Charm Offensive

How China's Soft Power Is Transforming the World

JOSHUA KURLANTZICK

A New Republic Book

Yale University Press New Haven and London

V
The Tools of Business

For a man who could be arrested at any moment, Harry Roque Jr. seemed remarkably placid when I met him in March 2006. Dressed in a white *barong tagalog,* the long, delicately embroidered shirt worn untucked by Filipino men, he welcomed me into his law office in downtown Manila, a small room crowded with stacks of books on Philippine constitutional law and photos of his family. "Three days ago, it was broadcast that I had been arrested," he said. "Everyone was calling me, but I was still here." A laugh boomed out of his jiggling stomach, and his wide, round face broke into a grin. Still, he said, though the initial report was wrong, "There's a short list of people who have been arrested and longer list—two hundred people—who could be arrested."[1]

Roque's offense? Just a few weeks earlier, Philippine president Gloria Macapagal-Arroyo had declared a state of national emergency, similar to martial law, citing an alleged coup plot against her. In coordination with the state of emergency, she had created lists of people, including many of her political enemies, supposedly involved in the plot; these targets could be arrested for rebellion and sedition at any time. The Philippine police had raided the offices of the *Tribune*, a newspaper critical of the government, and had attempted to arrest at least five opposition congresspeople. The congresspeople holed up in the Philippines' legislative building, a situation akin to Barack Obama and Nancy Pelosi barricading themselves in the Capitol while George Bush's Secret Service tried to starve them out.[2]

For several years, Roque, a longtime activist and human rights lawyer, had auditioned for the list, blasting Macapagal-Arroyo's administration for nearly every decision it made. Recently, Roque had embarked upon a crusade against a government-backed project called Northrail, an attempt to build a railway from Caloocan to Malolos on the central Philippine island of Luzon. The Philippines initially had signed a contract with a Spanish firm to build Northrail. But then, according to Roque and several Filipino politicians, the Philippine government junked that contract and agreed to use Chinese firms, without any public tender; at the same time, the Chinese government offered more than $400 million in assistance for the project, then an additional $500 million. "Northrail signified a shift in policy from China," which used to keep a low profile in the Philippines, Roque said. "It's aggressively pushing its aid and capital and goods. The Philippines already had a contract with the Spanish company . . . and just jettisoned this. The speaker of the [Philippines] legislature negotiated directly with China for the project, and the Department of Justice never even gave its clearance for the Northrail." Along with several other prominent lawyers, Roque had completed a study of the Northrail project that concluded that it was improperly managed and financed, and would not be contracted out for competitive bidding.[3]

Roque thinks that Beijing understood how to make

Northrail happen in one of the world's most contentious and corrupt democracies.[4] "The Chinese zeroed in on what local politicians wanted, which is why in the contract there was a 30 percent up-front payment in the financing," Roque says. "You have to wonder, why this up-front payment? Who was this to benefit?"

Worried that Northrail had been handled so opaquely, and concerned that a Chinese contractor hired without competitive bidding might have poor standards of transparency and corporate governance, Roque had filed a case to challenge the project as unconstitutional, further angering the Philippine government. He soon got his answer. The government "hired a Philippine public relations firm to neutralize me in the media," he said. Now, he feared arrest—for his Northrail opposition and for his criticism of the emergency law. And Roque had not succeeded in stopping the project, though he did stay out of jail. The Philippines' Supreme Court tossed out one of his petitions, and even as he and a group of plaintiffs filed another suit, the Northrail project marched forward.[5]

The size of Chinese aid to Northrail also instantly put Beijing in the same league as other traditional aid donors to the Philippines, like Japan and the United States.[6] In fact, Northrail provided a window into how quickly China has developed its other set of soft power tools, tools of business. In addition to cultural tools, these levers of power—trade, investment, aid, and the appeal of China's economic model—make up the second potential weapon in China's arsenal. Indeed, over the past decade, Beijing has begun to use aid, trade, investment, and the allure of China's economic model, which combines growth with state control, to charm other nations. China's tools of business, in fact, have become powerful enough that even when people like Harry Roque raise concerns about

Chinese aid and investment, their own governments sometimes shut them up.

As with tools of culture, not everything wrought by tools of business stems from one grand Chinese strategy. In business, even more than in culture, Chinese companies may make decisions based on corporate rather than national interests, while companies in other nations are not passive actors—they aggressively seek Chinese investment and aid. Still, the policies Beijing has designed have helped its tools of business flourish.

