CHINA'S TRADE AND SOFT POWER RELATIONSHIPS WITH ASIA AND THE UNITED STATES – REASON TO WORRY?

The Honorable Doug Bereuter
President of The Asia Foundation and Member of Congress (1978-2004)

September 14, 2009
What is “SOFT POWER”?

“In international politics [e.g. international relations], the resources that produce soft power arise in large part from the values an organization or country expresses in its culture, in the examples it sets by internal practices and policies, and in the way it handles its relations with others.”

(Description by Professor Joseph S. Nye, Jr. who coined the phrase)
International “SOFT POWER”

Refers to a country’s ability to shape the preferences, policies, and actions of other countries through the attractiveness of the values a country represents through its –

- Culture
- Political Ideals
- Internal Practices and Policies
- International Relations

(A defining feature of SOFT POWER, according to Joseph Nye, is its non-coercive nature.)
“HARD POWER” = MILITARY POWER
“SMART POWER”

....to better coordinate, strengthen, and appropriately display a combination of **SOFT POWER** and **HARD POWER**
The Basic

Geography & Economics

of

China
COMPARATIVE SIZE OF CHINA AND THE UNITED STATES

AREA OF THE UNITED STATES:
3,794,083 square miles

AREA OF CHINA:
3,705,407 square miles

ARABLE LAND IN THE UNITED STATES:
18.01 %

ARABLE LAND IN CHINA:
14.86 %

Source: Central Intelligence Agency, The World Factbook
Population (billions)

July, 2009 estimate

UNITED STATES

CHINA

Source: Central Intelligence Agency, The World Factbook
81 people per square mile

361 people per square mile

Source: Central Intelligence Agency, The World Factbook
DISPOSABLE PERSONAL INCOME PER CAPITA (2008)
(U.S. Dollars)

China's Trade

with the

World
China, Germany, Japan, and the United States: Total Merchandise Trade (2002-2007)

(Trillions of U.S. Dollars)

CHINA’S MERCHANDISE WORLD TRADE (2000-2008)

(Billions of U.S. Dollars)

Source: International Monetary Fund, Direction of Trade Statistics and Global Trade Atlas (using official Chinese statistics)
REGIONAL PERCENTAGES OF CHINA'S MERCHANDISE WORLD TRADE (1997-2007)

**Exports**

- **North America**: 28%
- **Europe**: 25%
- **Asia**: 37%

**China's Exports to the World (1997 – 2007 cumulative)**: $5.4 trillion

REGIONAL PERCENTAGES OF CHINA’S MERCHANDISE WORLD TRADE (1997-2007)


China’s Imports from the World (1997 – 2007 cumulative): $4.6 trillion

North America 11%
Europe 13%
Asia 63%
TRENDS IN CHINA’S MERCHANDISE IMPORTS FROM NORTH AMERICA AND ASIA (1997-2007)

(Billions of U.S. Dollars)

China's Trade with the United States
TRENDS IN MERCHANDISE EXPORTS TO THE WORLD – CHINA AND THE UNITED STATES (1997-2007)
(Billions of U.S. Dollars)


(Billions of U.S. Dollars)

<table>
<thead>
<tr>
<th>Country or Trading Group</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>WORLD</td>
<td>- $800</td>
</tr>
<tr>
<td>CHINA</td>
<td>- $266.3</td>
</tr>
<tr>
<td>ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)</td>
<td>- $175.6</td>
</tr>
<tr>
<td>EUROPEAN UNION (EU27)</td>
<td>- $93.4</td>
</tr>
<tr>
<td>CANADA</td>
<td>- $74.6</td>
</tr>
<tr>
<td>JAPAN</td>
<td>- $72.7</td>
</tr>
<tr>
<td>MEXICO</td>
<td>- $64.4</td>
</tr>
<tr>
<td>ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)</td>
<td>- $50.6</td>
</tr>
</tbody>
</table>

**Source:** USITC Data Web
U.S. MERCHANDISE TRADE WITH CHINA (2000-2008)

(Billions of U.S. Dollars)

SOURCE: USITC Data Web

$266.3 billion TRADE DEFICIT (2008)
Goods vs. Services Exports
(cumulative, 1999-2008)

U.S. SERVICES TRADE WITH CHINA (1999-2008)
(Billions of U.S. Dollars)

Service Imports from China  Service Exports to China

$6 billion TRADE SURPLUS (2008)

Nebraska's Exports to the World
TOP 5 COUNTRIES RECEIVING NEBRASKA EXPORTS (2004 – 2008)

(Millions of U.S. Dollars)

