in decline as a result... A Euro barometer poll found that a majority of Europeans believe that Washington has hindered efforts to fight global poverty, protect the environment, and maintain peace. Such attitudes undercut soft power, reducing the ability of the United States to achieve its goals...⁶⁶

Some analysts however have attributed the decline in American soft power to the rise of other economic powers such as E.U., Japan, China, Brazil, India, South Korea as US "peer competitors" and growing source of international influence, through the use of loans, grants, investment, and political and economic clout.

⁶⁶ Joseph S. Nye, Jr., "The Decline of America's Soft Power: Why Washington Should Worry," in *Foreign Affairs*, May/June 2004.

III. Western assessment of China's soft and hard power

In contrast to American 'soft power,' China's campaign to gain diplomatic and economic influence in the international community is seen as a more effective sponsor of 'soft power.' China has shown, even before America's financial meltdown in 2008, that its system of economic development does not require total adoption of western standards. Economic development programs minus the conditionalities (strings attached) that come with Western type of ODA have become very appealing to Third World governments that want to have a choice on the type of economic mechanism and system of governance for their respective countries. Third World recipients appear to agree with 1987 Noble Prize winner and MIT Economics Professor Robert Solow's view that even the mechanisms "may differ from one capitalist economy to another."⁶⁷ They accept Solow's claim that all economic mechanisms including assistance programs are "compounded out of natural and technological facts, legal rules, individual motives, behavior patterns, social norms, and historically contingent institutions, and the like, that together have a lot to do with the price of beer, the balance of payments, the degree of wage inequality, and so on."⁶⁸

Unlike US neoliberals, Third World leaders agree with mainstream economists that capitalism is not a theology or monolithic economic system; capitalism is diverse in its organizational composition, state-business relations, and managerial priorities.⁶⁹ One of the implica-

⁶⁷ Robert Solow, "How to Understand the Economy," NYBR, Nov. 16, 2006. See also Duncan Foley, *Adam's Fallacy: A Guide to Economic Theology*. Harvard University Press, 2006.

⁶⁸ *ibid.*

⁶⁹ See W. Lazonick, *Business Organization and the Myth of the Market Economy*. New York: Cambridge University Press, 1991; J. Henderson, 'Danger and Opportunity in the Asia-Pacific'. In G. Thompson (ed.), *Economic Dynamism in the Asia-Pacific: The Growth of Integration and Competitiveness*. London: Routledge, 1999; P. H. Hall and D. Soskice (eds) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York: Oxford University Press, 2001; D. Lane, and M. R. Myant (eds) (2006). *Varieties of Capitalism in Post-Communist Countries*. London: Palgrave Macmillan, 2006.

tions of this view for the developing world is that far from there being one 'royal road' to development, as neo-liberals would have it, there are many other roads to travel. There is a multiplicity of potentially successful routes to economic development capable of delivering economic prosperity. "China's form of development may well be one of these (alternative routes). If it is, and if China becomes a dominant economy, then it will be a very odd form of capitalism to have constituted the core of a new phase of globalization."⁷⁰

Some scholars claim that the Chinese economy is a complex, hybrid, phenomenon sharing some similarities with the partially 'state orchestrated' capitalisms of Japan, Taiwan and South Korea. It is the only significant globalizing form of economic system that combines aspects of capitalism and socialism that drew its core concepts and methods from some of the principles of socialism. China is the only political economy where state-owned companies are at the cutting edge of globalization.⁷¹

Similarly China's 'soft power' whose instruments are trade, investment, and development assistance, grants, debt forgiveness, concessional and preferential loans are particularly attractive to most leaders of the Third World mainly because the Chinese assistance package does not require good governance, liberalization, market opening, adoption of a democratic political system, respect for human rights, restrictions on the choice of projects, and environmental quality regulations that are required by the US and other Western government assistance programs. Western analysts attribute that China's success has been due in part to its clientele in the Third World, which have been mostly "authoritarian governments that have few if any democratic imperatives."

Others have warned that China's approach has risked "unrestricted" investments in the uncertain future of these regimes. According to US Vice President Joseph Bidden, Jr., "In some cases Chinese economic

⁷⁰ H.J. Chang, *Bad Samaritans: Rich Nations, Poor Policies and the Threat to the Developing World*. London: Random House Business Books 2007.

⁷¹ See Jeffrey Henderson, *China and the Future of the Developing World*, United Nations University, May 2008.

engagement has become the subject of intense, xenophobic political debate, as in the Zambian election of 2006, when the main opposition candidate incited his followers with vitriolic anti-Chinese rhetoric.⁷² But for some Western reporters out in the field state that the Chinese government has taken on a cultural relativist approach,⁷³ it recognizes the complexities besetting developing countries and donors must always be aware of the historical, social, cultural and political realities facing these governments. Vice President Biden overlooked the effects of the War on Terror and the impact of President Bush's unilateralism on America's soft power and the impact of US official development assistance program tied to the War on Terror.

