

Foreign Policy July/August 2012 p 28 – interview with Fred Bergsten

NYTimes – Tuesday July 24, 2012 – “China to Put Soldiers on Islands in dispute”

FT November 3 2011 US Goes Public with Spying Frustrations

I. U.S. Sees Positive Signs From China on Security Issues By M LANDLER and S L MYERS April 2012

WASHINGTON — When China suddenly began cutting back its purchases of oil from Iran in the last month, officials in the Obama administration were guardedly optimistic, seeing the move as the latest in a string of encouraging signs from Beijing on sensitive security issues like Syria and North Korea, as well as on politically fraught economic issues like China’s exchange rate. As with so many signals from Beijing, though, its underlying motives for reducing its imports of Iranian oil remain a mystery: Are the Chinese embracing Western sanctions? Or, as some experts suspect, are they trying to extract a better price from one of their main suppliers of crude? The answer is probably a bit of both, according to senior administration officials who acknowledge that they do not know for certain. But for the White House, which has labored to build a more constructive relationship with China, Beijing’s motives may matter less than the general direction in which it appears to be moving.

For years, China stymied efforts to pressure Iran. Now, in addition to throwing its weight behind the sanctions effort, officials say, Beijing is also playing a more active role in the recently revived nuclear talks between Iran and six world powers — the United States, China, Russia, Britain, France and Germany. While in past negotiations, Beijing has followed in lockstep the positions taken by Russia, this time Chinese diplomats are offering their own proposals. “One of the key elements of making this work is unity among the major powers,” said a senior administration official, who spoke on condition of anonymity to discuss diplomatic exchanges. “The Chinese have been very good partners in this regard.”

There are also signs of new cooperation on Syria. Only weeks after Secretary of State Hillary Rodham Clinton called China’s veto of a United Nations Security Council resolution “despicable,” China is supporting Kofi Annan’s peace plan for the strife-torn country and is deploying monitors to help oversee it. Even on North Korea, which China has long sheltered from tougher international action, the Chinese government quickly signed on to a United Nations statement condemning the North’s recent attempt to launch a satellite.

And there is progress on the economic front: American officials said China recently loosened trading on its currency, the renminbi, which could help close a valuation gap with the dollar that has stoked trade tensions between China and the United States during an election year. To some seasoned observers of China, these developments are less a harbinger of a new era of cooperation between Beijing and Washington than evidence that, at least for now, the interests of the two countries coincide in some important areas. And these positive signs come despite new American efforts to bolster its troop presence and military alliances to counter China's dominance in the region. "Over time, there are interests that overlap to some degree and differ to some degree," said Jeffrey A. Bader, a former China adviser to President Obama. "The relationship tends to move up and down over time, as if along a sine curve. But the recent story is mostly a positive one."

With American and Chinese officials preparing for high-level consultations in Beijing next week, the Obama administration is accentuating these positive developments and playing down potential sources of friction like the recent announcement that it would station 2,500 Marines in Australia and the talks it has begun with the Philippines to conduct more joint military exercises and allow more frequent visits by American warships, which both prompted public rebukes from China. The White House has also thrown a blanket of silence over the role an American consulate played in briefly harboring a former associate of the deposed Communist Party official Bo Xilai. Speaking at the Brookings Institution last week, Treasury Secretary Timothy F. Geithner said, "The cumulative effect of what China has done is very significant and very promising." At the Naval Academy earlier in the month, Mrs. Clinton declared, "Geopolitics today cannot afford to be a zero-sum game; a thriving China is good for America and a thriving America is good for China." Mrs. Clinton's choice of words was noteworthy. A new appraisal of the American-Chinese relationship by Brookings concludes there is deep-seated distrust between the two countries. Beijing, in particular, views the relationship as a "long-term zero-sum game," the report said. American officials are realistic about the limits to cooperation between China and United States. Though China joined in the United Nations' rebuke of North Korea after its missile launching, President Hu Jintao later welcomed a top official of the ruling Workers' Party to Beijing, while another senior Chinese official hailed the relationship between Beijing and Pyongyang as a "precious gem."

And North Korea may carry out its vow to conduct a nuclear test. In the aftermath of the failed satellite launching, North Korea staged a military parade featuring a missile-launching vehicle that administration officials say they think was sold to the North by a Chinese manufacturer. While the United States does not believe the Chinese government willfully violated a United Nations ban on military sales to Pyongyang, officials say the sale demonstrates China's inconsistent approach to enforcing it. "I don't think China is going to do anything to stop, or get to know, which companies are involved in this," said Victor Cha, who negotiated with North Korea during the

administration of President George W. Bush. “We should identify a few of these companies, and sanction them.”