Since 1979 the world has witnessed what happens when you unleash the entrepreneurial activity of more than one billion people, most of whom will work for the monetary equivalent of a Starbucks latte per day, and then combine this with the insatiable desire of foreign firms to tap this labor and also to sell products to the world's biggest market. As the China business expert Joe Studwell chronicles in his study *The China Dream,* the idea of selling to the Middle Kingdom's vast population has been a fantasy of Western companies for centuries—in the nineteenth century, English tailors rhapsodized that if they "added an inch of material to every Chinaman's shirt tail," Manchester weavers would be flush forever. Today, this dream often results in multinationals committing to China investments without adequate due diligence. According to Studwell, the British brewing giant Bass tried to peddle high-end imported brews to Chinese consumers used to cheap local beer, and advertised Bass drafts with dancers dressed in kilts, which only confused most Chinese. Bass lost millions and shuttered its factories, so angering its local Chinese staff that managers at Bass facilities wound up needing bodyguards.[7]

Despite multinationals' misadventures in the People's Republic, every major company remains convinced that it must have a China strategy, and many years China attracts the biggest pool of foreign direct investment of any nation, more than $500 billion in total since 1979. The retailing giant Wal-Mart alone has an inventory of goods in China worth at least $18 billion, the size of Bolivia's gross domestic product. Since the early 1980s China has posted average annual growth rates of more than 8 percent—in a great year the United States would hit 5 percent—and in the near future probably will contribute more than 25 percent of the growth in the global economy. China runs record trade surpluses, and it is moving into value-added industries like automobile manufacturing. The Chinese automobile companies Chery and Geely have begun shipping cars abroad, probably a trial run for entering the US market. China boasts a national savings rate of more than 40 percent, compared with the American population's negative savings rate in 2005.[8]

This part of the China story is well known, the subject of bookshelves worth of business tomes and reams of studies by economists examining China's path to prosperity. Less understood is what happens now. For some nations, fear of China's military power has been replaced by fear of China's economic power—of markets being swamped by cheap Chinese goods, companies ruined by China absorbing investment that would have gone elsewhere, workers laid off by competition from China's massive labor force. Beijing apparently has realized that, like the United States and Japan before it, it also can utilize its economic heft to minimize these concerns, and even to boost its appeal in foreign nations, if it portrays its growth in a certain light, and if other countries can benefit from China's consumer power.

In pursuing this goal, China has first tried to demonstrate that as it grows, it also will become a much larger consumer of other nations' goods, creating "win-win" economics, central to the idea of China's rising peacefully. This comes from the top: though Beijing, like most governments, cannot coordinate all its policies, in 2004 the Chinese government organized an internal conference on "Economic Diplomacy Toward Developing Countries," at which officials planned to increase economic cooperation with developing nations.[9]

To be sure, China cannot yet match American or Japanese or European investment in the developing world, and some media accounts overhype Chinese outward investment. In Singapore, one of the most open and business-friendly economies on earth—and a state that has encouraged mainland Chinese companies to enter its market—American companies have invested more than $40 billion. According to the most recent official statistics available, Chinese investments in Singapore have not yet cracked the $1 billion barrier.[10] Instead, Beijing promotes the idea that China eventually will become a major source of outward investment: China's appeal to the developing world rests in part on portraying China's potential as an investor.

Chinese officials often do so by providing trade and investment and tourism targets. These targets, for five or ten years in the future, tend to be enormous and to obscure the fact that, at present, Chinese direct investment into regions like Southeast Asia and Latin America still lags far behind investment from the United States and other wealthy countries like Japan. "While China has not committed much money to Cambodia, recent high level visits . . . highlight . . . the promise of more trade and investment," notes one cable from the US embassy in Phnom Penh obtained through the Freedom of Information Act.[11]

Indeed, when Chinese President Hu Jintao visited Latin America in 2004, he pledged that China would invest $100 billion in Argentina and Brazil. Since overall net foreign investment in Latin America has dropped from $76 billion in 2000 to $68 billion in 2005 (partly because of investors going to China instead) this Chinese investment could be especially important to the region, and Hu's pledges dominated the local media. When Chinese officials visit Africa, they can highlight some nine hundred Chinese companies invested in the continent, and promise more of the same; China has created a fund worth $5 billion to encourage Chinese firms to invest in Africa. When Hu met Philippine President Gloria Macapagal-Arroyo in 2005, he promised more than $1.6 billion in new Chinese investment and aid to Manila; in 2005, when China hosted Indonesian Minister of Finance Jusuf Anwar, the Chinese announced that PRC investment in Indonesia could triple within five years, to as much as $20 billion.[12]

China's outward investment comes partly from a national policy, not just from Chinese companies seeking profits overseas. The Chinese government encourages firms to invest in strategic industries and select countries. In the late 1990s, and then again during China's economic Five Year Plan for 2001–2005, Beijing created a policy of pushing Chinese companies to invest abroad. Chinese leaders called this policy the "Go Out" or "Go Global" campaign. "To encourage capable Chinese companies to go out is an important policy of the Chinese Government," Vice Premier Wu Yi told the audience at an international trade fair in 2004.[13]