Most Western critics of Chinese 'Soft Power' agree with Vice President Biden and are convinced that China's successes are temporary. David Shambaugh for instance told the Brookings-Chicago Council Forum on Soft Power in Asia:

For me ... China's soft power is not nearly as great as it's been cracked up to be. I had a kind of intuitive sense that this may be the case, but I didn't really realize the extent to which until the data came forth. While the PRC does receive a fairly positive rating as to whether its influence in Asia is positive or negative, it scores decidedly less well on a whole variety of other indicators.⁷⁴

Many believe that eventually China will face cultural backlash, given the style and practices of PRC foreign investments and construction projects. Specifically these involve the import of Chinese workers instead of using the local population or providing substandard labor conditions for local workers. As indicated by US Vice President Biden, Jr. in the CRS report to the US Senate, "Chinese overseas operations already have begun to experience fallout from their activities." PRC oil drilling sites and well-workers have been attacked,

⁷² Joseph Biden, Jr., "Letter of Transmittal" April 29, 2008 in China's Foreign Policy and "Soft Power" in South America, Asia, and Africa, CRS Study for Committee on Foreign Relations United States Senate, April, 2008.

⁷³ James Seymour, "Human Rights in Chinese Foreign Relations," *China and the World*, 1998. See also Lynsey Addaro, "How to Prevent the Next Darfur," *TIME* magazine online, April 26, 2007.

⁷⁴ "Soft Power in Asia" Brookings-Chicago Council-East Asia Institute, June 17, 2008.

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 thus discrediting China's 'soft power' or its "win-win" approach.

Foreign entanglements also could raise political problems at home for PRC policy makers. Since increasing development assistance activities means increasing foreign relations budgets, this has inevitable consequences on domestic spending. The poorer sectors in China may call for a budget that balances domestic needs with international activities.

Compared to the PRC's current soft power initiatives, some CRS studies conclude that the United States, after transferring its soft power support to war on terror particularly in Iraq and Afghanistan and in the wake of years of US budget cutbacks especially with the termination of US international public diplomacy programs, the US is losing ground to China. But others claim, "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."⁷⁵ Moreover Joseph Nye has noted, despite some limitations, American soft power is awesome: US 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.

China's soft power may have expanded impressively the pace and scope of its international activities. However "its achievements are miniscule and pale in comparison to the longstanding and comprehensive global involvement of the United States." In many cases, "where China is just arriving, the United States is already well established."

⁷⁵ Thomas Lum, "China's Foreign Aid and Activities in Africa, Latin America, and Southeast Asia," CRS Feb. 25, 2009.

Often China has to accommodate itself to the realities of a strong US presence. At present though this US presence is diverse and uncoordinated in view of the "war on terror" which at times triggers anti-American feelings. American soft power nevertheless leaves a substantial global footprint. This wealth of US influence could be revived to serve as resources for US soft power strategy. In short there is need—not for more alternatives, in the sense of nuances, clever gimmicks, and ploys to revive American soft power but a foreign policy budget fundamentally revised to revive American soft power to meet current realities.

Precisely because of the belief that China's 'soft power' approach to international assistance is anchored on risky endeavors, Western critics argue that China's 'soft power' is often more symbolic than substantive: "Easy things are taken care of first, while inconvenient and difficult things are postponed, possibly indefinitely." There is no way a strategy of risk could lead to the maximization of comprehensive 'soft power.' The 'soft power' potential that the PRC can hope to gain from such a strategy, can become uninspired compared to the national capacity and willingness of the United States to take on costly and difficult global tasks such as war on terror and international disaster aid. Of course these critics overlooked that war on terror included the use of 'hard power' or military force. To date, they contend, nothing in Beijing's current soft power approach suggests that it is about to embrace responsibilities of such magnitude.

While China's "no conditions" official development assistance is under massive fire from some Western donors, the World Bank, which delivers multilateral aid, found itself under fire for its conditionality policy not only from many recipient countries but also from some of its own technical staff. In 2005, the World Bank in response to such criticisms undertook an assessment of its conditionality policy.

According to the findings, the World Bank's prescriptive conditionalities undermined the growing belief reflected at the G-8 and the UN Millennium Summit in 2005 that "poor country governments must be able to define their own economic policies if poverty reduction was to be achieved." Moreover there were too many conditions and some of them were too difficult for aid recipient countries to abide by. In 2006 the Bank instituted five "Good Practice Principles" (GPPs) to

guide the Bank staff in imposing and reducing the overall number of conditions attached to Bank lending.⁷⁶ The Bank personnel were briefed that plans for alleviating poverty initiated by the recipient country is the “bedrock” of successful development program.