China’s calculations on Iran are just as complex. It is Iran’s biggest energy customer, accounting for more than a fifth of its oil exports. But under American sanctions law, it will be subject to punitive measures at the end of June, unless it shows a “significant reduction” in its imports from Iran or wins a waiver from Mr. Obama on national security grounds. The Chinese government wants to avoid those punitive measures, American officials and Western diplomats said. Given Iran’s isolation, analysts said China might also have concluded that it should diversify its sources of supply. And American officials said China shares the urgency of the United States and Europe in preventing Iran from obtaining a nuclear bomb. The Chinese, said Clifford Kupchan, the Middle East director for the Eurasia Group, a Washington consultancy, “have been bad actors” in the years of diplomacy over Iran, though in recent weeks “their diplomatic rhetoric is tougher and their oil purchases are lower,” he said. The question is whether China is simply waiting out Iran to extract a better price. With Japan and South Korea also cutting purchases to avoid American sanctions, Iran is being forced to stockpile oil in tankers anchored in the Persian Gulf. Unless it shuts down its oil wells, analysts say Iran will run out of storage capacity by summer.

That is when China’s intentions will become clearer. By then, however, Mr. Obama will have had to make a critical decision on whether to exempt China from the new sanctions.

## II. Obama and Wen face risky decisions over activist

Activist Chen Guangcheng's escape from custody to apparent safety in US diplomatic premises in Beijing presents a serious challenge for Sino-US relations. It will reinforce perceptions in China that Washington is exploiting political uncertainty in the country, which will play into the hands of conservatives in Beijing. Yet in an election year, President Barack Obama can ill afford to appear soft regarding human rights, and may be prepared to risk Chinese attempts to frustrate US initiatives on Iran, Syria and North Korea. For Beijing the Chen affair challenges it to live up to the rule-of-law rhetoric it has emphasised since the purge of Bo Xilai. Assistant Secretary of State Kurt Campbell flew into Beijing yesterday, following unconfirmed reports that Chen has sought shelter in the US embassy. Chen on April 22 escaped from house arrest, where he had been held following release from prison in 2010. A crackdown on his relatives and associates is reportedly underway. In an online video, Chen blamed local authorities for illegally detaining him and appealed to Premier Wen Jiabao to intervene. Beijing has previously allowed dissidents to leave China for 'medical treatment' overseas, but Chen has reportedly said that he does not intend to leave China. Separate media reports say Washington is reconsidering the sale of advanced fighter jets to Taiwan, while Japan's Prime Minister Yoshihiko Noda is visiting Washington to discuss new US-Japan defence cooperation.

### III. Foreign Affairs, May June 2012

The New Banks in Town: Chinese Finance in Latin America; Chinese Investment in Latin American Resources: The Good, the Bad, and the Ugly

Kevin P. Gallagher, Amos Irwin, and Katherine Koleski

Barbara Kotschwar, Theodore H. Moran, and Julia Muir

Reviewed by By Richard Feinberg

Suddenly, China has become a major source of capital for other emerging– market economies, providing both long–term loans and direct investments to Latin America. These two timely studies document this development and assess its benefits and costs to the region. From the Latin American perspective, the badly needed capital and accompanying access to Chinese markets are clearly welcome. But certain Chinese investment practices violate hard–won international standards and demand correction.

The New Banks in Town draws on press reports and official government statements by China and its borrowers to compile a useful list of loan commitments, which the authors estimate at \$75 billion since 2005 -- although they recognize that not all those funds will be fully disbursed. As an instrument of China’s search for secure sources of energy, the loans are heavily concentrated in oil–producing states (Argentina, Brazil, Ecuador, Venezuela), and many are secured through pledges of repayment in the form of future oil shipments. Chinese loans are also tied, to varying degrees, to the purchase of Chinese–made products. The authors seem pleased that Chinese loan documents neither impose policy conditions nor “the latest Western development fads,” such as good governance and gender equality laws, enabling leftist regimes “to free themselves from the neoliberal policies the World Bank imposes.” However, as environmental experts, the authors are gravely concerned that Chinese banks do not follow the same environmental guidelines as their Western counterparts. Chinese Investment in Latin American Resources directly addresses the problems of substandard Chinese corporate behavior, focusing on the mining industry in Peru. The evidence is mixed. Chinese firms have repeatedly violated labor and environmental standards, but the Chinese government is urging them to conform more closely to international standards, and there are signs that this message is getting through. The authors find that nongovernmental monitoring organizations and international bodies, such as the World Bank, can encourage foreign investors to adhere to high standards and to act as catalysts for positive change, since firms that fall short face serious reputational risks. A domestic regulatory environment that encourages transparency and accountability and that allows for civil–society participation also makes a big difference.