Source: U.S. Department of Commerce, TradeStats Express
## NEBRASKA EXPORTS
*(cumulative, 2004-2008)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CANADA</td>
<td>$5.3 billion</td>
</tr>
<tr>
<td>MEXICO</td>
<td>$3.8 billion</td>
</tr>
<tr>
<td>JAPAN</td>
<td>$1.3 billion</td>
</tr>
<tr>
<td>CHINA</td>
<td>$768 million</td>
</tr>
<tr>
<td>S. KOREA</td>
<td>$473 million</td>
</tr>
</tbody>
</table>

*Source: U.S. Department of Commerce, TradeStats Express*
MAJOR NEBRASKA NON-AGRICULTURAL EXPORTS TO CHINA
(Cumulative, 2004-2008)

(311) Processed Foods
(333) Machinery Manufactures
(325) Chemical Manufactures
(910) Waste & Scrap
(334) Computers & Electronic Products
(316) Leather & Related Products
(335) Electrical Equipment; Appliances & Parts

NOTE: North American Industry Classification System (NAICS) Categories
Source: U.S. Department of Commerce, TradeStats Express
China's Role in Global Manufacturing
REGIONAL PERCENTAGES OF CHINA’S MERCHANDISE WORLD TRADE (1997-2007)


Imports

- North America: 11%
- Europe: 13%
- Asia: 63%

China’s Imports from the World (1997 – 2007 cumulative): $4.6 trillion

CHINA AS AN ASSEMBLY LOCATION FOR MANUFACTURED GOODS
– the last link in a deep and intricate supply chain for manufactured goods.

STEPS IN A TYPICAL PATTERN:

(A) Research & development, design, and marketing expertise from the U.S. or Western Europe

(B) Shipping and logistical support from and via Hong Kong

(C) Sophisticated parts produced largely elsewhere in East Asia

(D) Final assembly with addition of less sophisticated Chinese manufactured parts in China

(E) Exports to world through Hong Kong and Mainland Chinese ports

NOTE: East Asian, American, or European-owned plants produce over half of Chinese exports.
NOTE: According to the 2007 study by Kenneth L. Kraemer, Jason Dedrick, & Greg Linden, there are “no Chinese firms in major suppliers” of iPod technology. Also, the total value-added contribution of China to iPod production is less than 5 percent of the product’s final value (following source citation – Page 21).

NOTE: According to the 2007 study by Kenneth L. Kraemer, Jason Dedrick, & Greg Linden, there are "no Chinese firms in major suppliers" of iPod technology. Also, the total value-added contribution of China to iPod production is less than 5 percent of the product's final value (following source citation – Page 21).

Source: Robert L. Mitchell, "iPod Teardown: Study Reveals Where the Parts Come From; Where the Money Goes," Computerworld Blogs (June 21, 2007) and Kenneth L. Kraemer, Jason Dedrick, & Greg Linden, "Capturing Value in a Global Innovation Network: Comparing the U.S. Benefit from U.S. IT Products Made Overseas and vice versa."
Who Captures Value in a Global Innovation System?  
The case of Apple's iPod

Greg Linden, Kenneth L. Kraemer, Jason Dedrick  
glinden@berkeley.edu, kkraemer@uci.edu, jdedrick@uci.edu

Personal Computing Industry Center (PCIC)  
Suite 3200, Berkeley Place North  
Irvine, California 92697

June 2007

The Personal Computing Industry Center is supported by grants from the Alfred P. Sloan Foundation, the U.S. National Science Foundation, industry sponsors, and University of California, Irvine (California Institute of Information Technology and Telecommunications, The Paul Merage School of Business, and the Vice Chancellor for Research). Online at http://pcic.merage.uci.edu. For information, contact Jason Dedrick (949/824-2863) or Kenneth L. Kraemer (949/824-5246).
“The biggest winner is Apple, an American company, with predominantly American employees and stockholders who reap the benefits.”

“The producers of high value, critical components capture a large share of the value. For the 30GB Video iPod, the highest value components are the hard drive and the display, both supplied by Japanese companies. U.S. suppliers provide the two most valuable microchips.”
“Trade statistics can mislead as much as inform. For every $300 iPod sold in the U.S., the politically volatile U.S. trade deficit with China increased by about $150 (the factory cost). Yet, the value added to the product through assembly in China is probably a few dollars at most. While Apple’s share of value capture is high for the industry, the iPod’s overall pattern of value capture is fairly representative.”
China's Soft Power
International "SOFT POWER"

Refers to a country’s ability to shape the preferences, policies, and actions of other countries through the attractiveness of the values a country represents through its –

- Culture
- Political Ideals
- Internal Practices and Policies
- International Relations

(A defining feature of SOFT POWER, according to Joseph Nye, is its non-coercive nature.)
A BROAD CATEGORIZATION OF TYPES OF SOFT POWER