During the late 1990s and early 2000s, China's Ministry of Foreign Trade and Economic Cooperation selected some thirty to fifty top Chinese companies to take the lead in overseas investment. As they look to invest overseas, these national champions enjoy a range of benefits that will help them compete, including low-interest funding from Chinese banks—banks primarily controlled by the government. In 2004, for example, according to a report by the consulting group Accenture, one of these Chinese banks provided the Chinese telecommunications giant Huawei with a $10 billion low-cost loan to help Huawei internationally.[14]

Looking to invest abroad seemed natural: as Accenture noted, China recognized that it "needs to develop its relationship with the global economy beyond a simple export-driven model. . . . China's outward investment has a dual purpose of building China's political capital and influence around the world."[15] Furthermore, Accenture found, because many Chinese companies gained experience in China, a developing nation itself, "their better understanding of emerging markets provides a stronger guarantee of success in their initial overseas expansion plans." In other words, with their background in China's often lawless business climate, Chinese companies have the experience to invest in Liberia or Cambodia or many other countries with little rule of law.

As China's national outward investment strategy has developed, provincial governments have announced complementary programs to encourage Chinese companies to venture into neighboring countries. The national government sweetens the pot for Chinese companies with soft loans designed to encourage Chinese firms to invest in neighbors like Laos, with centers for trade promotion providing consultation to Chinese enterprises investing in Africa and Southeast Asia, with information programs for officials in countries like Pakistan on how to attract Chinese investment, and with assistance to business delegations that accompany Chinese officials' trips abroad.[16]

On these trips, Chinese leaders often bring along large mainland business delegations to meet with local businesspeople and politicians. Developing-world businesspeople thus can execute deals directly with Chinese political leaders and heads of Chinese companies without worrying about legislators back in China holding up completion of the deals, as might happen in the United States or any other democratic nation. "I went to Beijing with Thai officials and met [Vice Premier] Wu Yi," says Vikrom Kromadit, CEO of the Amata Corporation, one of the largest companies in Thailand, which manages industrial estates east of Bangkok. "She asked me what kind of companies I'd like in my industrial park, and I told her, and she sent over twenty companies on my list of [Chinese] companies I wanted to get."[17] No American or European politician could so easily direct a business.

Beijing particularly leans on Chinese companies in the energy industry to invest abroad. Even more than in other sectors, these energy companies, which do have some autonomy, remain dominated by the state or at least retain close links to the Chinese government. In interviews with CLSA Asia Pacific Markets, a leading research company in China, state-owned resources firms admitted that Beijing had been pushing them to invest abroad, though they insisted that their own management made the final decisions. Furthermore, as the energy analyst Erica Downs notes, Chinese companies making foreign investments worth more than $30 million require approval from the National Development and Reform Commission, the country's top planning agency. This suggests that the government has some significant degree of oversight, even if it is not planning each purchase by a Chinese company.[18]

In the past five years, Chinese firms indeed have embarked upon a frantic shopping spree for commodities, buying up $15 billion in oil and gas fields and companies worldwide, and often paying above market price. In Venezuela, China National Petroleum Corporation (CNPC) has established a joint venture with Petroleos de Venezuela, the state oil company of a nation whose leader prides himself on opposing US foreign policy; overall, China has invested roughly $2 billion in Venezuela. In Peru an arm of China National Petroleum Corporation has purchased a stake in Pluspetrol, which has oil fields along the Ecuadorian border. In Sudan, Chinese firms have become the biggest foreign investors in that nation's oil industry, plowing in some $4 billion. In Nigeria, the state-owned Chinese oil giant CNOOC purchased a $2.3 billion stake in a major oil and gas field in the Niger Delta. In Iran, China has signed a deal to develop one of the country's major gas fields, putting China in position to become the largest player in a nation with some of the world's largest gas reserves. In 2005 CNPC purchased PetroKazakhstan, one of the biggest oil companies in Central Asia. In Burma, PetroChina signed a deal in 2006 for 6.5 trillion cubic feet of Burmese natural gas.[19] The list could go on, well into several pages.

