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Central Intelligence Agency



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CHINA AND THE THIRD WORLD:
Squaring Economic and Political Goals

Summary

China's increased public stress on its alignment with the Third World--an emphasis meant to convey more clearly Beijing's view that its international role is unique and independent -- highlights the importance of Chinese economic as well as political ties to developing countries. Recent Chinese policy statements show that Beijing expects to increase its share of Third World markets, where China's favorable trade balance partially offsets the cost of Western imports. Beijing acknowledges that its modernization program benefits directly from this trade and Chinese officials expect that Beijing's support for Third World positions in global negotiations will ultimately produce results that serve Chinese needs. [Redacted]

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Beijing's promotion of its own economic development via trade and other economic opportunities in the Third World serves to support US strategic interests. China wants to encourage policies in these countries that contribute to regional stability, thereby decreasing their vulnerability to Soviet influence. [Redacted]

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The Chinese portray their policies as enhancing economic cooperation among developing countries--a description that seeks in part to compensate for the cuts in China's foreign aid programs and to blunt criticism from developing countries over China's increased competition for international assistance and markets. If relations become contentious, however, we believe China's modernization goals will lead Beijing to put economic gain ahead of political objectives. [Redacted]

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* This memorandum was prepared by [Redacted] the China, Foreign Relations Branch. Questions and comments are welcome and may be directed to the author at [Redacted]

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The Economics of Ties to the Third World

At the 12th Party Congress in September, China's leaders emphasized that Beijing expects trade to play an essential role in China's economic development. The United States and other industrial states continue to occupy the key positions in Chinese economic planning because of their investment capital, technology, management skills, and markets. Nonetheless, the Chinese target for the year 2000--a fourfold increase in trade to some \$160 billion--did not overlook the Third World. China's \$6.1 billion in exports to LDCs in 1981 constituted about a third of all exports--and significantly, the Chinese enjoyed a surplus of \$2.8 billion that roughly matched their deficit with the developed countries. On the military side, in 1981, the Chinese signed contracts for some \$2.8 billion in arms exports to Third World customers, who pay for much of the merchandise in hard currency. [redacted]

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China's Third World trade concentrates primarily on the OPEC states, and the newly industrializing countries (NICs)--excluding Taiwan and South Korea. The Chinese also consistently run small bilateral surpluses that are significant in the aggregate with the poorer developing countries. [redacted]

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The oil producers are key targets for China:

-- Since 1979, China's exports to the Middle East and North Africa have risen more than 40 percent to \$1.3 billion last year; a decline in imports from the region gave Beijing a \$940 million trade surplus in 1981. [redacted]

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-- Most of China's 30,000 overseas workers are in this area; the government's principal labor contracting arm--the China Construction Engineering Corporation--maintains offices in Iraq, Kuwait, and North Yemen and plans another in Dubai next year. [redacted]

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-- The Chinese are targeting countries led by radical and conservative regimes alike as new markets; a new agreement with Libya will expand investment and trade;

[redacted] Beijing regards Kuwait and Saudi Arabia as sites for further trade expansion. [redacted]

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* In 1981 Chinese exports to Hong Kong were worth about \$5.2 billion and Beijing had a \$3.3 billion surplus. These figures are not included in those above except for approximately \$1 billion worth of goods reexported to other LDCs, because of China's special political relationship with Hong Kong. [redacted]

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- Finally, the burgeoning Chinese sales of arms abroad concentrate heavily in the Middle East where Beijing earned \$2.2 billion in 1981 from arms sales to Iraq. [REDACTED]

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Chinese trade officials see good potential for increasing trade with the NICs as well. Recent economic developments support this conclusion:

- In 1981 Hong Kong reexported about \$1 billion in Chinese goods to other LDCs, mostly to the NICs in East Asia including Taiwan and South Korea. [REDACTED]
- Beijing has almost doubled its exports to Singapore since 1979. Last year China exported \$735 million worth of goods while reducing imports, leaving Beijing a surplus of more than a half billion dollars. [REDACTED]
- Exports to Brazil reached \$346 million in 1981 and account for half of China's exports to Latin America, helping the Chinese to realize a slight trade surplus there for the first time. [REDACTED]

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In the poorer developing countries, Beijing is also searching for markets.

- Beijing has an economic umbrella agreement with each of the 45 African states with which it has diplomatic relations. Total trade with Africa will be about \$1.2 billion in 1982, probably lifting China's trade surplus above the 1981 level of \$460 million. [REDACTED]
- Two-way trade with Latin America hit \$1.2 billion in 1981. China has reduced its imports from Latin America, but continues to seek new outlets for its products in the hemisphere. In early November, for example, Chile approved a new Chinese trade center that will serve a number of other South American countries. [REDACTED]

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Marketing Strategy

Beijing's current investment program, which gives priority to industries with export potential, is tied to its efforts to expand economic relations with the Third World as well as developed countries. Chinese officials usually cite China's ability to export essentially intermediate-technology goods in describing their future prospects--products like Chinese manufactured goods in Southeast Asia and those now entering Latin American markets. They also point to less expensive items, such as farm tools, as exports that will continue to be successful in the Third World. The Third World is also a convenient market place for China's surplus industrial products, such as electrical

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appliances and machine tools, that have a limited domestic market because of their low quality. The arms trade also takes up excess productive capacity while helping the Chinese to modernize their own military. [redacted]