POLITICAL CULTURE

CULTURAL

HUMAN CAPITAL

DIPLOMATIC

ECONOMIC

Sources: Information on the categories draw from Dr. Allen Choate of The Asia Foundation and Ms. Denise Zheng, Center for Strategic and International Studies (CSIS) Smart Power Initiative
POLITICAL CULTURE

- “Political brand” – i.e. values, ideals, norms
- Political system meeting needs of its people
- Respect for human rights
- Justice and respect for rule of law
CULTURAL (Popular and Elite Audiences)

- General appeal of its culture
- Importance or influence of its language
- Influence of its popular culture (e.g. media products, visual arts, etc.)
• Availability of scholarships, fellowships, and hosted exchange programs and study tours
• Sports and entertainment
HUMAN CAPITAL

- Overall education level of the population
- Quality of colleges and universities
- Advanced science and technology
DIPLOMATIC

(A) Government-to-Government

- Reputation for quality and use of diplomacy
- Respect for sovereignty of other countries
DIPLOMATIC (continued)

- Level of leadership and support of international institutions
- Foreign aid
- Peace Corps varieties of citizen volunteerism
- International emergency relief efforts
- International peacekeeper activities

(B) Nongovernmental Public Diplomacy and Aid Programming
ECONOMIC

Soft Power – Hard Power?

- Level of economic competitiveness (strength or importance of its economy)
- Importance or influence of economy to other countries
- Level of international trade and investment
Reputation of business community and business products, actions, and practices

Economic opportunities for its citizens
China's Foreign Aid
CHARACTERISTICS OF CHINA’S FOREIGN AID

(A) The Focus of the Chinese “Foreign Aid Model”

(B) Amounts of Chinese Foreign Aid

- Not easily understood
- Grown substantially
- Impact disproportionately large
Methods of Delivering Chinese Foreign Aid

- Majority channeled bilaterally
- Based on principles of “equality, mutual trust, and non-interference”
- Most important delivery source – China Export-Import Bank
- Loans heavily tied
- Chinese model is a hybrid collaboration of state-business coalitions and state-sponsored investment

Sources: Dr. Allen Choate of The Asia Foundation and Mr. Derek Mitchell of the Center for Strategic and International Studies (CSIS)
CHINA’S FOREIGN AID (2002-2007)
(Billions of U.S. Dollars)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>$0.010</td>
<td>$0.838</td>
<td>$2.292</td>
<td>$2.953</td>
<td>$9.088</td>
<td>$17.96</td>
</tr>
<tr>
<td>Latin America</td>
<td>$0.004</td>
<td>$0.001</td>
<td>$7.000</td>
<td>$2.931</td>
<td>$16.42</td>
<td>$0.401</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>$0.036</td>
<td>$0.644</td>
<td>$1.193</td>
<td>$4.221</td>
<td>$2.004</td>
<td>$6.735</td>
</tr>
</tbody>
</table>

NOTES: Annual totals represent announced loans and other reported aid and economic projects using PRC financing.

Source: NYU Wagner School, Understanding Chinese Foreign Aid: A Look at China’s Development Assistance to Africa, Southeast Asia, and Latin America, April 25, 2008.
# CHINA’S FOREIGN AID (2002-2007)

<table>
<thead>
<tr>
<th>AREAS OF ASSISTANCE</th>
<th>AFRICA</th>
<th>LATIN AMERICA</th>
<th>SOUTHEAST ASIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources Extraction</td>
<td>$9.4 billion</td>
<td>$18.6 billion</td>
<td>$4.8 billion</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure / Public Works</td>
<td>$17.9 billion</td>
<td>$7.5 billion</td>
<td>$6.4 billion</td>
</tr>
<tr>
<td>Not Specified / Other</td>
<td>$5 billion</td>
<td>$608 million</td>
<td>$2.3 billion</td>
</tr>
<tr>
<td>Humanitarian</td>
<td>$802 million</td>
<td>$32 million</td>
<td>$159 million</td>
</tr>
<tr>
<td>Military</td>
<td>$4 million</td>
<td>$0</td>
<td>$170 million</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>$10 million</td>
<td>$1 million</td>
<td>$3 million</td>
</tr>
</tbody>
</table>

**NOTE:** Annual totals represent announced loans and other reported aid and economic projects using PRC financing.

*Source: NYU Wagner School, Understanding Chinese Foreign Aid: A Look at China’s Development Assistance to Africa, Southeast Asia, and Latin America, April 25, 2008.*
China Will Be the Leader of Asia

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage Comfortable with Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>68%</td>
</tr>
<tr>
<td>China</td>
<td>80%</td>
</tr>
<tr>
<td>Japan</td>
<td>55%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>78%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>35%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>56%</td>
</tr>
</tbody>
</table>

Source: The Chicago Council on Global Affairs and the East Asia Institute, *Soft Power in Asia: Results of a 2008 Multinational Survey of Public Opinion*