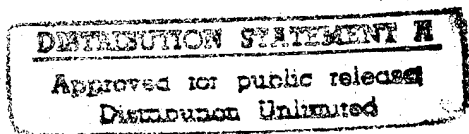


# China and Security in the Asian Pacific Region Through 2010

Alfred D. Wilhelm, Jr., Ph.D.



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Jerome H. Kahan, Director  
Regional Issues Team  
Policy, Strategy, and Forces Division

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About the author and researcher:

The author, Dr. Alfred Wilhelm, is Executive Vice President of the Atlantic Council of the United States and Director of the Council's Pacific programs. His graduate degrees involve China and East Asian studies. Prior to retirement he was Army Attache in Beijing and has served in Taiwan and Vietnam. He is the author of *The Chinese at the Negotiating Table*, NDU Press, Washington, DC, 1994.

Ms. Kristen Sylvester was Dr. Wilhelm's research assistant. She has a masters in International Studies, speaks Mandarin and Khmer, and has worked in China and Cambodia. She is currently Associate Editor of the *China Business Review*, U.S.-China Business Council.

## Overview

This research memorandum is part of a study sponsored by the Commander, Seventh Fleet, to assess the security environment of the Asia-Pacific Region (APR) between now and 2010. It focuses on the most probable evolutionary trends for China during this period. The implications for the forces and for the Navy are contained in the final report for the project, *The Dynamics of Security in the Asia Pacific Region*.<sup>1</sup> This research memorandum was reviewed by a group of China scholars at a meeting at CNA on May 5, 1995.<sup>2</sup> Their comments have been incorporated in this overview.

China's emergence as a major regional power will be one of the principal factors affecting the security, politics, and economies of Asia and the Pacific between now and 2010. The forces shaping China's emergence are primarily internal, but include such important external factors as Beijing's perceptions of the intentions of its neighbors and of the United States. Much of the uncertainty about China's future course and impact on the region center on whether, and how, China accepts the norms of the international system that has grown since World War II—norms that have not yet been tested by the rapid rise in national power of a large non-Western country. Alternative scenarios emerging from the rapid changes underway in China could have widely varying implications for this and other issues.

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1. CNA Research Memorandum 95-172, by M. Lyall Breckon and Thomas J. Hirschfeld, January 1996.
  2. Participants were Richard Solomon, U.S. Institute for Peace; Paul Godwin, NDU; Harry Harding, GWU; Ralph Clough, SAIS; Paul Kreisberg, Wilson Center; Alfred Wilhelm, Jr., Atlantic Council; and Banning Garrett and Bonnie Glazer, private consultants. Lyall Breckon, Christopher Yung, and Thomas Hirschfeld of CNA also participated.

## **Alternative futures**

This research memorandum posits and discusses three alternative futures for China over the next 15 years:

### **Continued reform**

By 2010, China would approximate the “modern, powerful, socialist state” envisioned by Deng Xiaoping in 1978. It would still be a developing nation facing enormous challenges, but economic reforms would have been successfully woven into the socio-economic structure. China would be almost fully integrated into the world economy. The polity would be in transition. China would be the most powerful military nation in Asia, although still with limited force projection capabilities, and an increasingly important world power, tentative about the responsibilities of this role and creating new challenges in the region and the world.

### **Central and authoritarian**

If wide-scale civil disorder should erupt—as in 1989, but on a more extended geographic basis because of political protest, economic discontent, environmental crisis, or a combination of these or other causes—the party would eventually turn to the PLA to restore order and reimpose central government control with martial law. Such an intervention would set China’s reform programs back five to ten years or longer. It could mean a much stronger role for the army in governing China and probably would result in more assertive pursuit of Chinese national interests, including those involving Taiwan, the South China Sea, border regions, and China’s place in Asia more generally.

### **Disintegration or chaos**

Decay is a possibility. Chaos would be unpredictable and not likely be peaceful. No province or region is self-sufficient or likely to produce strong local leadership capable of sustaining economic growth, much less growth near the levels of the 1990s. A general economic collapse that would affect the Asia Pacific Region, large population movements into neighboring countries, and armed conflicts both within China and along its borders could be the result.

## **Probabilities and parameters**

Estimates of the probability of these scenarios vary widely among respected scholars and analysts of China. The more optimistic project a 75- to 80-percent probability of continued and successful reforms pushing China toward a unified and more democratic future by 2010. The more skeptical would assign a probability of about 40 percent to the Continued Reform scenario. Most agree that there is less chance for either centralized authoritarianism or disintegration or chaos.