Just as it focuses on strategic industries, the Chinese government also pushes investment in strategic nations—countries on China's borders and in regions with resources. In the government's Five Year Plan for 2001–2005, Beijing focused on three strategic regions of the developing world: Latin America, North Africa, and Central Asia, all of which have extensive oil and gas. Prodded by Beijing and by provincial governments, Chinese firms have poured into Cambodia, Burma, Laos, Thailand, Central Asia, Pakistan, Vietnam, and Pacific Russia. China has become the largest source of investment in Cambodia and, anecdotally, in Burma, Laos, Pacific Russia, and Kazakhstan. According to official statistics, in 2005 China's outward investment rose nearly 1,000 percent, though many of these investments are merely unfulfilled commitments. Within a decade, China could become the biggest investor in all the developing nations on its borders, from Mongolia to Vietnam. "If the goal of Chinese investment has been not so much to make money as to win the charm offensive, then victory has already been delivered," wrote one US diplomat in Asia, in a cable obtained through the Freedom of Information Act.[20]

Western companies competing with these Chinese firms realize that they cannot match China's low labor costs or Chinese firms' willingness to invest in risky places like Sierra Leone or Burma. Instead, Western companies compete by advertising their sophisticated technology and their years of experience operating abroad, but these advantages may be diminishing. "In Indonesia, American companies will say, 'If you want US technology, you have to go with us,'" explains Walter Lohman of the US-Asean Business Council, a trade group in Washington. "But now, for example with telecommunications, the Chinese are competitive with the technology." "I was quite surprised with the Chinese knowledge of oil fields," agrees Lin Che Wei, head of PT Danareksa, an Indonesian state bank that coordinates investments. They seemed as advanced as Exxon-Mobil, Wei says.[21]

Even if China's technology lags behind that of American or Japanese or European competitors, some poorer nations think that Chinese companies will be more willing to share what they know, and that Chinese firms, with backgrounds in the developing world, might be better suited for Africa or Latin America or Southeast Asia. In Nigeria, where the government chose the Chinese aerospace giant China Great Wall Industry Corporation to launch a new Nigerian satellite, one foreign affairs official told the *Financial Times:* "Being a developing country, they understand us better. They are also prepared to put more on the table. For instance, the western world is never prepared to transfer technology—but the Chinese do."[22]

While China cannot yet challenge the United States, Europe, or Japan as a source of outward investment, it already can match other major powers as a consumer and as a trading partner. And China's consumption is focused on the developing world: while China imports little from the United States outside of high-technology products, its imports from the developing world are worth more than seven times its imports from the United States.[23] As a result, countries from Asia, Latin America, Africa, and other regions, hardly passive actors, are scrambling to take advantage of China's enormous appetites for resources, industrial components, and other products, to play China's growth for all its worth. Many of these nations, particularly in Africa, saw their economies blossom in the 1960s and 1970s, another time of high demand for commodities, demand that waned in the 1980s. Today China's demand offers these nations another shot.

By the end of 2006, in fact, Southeast Asia's total trade with China probably will eclipse its trade with the United States or Japan. In 2005, for the first time in decades, the economies of Asia outside Japan were larger than the economy of Japan, showing China's increasing importance to the region. Over time, as American and Japanese consumption of Asia's exports continues to decline, China's consumption will become even more important to the region's economies, giving them the potential to benefit enormously from Chinese growth. Eventually, China will become the center of trade and economic integration in Asia, providing Beijing with the goodwill that accrues from being the economic locomotive, the engine that lifts millions of people's incomes.[24]

South Korea, an industrialized economy with close links to the United States, provides a snapshot of the rapid growth in trade with China. For centuries, China and Korea disputed parts of Northeast Asia, and in the modern era South Korea normalized trade relations with China only in 1992. Yet within a decade China had passed the United States as South Korea's biggest export market, and hundreds of thousands of South Korean businesspeople were heading to China for trade. Booming trade was a major reason why Seoul developed what some Koreans called "China fever," an interest in all things Chinese, from Korean students flocking to Chinese universities to some eight thousand South Korean companies investing in China.[25] Those economic links soon had ramifications for Korea's political relationships, from Japan to the United States.

Outside Asia, trade with China is skyrocketing as well. In sub-Saharan Africa, Chinese-African trade grew by more than 250 percent between 2001 and 2005, and China has become the continent's third-largest trading partner, behind the United States and France. Chinese exports to Africa, meanwhile, appeal to a wide section of African consumers, because they tend to be far cheaper than European or American goods. In Latin America trade with China has grown from only $200 million in 1975 to more than $40 billion. Mines across Latin America report that they are working twenty-four hours per day just to keep up with Chinese demand for commodities; companies are melting down all the scrap metal they can find to ship to the People's Republic. China's trade with Iran has risen from virtually nothing fifteen years ago to $10 billion annually. In Central Asia the numbers are even more impressive. To take one example, Chinese trade with Uzbekistan, a nation with high barriers to trade, has grown by 1,000 percent in the past five years.[26]

Since most economists project that China's economy will continue to expand between 7 and 10 percent per year, Beijing can continue its rapid growth in trade. China's trade volume with Southeast Asia could reach $1.2 trillion within a decade. In Africa trade with China probably will top $100 billion within the decade, putting China within striking distance of the United States as the continent's leading trading partner. In Latin America, China could be the region's second-largest trading partner as soon as 2010.