Two years after the institution of GPPs, the World Bank claims that the problem of conditionality has been dealt with, and that it is no longer a major problem in lending. The claim was questioned by the EURODAD, an independent research institution. According to EURODAD, “the Bank may be slimming down the number of conditions it uses in its aid to developing countries, but it is still making heavy use of economic policy conditionality, especially in sensitive areas such as privatization and liberalization.”⁷⁷ Moreover EURODAD claims two years after the implementation of the GPPs, “more than two thirds of loans and grants (71%) from the World Bank’s International Development Association (IDA) still have sensitive policy reforms attached to them as conditions.”⁷⁸ EURODAD contends, “The majority of these are privatization related conditions.” EURODAD also finds that as a share of overall conditions, economic policy conditions were unchanged and at worst were increased among World Bank conditions to poor countries. The World Bank’s claim that there has been a reduction in the overall number of conditions attached to World Bank finance has no basis. Bank data show that the average number of conditions has fallen from 46 per loan prior to the GPPs, to 37 per loan today or a reduction of only 9 percent. Moreover this reduction is largely due to a fall in the number of non-legally binding conditions, from 33 per loan before the GPPs to 24 today.

⁷⁶ World Bank: “Good Practice Principles for the Application of Conditionality: A Progress Report”, 2006. See also Andrew Mold and Felix Zimmerman, “A Farewell to Policy Conditionality?” *Policy Insights*, OECD Development Centre, August 2008.

⁷⁷ B. Bull, “The World Bank’s and the IMF’s use of conditionality to encourage privatization and liberalization: current uses and practices—Report prepared for the Norwegian Ministry of Foreign Affairs” November 2006

⁷⁸ Untying the Knots: How the World Bank is Failing to Deliver Real Change on Conditionality, *EURODAD Report*, November 2007.

Legally binding conditions, however, have remained unchanged at 13 per loan.⁷⁹

Under EURODAD's detailed analysis the Bank's number of prerequisites per loan should be treated with a degree of skepticism since they present an overly optimistic picture. In some cases, the Bank has "bundled" numerous policy actions into one overall condition. In a sample of 1,341 Bank conditions, EURODAD found that almost 7 percent of Bank conditions contained multiple policy actions. If these are counted as separate conditions, the number of overall conditions increases by 12 percent. The Bank, therefore, has not reduced the number of conditions, and whatever changed it claims are not as substantial as they claim. There is room for improvement both in reducing legally binding and non-legally binding conditions.⁸⁰

Another area where the US has advantage over China is that unlike most Western countries, China "lacks the advantage of a substantial private-sector investment presence overseas" which have acquired a vast inventory of experience in dealing with Third World governments of all kinds. This means that Chinese companies still have to face certain complications that are new to the PRC, "including multiple opportunities for international misunderstanding, resentment, and cultural backlash."⁸¹ 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."⁸²

Moreover Western critics view the lack of private sector participation in overseas aid process as one of China's weaknesses. But they also claim that China's use of state-operated corporations is a source of China's 'soft power' strength. In a CRS report to the US Senate⁸³ it claims that China's clearest 'soft power'

⁷⁹ *ibid.*

⁸⁰ *ibid.*

⁸¹ Kerry Dambaugh, p.2.

⁸² See also Thomas Lum, Wayne Morrison, and Bruce Vaughn, *China's "Soft Power" in Southeast Asia*.

⁸³ *op. cit.* CHINA'S FOREIGN POLICY AND "SOFT POWER" IN SOUTH AMERICA, ASIA, AND AFRICA, CRS Study for COMMITTEE

advantages over the United States is in its overseas activities and investments that 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. In contrast, the United States has little to match such centrally directed initiatives, particularly in the wake of years of US budget cutbacks in—and in the case of the US Information Agency, the termination of—high-profile US international public diplomacy programs.

As mentioned earlier, although these same critics qualified that “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.

For most advanced Western aid givers, the World Bank and programs like the Millennium Development Goals may be able to increase the efficiency of their international investment processes and reduce red tape to compete with Beijing's no conditions policy. Chinese leaders no longer demand that a country adopt a “one-China” policy, nor do they insist that recipient countries deal only with Chinese companies and banks or obtain suppliers and equipment exclusively from Chinese corporations. For example in response to the Philippine Senate investigation of the ZTE National Broadband Network deal for instance, Beijing maintained a hands off policy on the grounds that the Senate investigation is an “internal” affair of the Philippines. China makes known this policy internationally as a key competitive advantage to Western official development assistance—one that is both more accessible and less intrusive for the recipients. Two, welcome the unobstructed nature of PRC investments resonates with many foreign governments. However in the case of the ZTE-NBN assistance project with the Philippines, some Philippine opposition politicians viewed China's observance of non-interference as indifference to or acquiescence with local corrupt officials. Consequently, President Gloria Arroyo had to cancel the project amid charges of extortion and bribery by Philippine officials.