China will wrestle with political development throughout the period. Experiments currently under way with local elections and increased responsibilities for the National People's Congress and Political Consultative Congress will produce political activism with party-like characteristics. Economic competition, greater opportunity to choose and change jobs and professions, and the communications revolution will generate greater expectations for political freedom and pluralism. Trends could run toward a multiparty system, but probably not by 2010. China will also face economic challenges, including the implications of successful reform and how to deal with them. For instance, privatizing state enterprises will raise the question of creating a costly social security system (retirement, health care, unemployment insurance).

## **The future of China's military forces**

China's leaders view the country's military capabilities as being far behind what it needs to be a major player in the global system. Therefore, military modernization will proceed under almost any conceivable scenario (disintegration or chaos aside). China's ultimate goal will be to have forces capable of resisting any country in the region, including U.S. forces in the Pacific. At the same time, many in Beijing recognize the enormous costs this would entail. Under the most likely scenarios, China will continue to give highest priority to economic development, probably throughout the period. By 2010, China is likely to have more accurate, secure, and powerful nuclear forces, comparable to those of Russia (but fewer in number), and to be capable of limited conventional force projection into areas of vital interest.

Modernization will have enabled the PLA to:

- Reduce total manpower from 3.2 to 2 million and build on the military education revolution of the 1980s to create a professional officer corps more than 90 percent of which has college or advanced technical education. Basic training will be enhanced. The PLA will have a high level of maintenance and technical competence, and be capable of accepting modern technology. Budget constraints will slow introduction of new technologies, however.
- Indigenously design and begin construction of an aircraft carrier. The PLA could have two or three vessels with carrier characteristics capable of inserting small numbers of combat and troop transport helicopters into areas of vital interest.
- Reduce the number of combined group armies from 24 to approximately 16, and begin upgrading all combat units to the high standards that now prevail in elite units.
- Reduce the number of units forward-deployed along China's borders, because of both reduced political tensions and enhanced mobility. Heavy airlift and sealift capabilities will enable China to reinforce border units rapidly with modern, capable units from more central locations.
- Develop a limited number of precision guided munitions, more as a test than as a mass-produced weapon system.
- Convert selected strategic missile units to MIRV systems.

## **Regional implications of successful Chinese modernization**

**Northeast Asia:** With growing interdependence between China and its neighbors, the Chinese would likely join other governments in Northeast Asia in multilateral security discussions by 2000. This will require that the framework of such talks gives no appearance of being directed at China. Under central authoritarian or disintegration scenarios there is less, or no, prospect for multilateral security discussions in Northeast Asia.



**Taiwan:** Under continued reform it is conceivable that current dissatisfaction in Beijing with China's Taiwan policy could give impetus to suggestions for a more moderate approach, one that would attempt to preempt Taiwan's independence movement by accepting a formula for greater international stature for Taiwan as a part of China (possibly even including UN membership). Many observers give this a low probability and foresee continued tensions across the straits. Taiwan and China will probably not be reunified by 2010, although some more practical working relationships could well have developed. The risk of conflict, including military action such as a blockade of Taiwan in response to perceived moves toward independence, is considerably higher under central authoritarianism. Such a scenario would also increase the probability that Taiwan might declare independence, since unification with an authoritarian China would be less attractive than a reforming one. This situation would be extremely difficult for the United States.

Unless subject to major global or regional economic disruptions, military pressure or attack, or internal political tensions, Taiwan is likely to continue its economic success. If economic relations with China continue to improve, Taiwan also probably will become a regional transportation, communications, and financial center in Asia. Its position as a bridge between China and the West will depend on the scenarios noted earlier for China, becoming increasingly important for a reforming China and for coastal China even in the event of chaos, but less important for a revived authoritarian China. Disintegration or chaos would leave the Taiwan problem unresolved, and could (as with authoritarianism) generate increased demand for independence.

**Hong Kong:** Transition from British to Chinese sovereignty will be a period of uncertainty under any scenario, and will be watched carefully as a precedent for Taiwan. Points of friction will include differences about political freedom, predictability and the rule of law, corruption, and Beijing's responsibilities and obligations versus its preferences. Continued reform would maximize incentives on Beijing to make the process smooth. Central authoritarianism would be the most risky.