Sensitive to fears of China's economic power, Chinese officials also try to reassure developing nations by signing free trade deals and making trade concessions—another economic tool of soft power. Until the past decade, Beijing actively shunned bilateral trade agreements, but today China has learned from its mistakes. In fall 2001, to the surprise of many Southeast Asian diplomats who had been unsuccessfully pressuring other countries to consider a trade deal with the region, Chinese officials suggested creating a free trade zone between China and ten Southeast Asian nations, which immediately leapfrogged China over Japan, traditionally the region's economic leader. This Chinese–Southeast Asian agreement, signed in 2002, will create the largest trade area in the world. "We were shocked that the Chinese would come up with a deal," says one Southeast Asian diplomat. "The Japanese thought they could just wait and wait to negotiate with us, and they were totally unprepared for the Chinese move." Pressing its charm, China then offered Southeast Asia an "Early Harvest Package," which even before the trade agreement comes into effect will reduce tariffs on some types of Southeast Asian goods—primarily agricultural products from poor Asian countries.[27]

In the wake of the Southeast Asian–Chinese free trade announcement, Chinese officials apparently recognized the kind of goodwill they were earning. Since then, China has started work on at least sixteen other trade agreements with countries from Chile to New Zealand. In all these deals, Beijing presents itself as committed to free trade without imposing any conditions on trade partners related to governance, environmental issues, or labor rights, a stance that plays well in many countries. Beijing also may duplicate the Early Harvest trade concessions in other developing nations. China has signed a deal similar to Early Harvest with Pakistan and has promised African nations easier market access and duty-free privileges for some categories of goods. In the longer run, Beijing promised in a recent white paper, China would attempt to negotiate a free trade deal with African regional groupings.[28]

The United States, Europe, and Japan, by contrast, have to deal with more powerful and vocal domestic business interests, and with legislatures that respond to these businesses. This is one reason why the United States has not launched a trade agreement with all of Southeast Asia, and why Japan has been unable to complete a bilateral agreement with any Asian nation except Singapore and the Philippines.

Western protectionism has complicated trade with even the poorest countries. As the United States and Vietnam established closer trade relations in the 1990s and early 2000s, twenty-five years after the end of the Vietnam War, Vietnamese catfish farmers in the Mekong River Delta, who previously had sold their catches to Vietnamese state firms for break-even prices, saw an opportunity. Hundreds of catfish farmers began exporting to the United States, and by 2001 Vietnamese catfish exports to America reached $38 million, a significant sum for the Vietnamese farmers but a small figure in the $11 billion US market for seafood imports. Still, American catfish farmers, who had seen the Vietnamese capture at least 20 percent of the US market, lodged a complaint with Washington, charging that the Vietnamese were selling fish below cost, or dumping. The Vietnamese argued that they could sell fish cheaply simply because of low labor costs, but the US Commerce Department disagreed, imposing steep tariffs on Vietnamese imports.[29] Vietnamese catfish exports to the United States plummeted.

Backing up its investment promises and its trade, China has developed a substantial aid program. From almost nothing in the mid-1990s, Chinese aid now can compete with American aid programs in parts of Southeast Asia, Latin America, and Africa. Chinese aid tends to be opaque; according to several sources, China determines its aid policies through informal meetings of its ambassadors in Beijing, where the envoys essentially bargain over the amounts of assistance.[30]

A true understanding of Chinese assistance necessitates looking beyond traditional definitions of aid, as assistance provided for economic development. A true understanding must include soft loans given by Chinese banks with the imprimatur of Beijing, assistance not explicitly targeted for economic development but rather for cultural promotion and language promotion, in-kind swaps like China's trade of armored personnel carriers for dried Thai fruits, or concessional loans given by China's state-controlled banks.[31] Already, in fact, China's Export-Import Bank has become the largest source of loans to Africa, surpassing the World Bank.