Western aid givers are convinced that China's "no strings" approach will eventually reap potential negative consequences that could counterbalance any current soft power advantages. Chinese readiness to make unrestricted investments without holding the recipients to standards is considered foolhardy by Western observers, and is seen as China's naive trust in the good judgment and respect for the sovereignty of recipient governments.

Other Western analysts however concede that China's 'soft power' reflect a well-organized and well-funded strategy that integrates domestic objectives into foreign policy goals to secure and advance China's economic and security interests. For instance at the turn of the century China's annual economic growth rates ranged from 9.5 to double digits in 2007 when China reached an annual rate of 11.4 percent—the highest since 1994.⁸⁴ This rapid and sustained economic growth has created enormous domestic need for resources, capital, and technology, as well as for markets for Chinese goods, all of which have served as powerful drivers of China's 'soft power' which promotes international trade and investment agreements.

Although Beijing has adopted a more accommodating and more flexible foreign policy stance and has not challenged the global "status quo" created by the US, many experts have pondered on China's current and future capabilities as well as long-term objectives. Republican hawks insist that China's 'soft power' has malignant intentions. They allege that it is the opening platform of a set of well-crafted and well-funded, foreign policy goals, designed not only to secure and advance China's diplomatic and economic interests around the world but also to use it as an instrument to challenge the current world order, headed by the US.

On the other hand sympathetic China watchers maintain that the worse-case scenarios which claims that China has malignant intentions, is farfetched. China's foreign policy strategy is borne out of realistic assessments of its current strength and limitations as it moves

⁸⁴ Xie Fuzhan, Commissioner, National Bureau of Statistics of China, "The National Economy Maintained a Steady and Fast Growth in 2007," January 24, 2008.

to claim its rightful place in the international community. China's bilateral agreements with some Third World countries for acquiring energy and mineral resources reveal the major constraints on China's economy. Worse, the pursuit of these resources could be the subject of hostile reaction from Western multinationals operating in the same developing countries. There is no doubt that in the view of likely multinational reactions China today represents, at worse, an aggressive and well-financed competitor. But since some multinationals have joint ventures with China, they also view the development assistance component of China's 'soft power' represents a trend toward constructive cooperation and economic modernization. Doubtless many American liberals do not believe that it is a deliberate challenge to either US 'soft power' or military paramountcy. On the contrary they believe that this is China's way of finding its rightful niche in the emerging global system.

These same liberal China watchers even noted that the overall US foreign aid resources, trade and foreign direct investment, and intellectual and cultural influences, are way ahead of China. In short US soft power plus hard power or smart power has no equal in today's international order. But they also assert that in a competitive world order, it is expected that developing countries will continue to seek for the best deal from rival aid donors and investors. Developing countries will continue to forge strong diplomatic, economic, and security relations with the United States while they seek higher quality assistance deals with China. Indeed some developing countries that have rich energy resources view China's energy demands today (which is increasing at an annual rate of 4% to 5% until at least 2015) as a good opportunity for them to approach China for development assistance programs that will develop their economies at a faster rate. Recipient countries also hope that aid projects will help them build future industrial centers of their own. China for its part has steadily and successfully acceded to 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. China's need for energy resources and raw materials to fuel its economic growth has

played a dominant role in current foreign policy thrust. These activities are often tied to PRC pledges of foreign aid.

IV. Priority of hard power (military supremacy) over soft power

While this essay focuses on nonmilitary aspects of China's ODA, no discussion of China's foreign policy would be complete without comparing China's view of hard power with the US view.⁸⁵

Traditionally there are three important ways by which strong powers exact compliance from Third World governments: use of military force, multilateral diplomacy and promotion of commerce and trade. At the moment, based on her bitter historical experience when China suffered foreign invasions, China refrains from direct military intervention. It is unpopular, expensive, destructive, wasteful of lives, and immoral. Chinese leaders proclaim that China will not attack unless she is attacked first.

By contrast, the US consistently uses military force to attain her economic, political and security interests around the world. The US justifies military interventions as defense of US-type democracy, the capitalist global social-economic system, and above all US national interests.

US-China relations waxes and wanes time and time again, and often, Chinese moves have been reactions to US actions. Taiwan has been the main source of disagreements between the two countries. And despite fitful differences the US and China often managed to resolve their differences and go on with trade and exchange of visits by their heads of state. In 2001 China cooperated with the US in its

⁸⁵ State Council Information Office White Paper, China's National Defense, July 1998. See full text at <http://english.peopledaily.com.cn/whitepaper/2.html>. See also Kerry Dambaugh, "China's Foreign Policy: What Does It Mean for US Global Interests?" *CRS Report for Congress*, July 18, 2008. Gill Bates, *Rising Star: China's New Security Diplomacy*, Brookings Institution Press, Washington, DC, 2007; Jerome Alan Cohen, "China and Intervention: Theory and Practice," *University of Pennsylvania Law Review*, January, 1973

anti-terrorism campaign and has joined many multilateral organizations sponsored by the US.