**Korea:** The Chinese currently do not expect unification of the peninsula before 2010. Scholars, analysts and many officials believe that an ultimately unified Korea will be in China's interest because it will stabilize the peninsula, will offer economic opportunities, and will be more closely aligned with the U.S. and China than with Japan or Russia. China could regard stationing of some U.S. forces in Korea after unification as non-threatening, depending on Sino-U.S. relations. China has given veiled cooperation to U.S. and ROK efforts to reduce the threat of nuclear and missile proliferation. If hostilities occur on the peninsula, China is not likely to intervene unless they are seen as the result of unprovoked U.S. or ROK attack. Sources of friction will exist between a unified Korea and China nonetheless. They include possible Korean efforts to regain long claimed border territories, and the economic attraction of a successful unified Korea for Chinese of Korean origin. This generally benign outlook would be less likely under a central authoritarian China. Although the same considerations would probably carry some weight, a government under stronger nationalistic influence may be less willing either to support benign reunification or to accept the presence of U.S. forces in a reunited Korea as non-threatening. Disintegration and chaos in China would probably lead to serious levels of illegal migration into a unified Korea.

**Japan:** At least through 2010, China will fear the military potential of Japan and worry about a resurgence of an aggressive Japanese nationalism. Japan's interest in developing overhead surveillance and theater missile defense (TMD), and its development of a rocket for launching satellites (which could become an ICBM), give it specific concerns. China has tacitly supported the U.S. military presence based in Japan, as discouraging Tokyo from acquiring military forces commensurate with its economic strength. China's official, "principled" position has been that no country should station its forces outside its own borders. Recently Beijing has become somewhat more forthright, however, and the current formulation is that shifting military forces into, or out of, the region would be destabilizing. A centralized authoritarian China might be less accepting of the U.S. role, and more inclined to challenge Japan, but basic policy imperatives would probably continue in play. A disintegration scenario would create major problems for Tokyo by destabilizing the region

and limiting Japan's ability to move more of its economy to neighboring countries, including China itself.

**Russia:** China's traditional view of Russia as its most serious longer-range potential threat is likely to persist under any scenario, but not become acute before 2010. It is based on centuries of mistrust as well as Russia's nuclear arsenal. There are alternative views as to whether the two sides may perceive shared interests in Central Asia, however. Some see China's presence there as growing for economic reasons (including energy dependency), and as a source of stress in Sino-Russian relations that could result in some increase in military attention and deployments by Beijing. Others emphasize the common interest both parties have in economic development that could foster political stability in an area that could otherwise see demands for autonomy or independence.

**Southeast Asia:** The Southeast Asian nations will become increasingly interdependent economically with the PRC. In a continued reform scenario, they will become less politically alienated from the PRC, and less concerned that China might aggressively assert its interests to the detriment of theirs. Under this scenario, China would reach agreements for joint development with other claimants to South China Sea islands. In a centralized authoritarian future for China there is a greater probability for disputes with Southeast Asian states and for occasional Chinese efforts at intimidation, including deployments of naval forces and political threats. (The Spratlys issue is discussed in the Southeast Asia section of this study.) A future of disintegration and chaos would threaten Southeast Asia with loss of economic opportunities and a flow of illegal immigrants. Under any scenario, the Southeast Asians are likely to continue to rely upon the United States to balance their relationship with China. This dependence will vary in degree according to China's stance toward the region.

**The Middle East:** Some believe that China will not need to rely on Middle East oil for a major portion of its energy requirements, but most observers believe that it will become increasingly dependent on Middle East oil. China will in any case maintain relations with all parties in the Middle East, and will want peace there. It is very likely, however, to differ with the United States on means, and to persist in

supplying nuclear materials for energy purposes, and perhaps advanced missile systems, to Middle East/Gulf states. The result will be a continuous potential for disagreement, and the need to negotiate such issues with China.

## Implications for the United States

China will pose problems for U.S. interests and objectives under all likely scenarios, even though there will also be considerable congruence of interests in the event of a China whose continued reforms bring it more fully into the international system. A U.S. force presence in the APR will be required under any scenario to retain adequate influence with China, and with its neighbors, and to manage the problems that will arise from China's ascendance in the next 15 years.

The broadest U.S. interests in the APR, including freedom of navigation, no regional hegemon, and the security of our allies and friends, may be seen by China as efforts to constrain it, and thus as adversarial. This is embedded in the situation of ascendancy of a new global power. Constant effort will be required to manage this perception while protecting our interests.

In some ways a successful, democratic China pursuing nationalist goals would be the hardest with which to deal.