The Export-Import Bank, for instance, claims that it makes its own decisions on potential loan recipients without any interference from the central government. But loans made to state companies like Huawei are not the only indications of a connection. Ex-Im Bank officials often travel with Chinese state-linked companies on business delegations accompanying Chinese officials, and then offer loans for deals favored by Chinese officials. As the Export-Import Bank's own literature admits, it sees itself not just as a commercial institution. "The development of this business has not only proved effective in boosting the economic and social development of the recipient countries but has also improved the friendly economic and trade cooperation between China and other developing countries," the bank says in an annual report.[32]

In Asia, China's aid has exploded, rising from roughly $260 million in 1993 to more than $1.5 billion in 2004—even as the United States cut its aid and Japan, historically one of the world's biggest aid donors, shrunk its assistance due to a decadelong downturn in the Japanese economy. By 2004, according to a comprehensive analysis by Henry Yep of National Defense University, China's aid to the Philippines was four times as large as American aid to the Philippines, China's aid to Laos was three times as great as American aid, and China's aid to Indonesia was nearly double US aid. In Burma and Cambodia, Chinese aid vastly outstripped American aid, while in Central Asia, China now rivals Russia, the United States, and Japan in aid projects, such as its $600 million assistance to Uzbekistan. In Latin America, Beijing's aid rose from nothing ten years ago to at least $700 million in 2004. Between the mid-1990s and 2004, China's aid to Africa rose from roughly $100 million to $2.7 billion. Even in the remote Pacific, Chinese aid has become a major factor, with Prime Minister Wen Jiabao recently pledging $375 million in preferential loans to tiny island nations.[33]

Still a developing country, China could overplay its hand, making promises to other nations that it cannot fulfill. China's diplomatic style of signing many agreements during foreign visits by its top leaders earns it considerable initial goodwill and positive media coverage. But often the agreements are merely letters of intent. In Latin America and Asia, when officials from local boards of trade and investment follow up, they sometimes find that Chinese officials had laid no groundwork to put these letters into practice. Indeed, after Chinese leaders make promises of new aid during visits overseas, Beijing sometimes fails to follow through with the cash. Paul Marks, a China specialist at West Point, has spent years reading Cambodia's Chinese-language newspapers. The papers are full of stories hinting that Beijing, or provincial governments, or private groups in China, had made offers of aid to Cambodia that never came through—new schools that had not received their funding from Chinese sources, unpaid scholarships, Cambodian students who desperately wanted to study Chinese but had not gotten the money to do so.[34]

But while China's aid overall still does not always match that of other major powers, and while Beijing sometimes overpromises, it tries to make the most of the goodwill it receives from its funds, an approach Chinese scholars call the "maximini" strategy, of getting the maximum return from the minimum outlay. After the Asian tsunami hit in December 2004, China eventually offered $95 million in assistance, one of its biggest-ever pledges of humanitarian aid, but still far less than Japan's assistance or US aid, which approached $1 billion. But because China is a new donor, Beijing seemed to win almost as much media coverage in Asia for its tsunami relief as did the United States and Japan. This has become a trend: China generates goodwill from its assistance partly because countries have become used to receiving money from Japan and America for decades, and China is a new donor. And China uses its aid for high-profile projects, like a new parliament building in Cambodia. "Providing a modern replacement for the current run-down headquarters of the Cambodian government will remind many in the Cambodian leadership who takes care of them," admits one US diplomat in an unclassified cable.[35]

The streets of Maputo, capital of the former Portuguese colony of Mozambique, look little different from those of many other sub-Saharan African cities. Open sewers overflow with rotting fruit, beggars and police harass pedestrians for money, and young mothers wander the streets in dirty rags carrying children on their backs. Yet Maputo also seems hopeful. After decades of brutal civil war, Mozambique has enjoyed peace since the early 1990s, and has built a nascent, if fragile, democracy. Taking advantage of the peace, Mozambicans have reconstructed the shattered economy of their capital. Young entrepreneurs in Maputo clinch deals over thimble-sized cups of coffee in the city's new cafés and plates of fresh grilled fish in the waterfront restaurants and bars lining the capital's wide public squares. The business district even has sprouted a small skyline of office towers.

In February 2005 I arrived in Mozambique. Walking amid the pink and green Mediterranean-style buildings of Maputo's oceanfront, signs of its Portuguese colonial heritage, I noticed one structure that stood out—an enormous, blocky building with an Asian pagoda roof nothing like the surrounding architecture. It was the Ministry of Foreign Affairs—built with Chinese aid, which is why it wound up looking like a giant slab of concrete topped with a pagoda.

In recent years China has become a major donor to Mozambique, not only constructing buildings, which China has been doing abroad since the 1960s, but also offering many other types of aid. Beijing has paid for an investment and trade-promotion center in Maputo, offered the country debt reduction, and promised significant other economic assistance, like more than $2 billion offered in May 2006 by China's Export-Import Bank to help Mozambique rebuild its power infrastructure, ruined by the long civil war.[36] Perhaps unsurprisingly, Mozambique now regards China as one of its most important allies outside of Africa.