### IV. Oxford Analytica Li's visit to Russia puts gas deal back on the agenda

The fact that the two sides are again discussing a gas trade framework following a year-long freeze in talks is in itself a positive development, and probably points to Gazprom's keen interest in developing the Kovykta field in Eastern Siberia. The need to diversify export destinations may even make Moscow more inclined to offer upstream access to Chinese conglomerates. Vice-Premier Li Keqiang reportedly offered a 'completely new model of development' for the bilateral gas trade in Saturday's talks with President-elect Vladimir Putin, Deputy Prime Minister Igor Sechin, and other key energy sector stakeholders. The two sides have for years been negotiating a 68 billion cubic metre export deal, which has repeatedly faltered due to disagreements over pricing, pipeline routes and legal restrictions on foreign investment in Russia's gas sector. The new framework reportedly parallels the landmark 2009 oil deal in which the China Development Bank gave Rosneft and Transneft 25 billion dollars in loans to finance the development of the East Siberia-Pacific Ocean pipeline and associated oilfields. Pricing disputes associated with that deal were only resolved last month.

#### V. Feinstein, Andrew – The Shadow World–Inside the Global Arms Race: P xxvii –

The role of the weapons business is a crucial component of the People's Liberation Army's vast and growing commercial empire, which has become a defining feature of China's autocratic command capitalism. While weapons have always been a tool of foreign policy, China's use of cheap arms sales to expand its influence has reached unprecedented levels. . . . China and Russia sell weapons to many of the world's despots, including Sudan, Syria, Burma, Iran, North Korea and Zimbabwe.

#### VI. Nationalism will put pressure on China's new leaders August 6 2012

Nationalism has become a major force in China, and a significant factor in disputes over trade and territory. The party-state employs nationalism to cultivate political legitimacy, while civil society uses it to press Beijing to assert China's national pride and interests. Contemporary Chinese nationalism combines a sense of superiority with a sense of historical victimisation and an acute fear of this being repeated. This superiority-inferiority dynamic has concrete implications for policy and political stability.

Impact •Nationalist sentiments are exploited in political competition to discredit rivals and generate political capital. •The most acute threat to Communist Party rule will be when, due to China's limited capabilities, it fails to fulfil nationalist aspirations. •Acute awareness of historical victimisation means China struggles to see how others perceive its own behaviour as aggressive.

What next – Nationalism in China is inspiring aspirations -- and expectations -- of Beijing replacing Washington as the centre of global power and influence. The disjuncture between grand ambitions and China's middling political, military and economic capabilities creates a threat to government legitimacy and perhaps even a

risk of popular unrest, because the new leadership will struggle to fulfill promises of international greatness and power.

Analysis –Nationalism has always been important in Chinese communist ideology, but after the 1989 Tiananmen protests a well-organised and well-funded 'patriotic education' campaign was launched, under the Propaganda Department and the Ministry of Education. This involved new curricula at all levels of education, and a robust multimedia campaign directed at the general public. This material resonated with the public and has successfully persuaded many Chinese that: •China's long history and unique civilisation make it fundamentally different from the West; and •that foreign countries, which dominated and exploited China during the nineteenth century, seek to do the same today. Nationalism gathered momentum the 1990s, and the 'patriotic education' campaign continues today. Nationalism is the party-state's most successful mass movement in terms of public influence

State-led nationalism – The state uses nationalism as a defensive tactic, to: •explain away domestic unrest as the work of hostile foreign forces; •ward off external criticism (eg of human rights violations) by framing it as cynically motivated; •inoculate the public against the influx of foreign ideas that accompanies economic liberalisation; and •drive a harder bargain in international negotiations. Much as the White House claims its ability to compromise is limited by the demands of a protectionist Congress, Chinese diplomats claim nationalist public opinion limits their room for manoeuvre -- as indeed it may.