Reforms would produce a major power rivalling the United States for influence in the APR and beyond. Parallel interests will make it possible to cooperate effectively over time, but Chinese international policies strongly rooted in the domestic polity will make it difficult for China to change course sharply, to be seen to be overly accommodating to U.S. pressures, or to accept U.S. actions that run contrary to China's interests (as in Taiwan). Continued reform or central authoritarian scenarios would produce a China with armed forces increasingly capable of challenging the military influence of the United States in a growing range of situations. Continued reform would produce an environment in which defense relations between the United States and China could advance faster than other government-to-government relations.

In the view of some, an authoritarian scenario would not be sustainable or acceptable to the Chinese people, and would give way in time to renewed reforms.

A disintegration or chaos scenario would be undesirable for the United States. It would both threaten central control over Chinese nuclear and missile capabilities, and open the door, as did the disintegration of the former Soviet Union, to illicit sale or transfer of nuclear or other weapons of mass destruction or the technology for these as well as other sophisticated military equipment. Although new force projection capabilities would be less likely to materialize under a disintegration scenario, instability in the region would be pronounced. The resulting chaos, on the mainland and in the peripheries, would precipitate major economic losses for the region and thus, probably, for the United States as well, and could pose increased requirements for military deployments. This would be particularly true if regional and local authorities took advantage of a weak center to launch destabilizing military or other activities, which could range from piracy to smuggling, narcotics, assistance to illegal emigration, and large-scale degradation of the environment.

Under any scenario, the United States should try to enmesh China in a network of beneficial international relationships that Beijing could break only at an increasingly high cost to China's development, and that would give us opportunities to encourage constructive policies, manage disagreement and conflict, and encourage sectors of the Chinese polity toward multilaterally acceptable behavior. This will be especially important in military-to-military relations. This suggests a vigorous program of military education and exchanges, defense and policy meetings, efforts to agree on transparency measures to ensure that both sides know the other's capabilities and doctrine, and the habit of discussing specific defense-related subjects.

# Introduction

This research memorandum is part of a study sponsored by the Commander, Seventh Fleet, to assess the security environment of the Asia-Pacific Region (APR) between now and 2010. The project attempts to identify the most probable evolutionary trends in the APR out to 2010, and to derive implications for U.S. forces, particularly the Navy. This memorandum identifies these trends for China. The implications for the forces and for the Navy are contained in the final report for the project, *The Dynamics of Security in the Asia Pacific Region*, CNA Research Memorandum 95-172.

## Lines of force

The future, we know, cannot be foretold. It must be constructed.

—Alain Juppe<sup>3</sup>

Any effort to divine China's future and the implications for the United States must consider that China's future will be constructed largely by the Chinese and that their decisions will be shaped more in response to pressures from within than in response to those from without. They are, and will continue to be, motivated by desires to preserve China's uniqueness—a uniqueness firmly rooted in the subtle but enduring cultural values of its ancient societies—and by highly emotional and volatile nationalistic desires to restore China's greatness. Sometimes contending and sometimes reinforcing, these lines of force are dramatically reshaping China's modern identity

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3. Alain Juppe, Minister of Foreign Affairs of France. Speech to the Analysis and Forecasting Centre, Paris, January 30, 1995.

from within, while sending mixed signals to the outside world concerning China's likely intentions and future direction of development.

Yet China will be modernized and it will become a power of global importance because the Chinese are determined to find practical solutions, which means they will compromise where it is absolutely necessary. China's leaders know that it was the forced and uncompromising resolution of this same debate in the 19th century in favor of China's traditional values (uniqueness) over Westernization (modernization) that eventually paralyzed China's promising efforts to modernize and contributed heavily to the violent disintegration of China and its hundred years of humiliation.<sup>4</sup>

At the same time, the importance of developments in the outside world to Chinese decisions should not be trivialized. It is true that demands, threats, and other direct pressures tend to be counter-productive. Although some positive changes have resulted from direct pressures, they are few and almost always resented, even when many Chinese appear to agree that change is needed and that outside pressure is required.<sup>5</sup> Consequently many Americans have concluded that—at best—Washington and the outside world can influence

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4. Over the last hundred years, the argument over how to modernize and the degree of Westernization to accept has produced some of China's bloodiest and most socially destabilizing periods. Allowing the Chinese sufficient space and time, and thus face, to sinicize Western systems is critical to the modernization process. A good example of how Chinese history is viewed within the PRC is Bai Shouyi (ed.), *An Outline History of China* (Beijing: Foreign Language Press, 1982).