Maputo shows how China's aid has not only grown but also become more sophisticated. In the past, many scholars associated China's aid with giant white-elephant projects, like large buildings and ministries and similar structures. Since the late 1990s, though, Beijing has developed comprehensive aid programs beyond funding buildings, so that projects like Maputo's Ministry of Foreign Affairs come along with other initiatives, like debt reduction and economic assistance and training programs for professionals from the developing world. In fact, Beijing will train some ten thousand African professionals annually; China already trains some three thousand professionals from the developing world each year, in programs organized by the Chinese Ministry of Commerce.[37]

As in Mozambique, around the world China also has more closely linked assistance to discrete policy goals, including mitigating concerns about China's economic rise, developing poorer parts of China, and increasing China's influence in places where other major powers, like the United States and Japan, seem to be losing influence. In Mozambique this means funding the trade-promotion center, which could help Chinese companies investing in Maputo. In Thailand it means Beijing using its aid to purchase surplus Thai agriculture, a way of conciliating Thai farmers worried about the impact of a looming Asean-China free trade agreement. Along the Mekong River in Southeast Asia, it means major new road-development projects that will link Southeast Asia to Yunnan, an impoverished province of southwestern China central to the Chinese government plan to boost the economies of western China.[38]

This aid helps Chinese companies, too—the roads will open routes to ocean ports for Yunnanese farmers and traders. Around the world, when Beijing scouts potential new infrastructure projects, this infrastructure construction winds up benefiting Chinese construction companies. Work on a $1.8 billion dam in Merowe, Sudan, for example, backed by export credits from China Export-Import Bank, will be farmed out to Chinese firms. Chinese companies can rely upon low-interest loans from Chinese banks and can bring cheap Chinese labor to implement the projects.[39]

In fact, Chinese aid also often comes tied to commitments to provide contracts to Chinese construction firms—a strategy similar to unpopular Japanese assistance programs in the past. In Angola, for example, 70 percent of Chinese-funded projects were reserved for Chinese companies.

China also has used its aid to cultivate important political actors. Beijing is building an informal kind of visitor program, creating opportunities for opinion leaders from the developing world to be wooed in China, including potential future heads of state like Cuba's Raúl Castro or young Vietnamese and Thai officials. Opinion leaders are brought to China for conferences, trips to study China's economic model, and contact with the Communist Party, which has aggressively built contacts with parties in the developing world—by 2005, the Chinese Communist Party had established official relations with thirty-nine political parties in Southeast Asia alone. In Cambodia, where Chinese aid will build a new prime minister's office and the Beijing Diplomacy Institute trains Cambodian officials from the ministries of tourism, foreign affairs, industry, and agriculture, several politicians say that the Chinese government also has directly provided funds to parties like the ruling party and its coalition partner.[40]

Some visitor programs may look little different from the kind of junketing for which Congress has long been notorious. "I look around the Parliament, and I see everyone I know taking trips to China," says the prominent Thai senator Kraisak Choonhavan. "If you're a Thai MP, it's the easiest thing in the world to get a trip to China for conferences or other events."[41]

In Laos, where Chinese aid built the capital's main drag and funded hospitals in Luang Prabang, the second city, Chinese junkets have proven even more popular. Some impoverished Lao officials—most take second jobs to supplement their meager government wages—receive sizable per diems when they travel to China for trainings on governance, environmental policies, counternarcotics strategy, and other issues, or when they attend China-sponsored seminars in Vientiane.[42] "Now our staff go to China as much as they can," says a top official in Laos's foreign ministry. "We have no money, and this is the only training we can get." Before I leave his office, he touches my arm and asks, "Do you think you have any books you could ship us?"

As China has become an international investor and world trader, the Chinese government has not only lifted restrictions on migration within China but also made it vastly easier for Chinese to leave the country for business and tourism. As Beijing relaxes immigration restrictions and encourages outward investment, Chinese businesspeople, traders, and workers leave China en masse. The fact that China has begun to protect some of its nationals abroad—in April 2006, the Chinese government airlifted more than three hundred people who had been attacked by rioters in the Solomon Islands, a Pacific nation, during a wave of anti-Chinese violence—also encourages Chinese businesspeople and laborers to feel comfortable moving abroad. One study of Chinese workers in Africa found that the number of Chinese registered in Sudan had tripled since the late 1990s, to roughly 24,000 in 2004, and the trade organization of Chinese labor contractors believes that the number of Chinese workers heading abroad is rising by nearly 20 percent per year; some will overstay their visa and never come home. Barry Sautman of Hong Kong University of Science and Technology found that one database of Chinese in Africa showed 137,000 Chinese residents on the continent in 2002, a number he believes out of date and vastly understated. In Nigeria alone, for example, Sautman found only 2,000 Chinese residents in 2001, but he estimated that some 50,000 Chinese had migrated to Nigeria by 2005, and that South Africa had as many as 300,000 Chinese migrants.[43] Since many of the Chinese migrants live more modestly than Western expatriates, they tend to earn the respect of local Africans—though in the long run, if the Chinese traders replace African businesses they may create resentment.

