

## **"Intelligence Brief: China"**

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During the week of June 19, China flexed its muscles in the economic and military spheres, setting off a flurry of reactions in Washington that threaten to complicate Sino-American relations and reveal long-term risks for the globalization process.

China's stepped-up assertiveness on the world stage came in the form of bids by Chinese businesses to acquire U.S. appliance manufacturer Maytag and oil company Unocal, and Beijing's test-firing of its most advanced and longest-range intercontinental missile. Those moves spurred protests in the U.S. Congress that, in turn, were met by ambivalent responses from the Bush administration, which is cross-pressured by conflicting interests.

Following the acquisition in May by China's Lenovo Group of IBM's personal computer business, the bid for Maytag by Haier America Trading -- the U.S. arm of appliance giant Haier -- and the move to acquire Unocal by China National Offshore Oil Corporation (C.N.O.O.C.) mark a new stage in Beijing's export-driven strategy of economic development that is geared to make China an "all-around" great power with state-of-the-art industries in all strategic sectors during the next 20 years.

The test of the JL-2 missile, which has a 6,000 mile range, advances toward Beijing's aim of enhancing China's military capabilities in order to make the country the dominant power in East and Southeast Asia, gradually eroding U.S. influence.

Both the economic and military moves show that Beijing's geostrategy is firmly in place and that the Chinese political class is confident that the strategy is working.

### **A New Stage of Development**

Up until Lenovo's acquisition of IBM's personal computer business, Beijing's development strategy had been based on attracting foreign investment to China on account of its massive pool of cheap labor and its potential market in order to build up its industries and acquire advanced technologies. Having succeeded in creating an industrial base with some powerful and cash-rich companies, the opportunity exists for China to expand its export markets and to secure supplies of the energy and mineral resources that it needs to run its burgeoning industrial machine through the purchase of foreign corporations.

The acquisition of foreign businesses has the added strategic advantage of creating interest groups in the countries in which those businesses are based that are economically dependent on China and, therefore, would tend to be favorable to its interests in political conflicts.

Haier's \$1.28 billion bid for Maytag illustrates the continuation and intensification of Beijing's export-driven growth strategy. Having already gained a foothold in the U.S. market through its sales of refrigerators and air conditioners to the Wal-Mart and Target discount chains, Haier would like to expand its penetration by buying a company with a name brand and an established distribution and servicing network. Analysts agree that if Haier's bid is successful, the company would move Maytag's production to China and utilize the acquired company's distribution and servicing system to market its own lines in addition to the Maytag brand, which might eventually be eliminated.

C.N.O.O.C.'s \$18.5 billion bid for Unocal has greater strategic significance than Haier's move to acquire Maytag. Already the target of a takeover effort by Chevron, Unocal is especially attractive to Beijing because of the drilling rights that the company has in Thailand and Myanmar, which Beijing includes within its prospective sphere of dominant influence.

In order to achieve its goal of transforming China into a comprehensive world power, Beijing must have secure access to raw materials in markets that have become increasingly competitive and tight, due in great part to China's growth. The bid for Unocal signals that Beijing is aware that it must act quickly to guarantee its resource supplies, at the expense of competitors, especially the U.S. As part of Beijing's overall strategy, Chinese enterprises have recently purchased mines in Australia and Canada, and Beijing has pursued trade deals geared to natural resources in South America. Unocal is part of that larger picture.

On the military front, Beijing's test of the JL-2 missile, first reported in the *Washington Times*, marked, according to an anonymous U.S. Defense Department official, "an unexpected advance in technological capability." The JL-2's range of 6,000 miles is greater than that of any other missile in China's arsenal and it is designed for the new generation of Chinese nuclear submarines, the first of which was launched in 2004. With its defense spending estimated at \$78 billion per year, Beijing's strategy of creating a technologically advanced military deterrent is bearing fruit.

China's growing assertiveness awakened a predictable response in both houses of the U.S. Congress, where legislators -- especially those from California, where Chevron is based -- expressed concern about the Unocal bid. Chairman of the House Resources Committee Richard Pombo, a California Republican, said that a Chinese takeover of Unocal would be contrary to U.S. security interests. Responding to similar criticism in the Senate, U.S. Treasury Secretary John Snow promised that the government's Committee on Foreign Investments would investigate the takeover if a deal was consummated.

The Bush administration's tepid response to the Chinese bids reflects its conflicting commitments to globalized markets, national security and domestic interests that increasingly appear to be irreconcilable. Protectionist sentiment, aimed mainly at China, is rising in Congress and could ultimately threaten the globalization process. In a pattern that is becoming familiar regarding a broad range of international issues, the Bush administration is facing increasing difficulties in sorting out its priorities, giving the advantage to states with more coherent strategies.

### **The Bottom Line**

China's next stage of development brings the incipient conflict between Beijing and Washington into full view. Holding back Chinese expansion -- if that is even possible -- carries the high probability of derailing globalization; allowing it to occur makes the realization of Beijing's geostrategic aims far more likely.

Look for Beijing to proceed confidently on its course and for Washington to be incapable of mounting effective resistance.

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