5. Interviews conducted by the author in Beijing in 1991–92 with scholars who disliked Premier Li Peng and his policies. In the post-Tiananmen environment of extreme criticism by the West of Li Peng's activities, these scholars began to resent this criticism and to support the Premier on the basis of what can only be described as nationalism, or "It is okay for me to criticize my country, but it is not okay for outsiders. This is a family matter."

China only at the margins.<sup>6</sup> The direction of change is largely inspired by outside examples. Most changes result from efforts to catch up with the West—to adapt into China's systems, with Chinese characteristics, the successes of the developed nations (especially technological successes)—and to take advantage of trends in the balance of power between nations and regions.

## Uncertainties

### China's expectations

With respect to adaptation, the key problem for Beijing is to encourage change while avoiding chaos, an objective that parallels Western interests.<sup>7</sup> With respect to the balance of power opportunity, China's modernization strategy originally was based on the ponderous stability of the bipolar world. When that stability dissipated, seemingly without warning, China's leaders were suddenly faced with uncertainty about the future of their strategy. What new world order would emerge and what were the implications for China's reforms? One possibility that many Chinese analysts feared likely was the stability of a unipolar world centered on the United States. The other was the hoped-for stability of a multipolar world.<sup>8</sup> Neither of these has materialized. Instead, China's leaders now generally anticipate that the next 20 years will be the period of transition that has been characterized in the West as the emergence of an "Asian-Pacific century." They readily acknowledge that any such transition is a period of potential

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6. David M. Lampton, "America's China Policy in the Age of the Finance Minister: Clinton Ends Linkage," *The China Quarterly*, no. 139 (September 1994), 597–621.
  7. Admiral Charles R. Larson, USN, then Commander, U.S. Pacific Command, *Testimony Before Senate Armed Services Committee, Posture Hearing*, March 2, 1994, 21–23.
  8. Chengwen Chai, "On the Question of Establishing a New International Order Under the Current World Situation," *International Strategic Studies* (China Institute for International Strategic Studies), no. 3, serial no. 21 (September 1991), 1–6.



instability;<sup>9</sup> however, they have concluded, and thus are gambling, that since China's reforms and Chinese policy decisions are a central factor determining the nature of the Asian-Pacific century, no major conflict (conflict between the major powers) is likely, that localized conflicts will primarily occur outside of East Asia, and that in terms of economic growth, peace, and prosperity, the next hundred years will be the widely touted Asian-Pacific century.

Thus, although the potential for conflict within the region will continue to exist, a relatively peaceful environment is expected, one in which China's leaders will continue to focus on modernization with no costly interruptions.<sup>10</sup> The uncertainties will ensure that investing in defense will not be ignored, but rather will be a continuous source of policy debate and argument in Beijing. Nevertheless, such investments will not dominate or even require significant adjustments to the investment priorities of the Four Modernizations strategy.<sup>11</sup>

For China's leaders the establishment of the People's Republic of China in 1949 was the culmination of years of effort to reunify China and reclaim, after a hundred years of foreign control and humiliation, the right of the Chinese people to be the masters of their own country. Sheltered initially under the umbrella of the Soviet Union, China ricocheted through 26 years of economic and political turmoil, as factional interests within the Chinese Communist Party (CCP) struggled for power and the right to advance their views on nation building.

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9. Jijun Li, *Junshi Lilun yu Zhanzhen (Military Theories and War Practices)*, (Beijing: Military Science Press, 1994), 2. General Li is currently Vice President, Academy of Military Science in Beijing.

10. Xin Xu, "China's Defence Strategy Under New Circumstances," *International Strategic Studies* (China Institute for International Strategic Studies), no. 3 (September 1993), 1-6. General Xu is former Deputy Chief of the General Staff, PLA.

11. Interviews by the author with PLA General Staff officers, both active and retired, in Beijing and Washington, 1993-95. China's "Four Modernizations" in order of announced priority were agriculture, industry, science and technology, and defense.

Despite some notable economic successes, none of the Communist Party's various administrations during those years ever succeeded in unleashing the initiative and creative energy of the Chinese people, with the possible exception of the disastrous Great Leap Forward. By the mid-1970s, the mass mobilization of the Chinese via campaigns, struggles, purges, and the Great Proletarian Cultural Revolution had left the Chinese people ideologically exhausted, lacking both confidence in the CCP and a strong collective sense of values. The Chinese were ready for the reform program first spoken of by Zhou Enlai in 1975 and advanced by Deng Xiaoping in 1978. If there is one unifying force in China today, it is the pursuit of economic prosperity, whether that sought by policy makers for China through economic reform, or the hospitable investment environment sought by entrepreneurs, or the jobs and hope for a better tomorrow sought by the average citizens for themselves and their children.