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Beijing, however, is clearly looking beyond a straight line projection of its current trade pattern. In public as well as unofficial commentary, Chinese officials suggest that closer ties with countries in Asia, Africa, and Latin America could open a vast market for China's goods. [redacted]

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In a recent policy statement, Minister of Foreign Economic Relations and Trade Chen Muhua said that China saw a huge market for projects involving labor cooperation that would in turn promote Chinese exports of industrial goods. For example, the Chinese have approached commercial interests in Brazil with an offer to provide the labor for Brazilian overseas projects. Competition from Chinese workers, moreover, already concerns South Korea and, less so, Taiwan, which are traditional labor suppliers for the Middle East. [redacted]

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Beijing is also looking closer at a more direct involvement in joint economic projects overseas. In September, trade officials announced that while joint projects with foreign investors are becoming more numerous in China, the Chinese are now also playing an investor's role in the Third World, where they claim China can offer an attractive partnership with its own technical and managerial skills. [redacted]

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Foreign Policy and Economic Relations

China's emphasis on the Third World stems in part from its desire to lessen Chinese identification with the West. Nonetheless, we believe that China is also trying to create a more coherent political and economic policy that can serve Chinese goals in the Third World over the longer run. [redacted]

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On the one hand, Beijing is singling out the political value of new economic initiatives in the Third World. [redacted] Foreign Ministry Advisor He Ying told Chinese ambassadors during his tour of the Middle East last summer that China would use "economic diplomacy" primarily to woo the more radical Arabs away from the Soviets. China's goals for relations with moderate Arab countries are similar; the Chinese, for example, appear to regard stepped-up economic relations with Saudi Arabia as the first move toward diplomatic relations. Beijing also hopes that its offers of increased trade will encourage Latin American holdouts to drop diplomatic relations with Taiwan. [redacted]

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At the same time, Beijing is publicly burnishing its identity as a leader in Third World affairs. In doing so, the Chinese are highlighting such areas as the exchange of technology and joint economic projects, in part, to suggest that such

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cooperation supplants the cuts in China's foreign aid programs over the past few years. In general, [redacted] China's discreet style has engendered much goodwill in many Third World countries. [redacted]

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The Chinese are also more actively counseling Third World representatives to cooperate in international negotiations and seeking to use a unified Third World stand in international forums to their benefit. At the meeting of 24 developing countries during the IMF session last August in Toronto, for example, the Chinese representative said relations among the developing countries should have precedence in the group because the North-South dialogue is stalemated. Beijing has stepped up its charges that the West is paying less for commodities, charging exorbitant interest rates, and erecting trade barriers to shift the impact of the global recession to the Third World.

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In Toronto the Chinese backed a doubling of IMF quotas--moderate by LDC standards--and an increase in contributions to the International Development Association (IDA) for low interest development loans. The proposal for lower tariffs among Third World countries and the establishment of a unified tariff structure for nonmembers also received Chinese support at the "Group of 77" meeting in New Delhi last February. [redacted]

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Competition with the Third World

China's recently expanded role in Western markets, making it an economic competitor with the developing countries, conflicts with its political goals for the Third World. China's efforts to increase exports while holding down Third World imports have already produced intermittent frictions as well. The Algerians complained about the policy, for example, to Zhao Ziyang on his African tour last month. Indian concerns that China's low per capita income could give it some priority for the World Bank's development funds and other soft loan programs, are also shared by many other Third World countries. [redacted]

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China's direct response to these Third World concerns so far has been relatively weak. We believe the Chinese at this point may not judge the problem as sufficiently important to warrant greater attention. Until now, Chinese trade competition has had the greatest effect on the NICs in East Asia--South Korea, Taiwan, Hong Kong, and Singapore. Beijing hopes to replace these NICs as producers of intermediate-technology and labor intensive goods as they move into high-technology industries. As far as these countries are concerned, the political fallout from direct economic competition is also not a major Chinese worry. At the same time, China appears to believe that it can publicly place

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the onus for shortages in development funds available to the Third World on Western reluctance to increase contributions to the international financial institutions rather than on Chinese claims on such funds. [redacted]

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In any event, we believe Beijing will take a hardheaded, practical approach to rising criticism from the Third World about its impact in these areas. By identifying themselves as a member of the Third World, the Chinese are sending the message that they intend to claim their share of international markets and development funds. In our view, this leaves little room for Beijing to soften the effects of its trade or other competition beyond the political palliatives and limited economic initiatives which have already been taken. [redacted]

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Beijing, we believe, will continue to use Third World rhetoric for whatever leverage it provides in bilateral negotiations with the United States and other developed countries and to shield its own policies on sensitive issues such as nuclear proliferation. The Chinese, however, will not let real economic opportunities slip by and are still likely to strike their bargains even if they violate declared Third World policy. [redacted]

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If China maintains modernization as its priority, its domestic goals will limit its flexibility in dealing with other developing countries. Trade and Foreign Ministry officials will probably find themselves more frequently working at cross purposes as the search for economic opportunities conflicts with other foreign policy goals. As a case in point, China's arms sales to one country could damage bilateral relations with others and prove politically embarrassing if one or more belligerents in a conflict decide to make it an issue. The Chinese may well find ways to soften the effects of their economic priorities on specific bilateral relationships, but their growing competition with other developing countries for markets and development funds will make it difficult for Beijing to maintain its claim of special concern for the Third World. [redacted]

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