Still Western analysts attribute current difficulty to define China's international objectives to the lack of transparency or deliberate under-reporting of China's military budget, development assistance program and foreign investment objectives, despite the fact that China's foreign policy direction has become more explicable and predictable in recent years.⁸⁶ However the uncompromising stance of the neo-conservatives in the US government has led PLA internal policy circles to view the US as a primary strategic, long-term threat. This viewpoint argues that the United States is intent on restraining or preventing China's emergence as a major power. Despite mutual distrust and wariness, Chinese military officials strive to maintain positive US-China relations. China's overall diplomatic and economic relations with the United States consist of a complex mixture of cooperation, competition and suspicion.

Chinese leaders believe that in today's international system, foreign aid or 'soft power' rather than the use of military force is the more suitable means for gaining influence with Third World countries. The exercise of military force is viewed by the Chinese as only national defense. Nonetheless, the Chinese recognize that military capability for defense is a vital factor in foreign relations.

In contrast to the US campaign for democracy and market liberalization, China's campaign is for rights of sovereignty and self-determination against all powers with imperial designs. According to Andrew Nathan, China's campaign to respect sovereignty and non-interference in domestic affairs started during the Mao era. As early as the 1950s China had accused the US and France of violating the sovereignty of the citizens of emerging and developing countries.⁸⁷ Chinese leaders remind the West and Japan that they will never allow repetition of the brutal invasion of their country during the two Opium Wars (1840-

⁸⁶ Although in the White Papers of the Chinese Government 2011, the Chinese have released much of the information called for by Western scholars.

⁸⁷ Andrew J. Nathan, "Human Rights in Chinese Foreign Policy," *The China Quarterly*, September 1994.

1842 and 1850-1856) and the Japanese invasion in 1938-1945. It is ironic that the West is now accusing China of human rights violations, when it had been a common tenet during their rule of their colonies.

No doubt China's security approach is aimed at defusing international instabilities that could adversely affect China's own development.⁸⁸ China supports the maintenance of a peaceful environment for it will help expand China's own wealth and influence in non-threatening ways to its neighbors; while it also seeks to avoid dispute and dissension with the US as a global power.⁸⁹

US concern about China appears driven by security calculations at the Executive Office, Pentagon and in Congress.⁹⁰ Former Vice President Dick Cheney and Pentagon officials often question the motivations behind China's expanding military budget. A congressionally-mandated Department of Defense report concluded Beijing is greatly understating its military expenditures and is developing anti-satellite (ASAT) systems—a claim that gained more credence when the PRC used a ballistic missile to destroy one of its own orbiting satellites in early January 2007.⁹¹

In May 2006, the Pentagon released its annual "congressionally-mandated report" on China's Military Power.⁹² The 2006 report noted that China has beefed up its military capability especially its nuclear

⁸⁸ China is home to 22,104 dams, compared to 6,390 in the United States and 4,000 in India. Becker, Jasper, "Peasants bear the brunt of China's energy plans," *Asia Times Online*, 2003.

⁸⁹ *op. cit.*, Bates Gill, *Rising Star: China's New Security Diplomacy...*

⁹⁰ Kerry Dambaugh, *China-US Relations: Current Issues and Implications for US Policy*, *CRS Report for Congress*, February 14, 2007.

⁹¹ *Military Power of the People's Republic of China* (annual report), May 2006.

Full text: [<http://www.defenselink.mil/pubs/pdfs/China%20Report%202006.pdf>] See also William J. Broad, "Orbiting junk, once a nuisance, is now a threat," *The New York Times*, February 6, 2007, p. 1. "US reviewing space cooperation with China after anti-satellite test," *Agence FrancePresse*, February 3, 2007.

⁹² Appendix II of this paper contains a list, legislative authority, and text links for selected mandated US government reports on China, including the report on China's Military Power.

forces. It concluded that PRC security improvements are directed against Taiwan. The report also asserted that China's military build-up could pose a long-term threat to the US military presence in Asia.