Market-driven nationalism – Recent years have seen periodic nationalist-inspired public unrest, notably against: •the NATO bombing of China's embassy in Yugoslavia (1999); •revisionist Japanese history textbooks (2005); and •Japan's occupation of the Diaoyu/Senkaku islands (2010) (see CHINA/JAPAN: Row eases but leaves potent legacy – September 28, 2010). This indicates that the party-state is not always in control of the nationalist narrative. Liberalisation and marketisation of mass media and the growth of the internet have opened new outlets for public opinion. This loosening of state control provides space for liberal views, but also the proliferation of nationalist materials through newspapers, television and radio programmes, novels, songs, websites and microblogs, produced both by activists and by businesses responding to commercial pressures.

Nationalism is not simply a product of propaganda – Through economic reforms, production of nationalist media content has become a profitable industry that strikes a chord with many Chinese, especially with those who have been left behind by economic reforms. China's netizens are particularly active, regularly criticising the government for weakness in the face of perceived foreign threats or insults. The party-state's main concerns are that: •criticism of Japan and the West will spill over into criticism of the government; and •on-line criticism will lead to mass demonstrations on the street.

2008 turning point – President Hu Jintao and Premier Wen Jiabao have never mentioned a 'China model', except to deny that one exists. Many government and business leaders in China are quite cosmopolitan. Since China's economic reforms began in the 1980s, they have viewed China's future success as dependent on Beijing working with other countries to tackle common problems and promote shared interests. Beijing knows China depends on a stable world for its growth, prosperity and (thus) its stability. Yet pacific and conciliatory policies were sold to constituents in terms of 'lying low' and 'biding our time'. Chinese nationalism entered a new phase in 2008 due to: •riots in Lhasa in March;•the Beijing Olympics in August; and •the Wall Street crash in September.

European and US responses to the unrest in Tibet were perceived as cynical efforts to discredit Beijing, and seemed to demonstrate disregard for those who were attacked and in some cases killed by rioting Tibetans. The contrast of China's successful Olympics and the global economic crisis beginning in the United States convinced many in China that China had a different, superior, model of economic development. This rise in nationalist confidence has inspired a more assertive foreign policy since 2009.

Shaping policy –Nationalism colours the thinking of officials and shapes the popular and peer pressures they face. This influences policy on several fronts: •Economic development. Beijing's reaction to the economic crisis was to curtail liberalisation in favour of the public sector, a 'Chinese model' justified partly in terms of socialism and Chinese tradition (see CHINA: State sector hinders economic rebalancing – January 4, 2012). •Trade . China's exchange rate and trade imbalance are politicised by nationalism; diplomatic compromise risks being labelled as 'surrender'. (Netizens sometimes describe the Ministry of Foreign Affairs as the 'Ministry of Traitors'.) •Security . China's strategists generally see the world in terms that pit China against Japan and the West in a Darwinian struggle. Military elites use both socialist and nationalist ideas to argue their points, painting the threat as both capitalist and foreign.

Public and policy debate –Nationalism cultivates a sense of moral superiority and of being entitled to superpower status. Popular books have proliferated recently that discuss Chinese leadership of a post-Western world. As well as the general reading public, which has a strong appetite for such material, these writers target the new leaders who will take power at senior levels during this year's leadership transition. Public intellectuals who seek to influence the new leadership increasingly frame their policy proposals in terms of indigenous Chinese ideas, rather than the socialist or liberal frameworks that have prevailed hitherto.

The next generation – China sees itself as being in what officials have called an 'era of strategic opportunity', and the new leadership is under pressure to seize it to use Chinese ideas to shape the world. – Rising stars in the military, and prominent

economic planners and political commentators now write about China's future in terms of a post-Western world order guided by Chinese ideas, norms and values. They have been influential in China's post-2008 economic policy shift from greater liberalisation to state capitalism, and are guiding Beijing's assertive military policy in the South China Sea and the East China Sea. Political and economic tensions between China and the West are likely to increase over the next few years. Nationalist voices demanding a post-Western world order are growing louder with Beijing's transition to the fifth generation leadership.

Oxford Analytica - Sept 2012 - Military motives are unlikely to underlie investments, whether rumoured or planned, in Pakistan and the Pacific Islands. Beijing's defence policy remains strongly focused on securing its own maritime frontier; beyond the region its priorities remain commercial and diplomatic. Despite its military investment and assertiveness in territorial disputes, China's wider 'charm offensive' has not ended, particularly where goodwill can be purchased at very little cost.