Asia has witnessed the largest number of Chinese migrants. In Thailand 120,000 Chinese migrants who entered the country in 2003 reportedly did not return home. In Cambodia, China has become the number one source of visitor arrivals, but Cambodia does not rank highly on Chinese tourists' itineraries, suggesting that most of these visitors are businesspeople, including many who do not return home.[44]

These new migrants are transforming the demographic makeup of China's border regions, like northern Southeast Asia, a wide swath of land from northern Burma to northern Vietnam. In these porous border areas, recent migrants from

China now dominate towns like Mandalay in Burma or Chiang Saen in northern Thailand or Luang Namtha in northern Laos. At a new glass-and-steel mall in Mandalay featuring almost exclusively Chinese products, Chinese teenage girls wander the floors in small groups. Outside the mall, wives of Chinese businessmen have opened hair salons, Chinese-style coffee shops, and stands selling fashion accessories; in one coffee shop, Burmese boys study Chinese-language books. The girls are part of the wave of 200,000 Chinese tourists and migrants who have come to Burma in recent years, mostly businesspeople from southwestern China and their families, along with laborers in town to work on infrastructure projects outside Mandalay funded by Chinese assistance. China's influence has become so prevalent in Mandalay, in fact, that locals call the town a "Chinese city," and some quietly resent the possibility that Chinese migrants dominate business in town.

Similarly, around Luang Namtha, recent migrants now run local markets and establish large agricultural estates, since Laos offers the kind of open land that is becoming almost impossible to find in China. "The Lao government is concerned about the Chinese influence in northern Laos, and they'll try to get people to go back to China," says one Western diplomat in Vientiane, Laos's capital. "But they don't have the resources to look for people." As a cable from the US embassy in Vientiane admitted, "the expanding Chinese presence in northern Laos . . . is nothing short of an economic offensive."[45]

This new migration of Chinese traders and laborers has had another effect. It has created a zone on China's borders in which Chinese currency is traded freely, despite the fact that it is not officially convertible. In Burma, Mongolia, Laos, Cambodia, and Vietnam, businesspeople use the renminbi as a de facto reserve currency, sometimes instead of the US dollar.[46] In northern Laos, migrant Chinese truckers and laborers now stop at the makeshift new bars and nightclubs lining the roadways, often just wooden shacks with tin roofs and signs in Chinese characters—though they all take renminbi. Inside, Lao and Chinese girls stand packed into one corner of the bars until the men pick them out, negotiate a price, and take them to grubby local short-time hotels or trailers for quick sex.

The lifting of restrictions on tourism from China also has allowed more Chinese to take their first vacations overseas. According to the World Tourism Organization, some 100 million Chinese will be traveling abroad by 2020, making China eventually the world's largest source of tourists. Today, Southeast Asia is the destination of choice for one-third of all outbound Chinese tourists. It will soon become the most important tourism market for Thailand, Singapore, Vietnam, and other Asian nations, and even more important in an era of terrorism, when Americans have grown increasingly fearful of travel abroad. Thailand alone hopes to receive four million Chinese tourists per year by the end of the decade.[47]

Many first-time mainland Chinese tourists, like the Japanese and Taiwanese before them, travel on short group tours. But as China becomes richer, average Chinese are breaking away from these group tours. They are traveling on their own on extended trips, spending like people from developed nations, and impressing citizens of host countries with their wealth and sophistication and taste. "The Billion Boomer generation—young, career-driven [Chinese] consumers—are spreading their wings," notes a report on Chinese tourism by the research group CLSA Asia Pacific Markets. "Luxury goods and cosmetics are the most sought after items" by these rich Chinese tourists, CLSA notes. In Hong Kong, mainland Chinese travelers now spend more per day than their Japanese counterparts; in Thailand, Chinese travelers already stay for as many days as Japanese tourists. Even in Paris, boutiques have added Mandarin-speaking staff to their coterie of English and Japanese assistants.[48]

The new migrants flocking out of China, the growth of Chinese business, the interest in studying Chinese, the Chinese aid projects, the influx of modern Chinese urban culture—in some places, like Mandalay, Burma, all these elements of soft power are coming together. China's soft power indeed has proven successful in many cities like Mandalay, allowing China in some cases to supplant the United States as the major external cultural and economic influence. But whether China can continue to enjoy this success without fostering more resentment in Burma—and elsewhere—is a far different question.