US defense officials and members of Congress have been disturbed for a long time by the PRC's sales of weapons, technology transfers, and nuclear energy assistance to certain countries in the Middle East and South Asia, particularly to Iran and Pakistan. While some US officials have grown more confident that the PRC supports nuclear non-proliferation policies,⁹³ hardliners in the US Congress and Pentagon argue that such confidence is misplaced. They claim that "reputable sources" have reported that China sold ballistic missiles and technology for weapons of mass destruction (WMD) in the international market, primarily in the Middle East.⁹⁴ Meanwhile the Chinese charge that the US is selling lethal weapons to Taiwan and is covertly supporting Taiwan's campaign for independence. Moreover, the bombing of the Chinese Embassy in Belgrade in 1999 and the intrusion of two US reconnaissance aircrafts in Hainan Island, one of which collided with a Chinese jet in 2001 confirmed Chinese suspicions that the US is bent on using military intervention if ever China resists US demands.

These events aroused the intense and widespread hostility of Chinese citizens towards the US. It is to the credit of the Chinese leadership that they exerted every effort to calm down the Chinese public. In fact, they initiated confidence building measures by holding talks with the US on military cooperation. In 2005 when US Secretary of Defense Donald Rumsfeld made his official visit to China, he attempted to "re-energize" military ties, but he made little progress, although both countries cautiously resumed military contacts. But this was again

⁹³ According to some defense officials the PRC has showed willingness to cooperate with the US. For instance, in 1992 promised to abide by the Missile Technology Control Regime (MTCR) and acceded to the Nuclear nonproliferation Treaty (NPT); in 1993 signed the Chemical Weapons Convention (CWC); in 1996 signed the Comprehensive Test Ban Treaty; and in 1997 joined the Zangger Committee of NPT exporters.

⁹⁴ For details, see CRS Report RL31555, *China and Proliferation of Weapons of Mass Destruction and Missiles: Policy Issues*.

suspended by China in October 2008 after a new round of US arms sale to Taiwan.

Soon after US President Barrack Obama took office, the two countries decided to resume military dialogue. The 10th China-US Defense Consultative Talks was held in Beijing on June 24, 2009. Both sides felt that a lack of high-level military exchange has hindered the advancement of cooperation. As two key players in regional and global security, the two countries agreed to maintain this momentum.⁹⁵

In the top US political stratum, there are three schools of thought about China's security objectives and how to respond to these objectives.

According to one school of thought, China's economic and political rise is inevitable and has to be acknowledged and requires US accommodation. Once China finds its rightful place in the international community, it will pursue stable international economic relationships, to insure its own domestic growth and stability. A prosperous China is likely to develop a materially better off, more educated, and sophisticated populace. And who knows, this population could press its government for socio-political changes in accordance with US political-social norms. This means that the US leaders should seek to work more closely with the PRC in order to promote long-term agreements on important global issues such as alternative energy sources, climate change, and scientific and medical advancements. Proponents of accommodation argue that independent of United States wishes China is likely to become a superpower. Viewing the PRC as a "threat" or attempting to contain it, these proponents argue, could produce disastrous policy consequences for US interests. In addition, military conflict with the PRC could lead to nuclear exchanges, that could lead to mutual destruction.

Another school of thought views the "inevitability" of China's rise as "bad news" for the US. They claim that current competition from China has already weakened US industrial output and has eroded US global influence and interests in most Third World countries. They believe that the Chinese Communist Party would use whatever is

⁹⁵ Deepening China-US military trust, *People's Daily*, June 24, 2009.

necessary to increase their nation's wealth, power, and influence at the expense of the US. A militarily strong China with substantial international economic ties could end US paramountcy and lead US friends and allies to abandon the US as the lone superpower in the 21st century. Accordingly the European Union's decisions to sell arms to China despite strong US objections or the rejection by some Third World countries of US development assistance are examples of the downward trend of US influence. The United States, they argue, should develop a comprehensive strategic plan in order to limit China's growing power. This means that the US should increase its global competitiveness and maintain a robust military presence in Asia in order to contain China and elsewhere to keep a tight rein on China's power and influence.

To these American policy makers, the Communist Party of China cannot be trusted; they do not believe China's "peaceful rise," much less in China's 'soft power.' They think that the Chinese leaders obey international norms while China is still weak; actually the Chinese are just biding their time. Once Beijing attains military parity with the US, the Chinese Communist Party leaders will surely seek ways and means to erode and supplant US international power and influence. These same critics assert that Chinese leaders are already on the lookout for lines of attack to cause rifts in US alliances, entice US friends and arm US enemies. "And for all Chinese assertions of support for the US anti-terrorism campaign, China has violated its nonproliferation commitments as it contributed to strengthening nations that harbor global terrorists."⁹⁶ Furthermore, they maintain that the PRC under its current "authoritarian form of government" is inherently a threat to US interests, and that the Chinese political system needs to change dramatically before the United States has any real hope of reaching a constructive relationship with Beijing. From this perspective, US policy should focus on mechanisms to change the PRC from within while remaining vigilant and attempting to contain PRC foreign policy actions and economic relationships around the world where they threaten US interests.

⁹⁶ op. cit, Craig K. Elwell and Marc Labonte.

Despite all these conjecture and suppositions, many western geopolitical analysts find it hard to tag or classify China's security position, especially when compared to past security stratagems. China is not spreading a political ideology, nor establishing a global network of military bases, nor aggressively seeking territorial gains. However, it is keeping in step with the world's latest advances in weaponry technology, accordingly for defense purposes.

Kerry Dambaugh, US Specialist in Asian Affairs, after examining China's current geopolitical course of action asks:

Does China's international engagement have a pragmatic, overarching strategy, or is it a series of marginally related tactical moves to seek normal economic and political advantages? Is Beijing interested in supplanting the United States as a global power or focused mainly on fostering its own national development? Does the PRC feel strong and confident internationally or weak and uncertain? The answers to these questions are mostly conjectures.⁹⁷

V. International engagements: Chinese rationale

An analysis of China's diplomacy shows that most of its international engagements have been limited to normal political and economic arrangements intended mainly to win over friends and gain access to markets, rare energy and mineral resources.

There is so far no evidence of China embarking on a series of tactical moves to replace existing US security arrangements such as mutual defense or military bases agreement with the world or of an overarching strategy to challenge or supplant the US as a global power. The US has close to 800 military bases dotted across the world.⁹⁸ To date, in the Asia Pacific region, the US maintains military alliances with Japan, South Korea, Pakistan, Australia, Thailand, the Philippines, and significant naval and air base arrangements with Singapore. According to the CRS report

⁹⁷ See Kerry Dambaugh, "China's Foreign Policy: What Does It Mean for US Global Interests?" *CRS Report for Congress*, July 18, 2008.

⁹⁸ Chalmers Johnson, "Spending \$102 Billion a Year on World Military Bases," *Alternet*, July 3, 2009.

Guam and the Northern Mariana Islands (CNMI), as well as the Freely Associated States (FAS), have been regarded as a security border of the United States, the defense of which is considered to be key to maintaining vital sea lanes in the Pacific. In addition to being home to the Reagan Ballistic Missile Defense Test Site at Kwajalein Atoll in the Marshall Islands, the FAS are located strategically between Hawaii and Guam.⁹⁹

The FAS is supposed to act as a vast buffer zone for Guam, which is the “forward military bridgehead” from which the US can launch operations along the Asia-Pacific stretching from South Korea and Japan, through Thailand and the Philippines, to Australia.

Chinese leaders view these security arrangements as the US “ring of fire” in Asia intended to contain China. China for its part has no such security or military agreements with any of the countries in the Asia-Pacific region, or for that matter in any country around the world.

China’s foreign policy pragmatism indicates that it wants good relations with the United States, for several reasons:

- (1) To assure the continued success of economic reform, which is heavily dependent on US trade, technology, and investment;
- (2) To avoid excessive external pressures on China’s military modernization program;
- (3) To prevent the possible emergence of a more militarily assertive Japan;
- (4) to minimize US incentives for providing military assistance to Taiwan; and
- (5) To resolve critical issues of mutual concern such as arms proliferation in East Asia.

However, China’s foreign policy could take on a more competitive or even antagonistic stance toward the United States if Chinese military leaders perceive United States moves during the earlier Clinton administration as means to weaken China’s position on critical territorial issues such as the Spratly Islands in the South China Sea, Hong Kong, Macau and Taiwan. The Taiwan crisis of June 1995–March 1996, precipitated by the issuance of a visa to Taiwan President

⁹⁹ China’s Foreign Policy and ‘Soft Power’ in South America, Asia and Africa. CRS study for the US Senate....

Lee Teng-hui to visit the United States, seriously increased tensions between Washington and Beijing, resulting in PLA exercises and missile firings in the vicinity of Taiwan. US counter action was to deploy two US carrier battle groups and the US warned China against any direct use of force against the island. The Chinese also interpreted US pressure on human rights, US support for Tibetan and Uighur independence movements and American demand that China release detained Tiananmen demonstrators as hostile acts.

China's use of 'soft power' to build strong economic and commercial ties with the Third World are efforts at mutual accommodation. China needs markets and the Third World countries need capital and advanced technology for development assistance.

China's use of 'soft power' to forge closer ties with the Third World is often interpreted as a counterweight to the US on controversial issues in the United Nations Security Council and other such agencies. No doubt taking on the responsibility of a counterweight can be costly, especially when the expected counterweight is the use of military power.

China, at the moment, will not challenge US security supremacy around the world not just because it is light years behind the US in military technology and weaponry, but also because it will divert China's national effort away from its current modernization program. Clearly, China's limited military option shows that its expected role is in the economic sphere. This means that while China must recognize and calmly acquiesce to US global primacy, it has to find other ways to sustain its modernization efforts. The use of 'soft power' is thus a manifestation of Chinese realism in international affairs, in essence, seeking to find its rightful place in the world system and to ensure smooth relations with the US by pursuing mutually beneficial goals with friendly nations. For instance, to pursue mercantilist goals, China opens its market and negotiates for free trade agreements that eliminate tariffs and quotas that were used so effectively by the more advanced countries to shut Third World products out of their markets.

There is no doubt that many Chinese leaders, particularly those in the defense establishment, have considered security and military modernization as priority and important national objectives, but other

Chinese leaders consider China's economic development more important than military supremacy. China's international engagement are undertaken for a host of reasons—the most important are to raise the living standards of its enormous population, to lessen social disaffection about economic and other inequities, and to sustain Communist Party legitimacy and lead role in formulating socialism with Chinese characteristics. These objectives serve as powerful impetus for China's international trade and investment agreements as well as foreign aid. They have become the key components of China's soft power.

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. Beijing is cognizant that even the tiniest hint that she engages in military regional and global alliances could induce the United States military establishment and its allies to take belligerent actions. At the moment Beijing favors a stable peaceful environment. China accepts US control of global military security. China's military and defense policy is defensive and intended only to forestall possible "containment" of her economic and social development. China insists that she has no ambition to attain military supremacy against any country.

VI. 'Soft power': problems and challenges

While some Western critics claim that the OECD-DAC type of Official Development Assistance (ODA) is on its last legs, many still think that China is not doing enough to alleviate poverty and that its aid program actually serves China's national interests more. While there is recognition that the OECD-DAC type of ODA is diminishing in stature, there remains a strong international consensus about the lack of humanitarian goals in most aid programs undertaken by China. Critics claim that China pours more money each year into what can be called 'international public policies.'

What is apparent from the above comments and criticisms are demands for policy changes to improve China's economic assistance projects even though most critics have not submitted detailed evidence that Chinese aid projects were total failures. The Chinese are

asked to spell out the nature, extent, procedures and methods, financial accounting of their aid programs. In effect, these critics demand that the Chinese submit all their assistance projects for scrutiny by the OECD-DAC when in fact all assistance funds are provided by China.

On the other hand, some American foreign aid administrators are asking whether the global standard set forth by the OECD-DAC such as the allocation 0.7% of donor countries' GDP to Official Development Assistance has successfully alleviated poverty. Must aid programs conform strictly to the prescribed preconditions set down by the OECD-DAC? Indeed it has been shown that what the 0.7% benchmark measures is meaningless. For behind seemingly technical measurements are complex policy issues made even more abstruse by the absence of clear benchmarks.¹⁰⁰

Aside from the money issue, some policy makers argue that a discussion about aid sharing should not be about the financial sum donated for ODA. The more important concern should be about the quality of development programs and government policies that provide benefits to poor countries far beyond the amount provided by ODA.

For the past three years, a private US think tank—the Center for Global Development—has compiled an alternative way to analyze the impact of the policies of 21 wealthy countries on developing nations. The Commitment to Development Index takes a far broader approach than just using financial contributions to ODA and private flows data to compare government performance. They included key variables in Chinese development assistance programs or soft power, which include trade, investment, protection of the environment, migration, security, and technology, in addition to foreign aid. Based on the Center's most recent release in mid-2005, the United States ranked 12th among 21 countries analyzed. The United States, by this measure, scored high on trade investment policies that promote development, while scoring low in the areas of aid.¹⁰¹

¹⁰⁰ See "Untying the Knots: How the World Bank is failing to deliver real change on conditionality," *EURODAD Report*, November 2007. Many of the ideas on conditionality in this section are drawn from this document.

¹⁰¹ The complete results of the Center's study can be found at <http://www.cgdev.org/>.

Beyond the analytical results of the Center's study, it further illustrates the complexity of measuring the impact of governments' policies in promoting economic development and reducing poverty in developing countries. These are difficult to measure and go well beyond the comparison of aid based on the amount of money donated as a percentage of national income.

Traditionally the key recipients of US ODA were Israel and Egypt. But the impact of the terrorist attacks on September 11, 2001 and the subsequent use of foreign aid to support the war on terrorism is clearly seen as a clear shift of ODA objectives especially in the US aid allocations for FY2004. Afghanistan, Pakistan, Turkey, Jordan, and Indonesia were key recipients as they were the key partners in the war on terrorism.

The obvious conclusion is that ODA data, whether it be based on volume or as a percent of national income¹⁰² does not reveal the efficacy of the program in achieving its objectives. It is also doubtful under changing international political and economic conditions that there has ever been a perfect development assistance program. What should be the primary consideration, ultimately is the goal of aid programs to foster common good and goodwill for peace and security world-wide.

¹⁰² The United States is the largest international economic aid donor in dollar terms but is the smallest contributor among the major donor governments when calculated as a percent of gross national income.

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