#### **Internal constraints**

Building consensus is necessary to achieve economic prosperity. This requires channeling the energies and blending the often contradictory goals, methods, and emotions of China's different interest groups (whether nationalists, entrepreneurs, nation builders, or regionalists). Implementation has been step by step—albeit fairly rapid when judged against comparable reforms in other developed or developing societies. Begun in the rural areas in the late 70s, the goal of prosperity quickly captured the initiative and entrepreneurial spirit of China's farmers and rural populations—80 percent of the country—bringing significant improvements to the quality of life in the rural areas and providing a much needed infusion of investment capital. Over the next 20 years the reforms progressed to the other segments of the economy, transforming China into one of the world's most dynamic economies and the primary engine of growth in East

Asia. Yet, the transformation into a stable market economy is far from complete.<sup>12</sup>

All of China's generations are firmly committed to economic reform and achieving prosperity, to avoiding the mistakes of the past, and to greater individual and local initiative. Still, there remains considerable disagreement among the elders and between them and the younger, less patient, generations over the pace, the order, and the nature of the reforms, particularly the extent to which the economic and political systems should be Westernized. These same debates exist within the military—although there, the degree of difference is mitigated by systematic efforts to promote younger leaders ("youth-inization of the PLA"), discipline, and an emphasis on the adaptation (sinicization) of Western technology and techniques through experimentation and the PLA education system.<sup>13</sup>

Generational differences contributed to civil disobedience in several major cities in 1987 and 1989. Best known are the protests initiated by the university students in Beijing in June 1989, which began with demands for better living conditions and escalated into the tragedy of Tiananmen Square.<sup>14</sup> As the pace of reform in the rural areas began to lag in the 1990s, reports of protests and demonstrations in the rural

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12. "State Report Hails Reform and Economic Progress," *China Daily*, 14 October 1994, 4; in Foreign Broadcast Information Service, *Daily Report: China*, 14 October 1994, 42–43. (Hereafter, FBIS reports on China are cited as FBIS–CHI–year-issue number.) This report describes the three stages of China's "opening up policy": (1) Dec 1978–Sep 1994, restructuring rural areas; (2) Oct 1984–Dec 1991 (Deng's southern trip), formative stage of country's economic reforms; and (3) Jan 1992–Jan 2000, setting up of a socialist market economy and specific objectives.

13. Alfred D. Wilhelm, Jr., "Modernization of China's Army Presents Political Concerns," *Signal* (December 1989), 72.

14. Interviews conducted 1987–89 in Shanghai and Beijing, while assigned to the U.S. Embassy, concerning student unrest; and interviews in Beijing and Washington, 1989–91, with observers, demonstrators, and PLA officers assigned to deal with the demonstrations, concerning the causes and domestic reactions to the Tiananmen tragedy and post-Tiananmen developments.

areas increased.<sup>15</sup> Major scandals involving Party leaders and their privileged offspring have resulted from corruption and poor discipline, natural by-products of the carelessness with which some aspects of the reforms are being managed. These public manifestations of system stress, the general lack of public confidence in the Communist Party, and the potential for ethnic conflict (especially Tibetan<sup>16</sup> and Uighur) fuel the ever-present speculations of foreign observers that China will disintegrate—producing chaos like that of the warlord period that followed the collapse of the Qing Dynasty. Adding even more fuel to these speculations are (1) the always-present diversity of policy perspectives within the Han majority (92 percent of the population) that arises from differences in geography (resources, climate, and terrain), population, spoken languages (Mandarin is only the language of governance), social customs, and traditions, and (2) major differences in levels of achieved modernity between coastal and inland provinces and even between counties and cities within the same province.

For those Chinese prone to forget the lessons of China's history, the post-1989 lessons of East Europe and the former Soviet Union, and the near disaster that resulted from leadership inertia during the Tiananmen crisis have been sharp reminders of the importance of consensus. With these reminders, the modernization strategy facilitates attempts to build a consensus behind each major reform initiative and to quickly correct excesses, abuses, and failures of the system.

So far, the Chinese have been successful in managing, and adjusting to accommodate, a formidable array of contending domestic forces and frequently unpredictable foreign trends, in their effort to

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15. In addition to the Hong Kong press, the *Far Eastern Economic Review*, Amnesty International, Asia Watch, and the Center for Modern China, Princeton, NJ, all report on incidents of rural distress. However, it is clear from these reports that, while these incidents are important indicators of social stress, they do not reflect problems that are likely to attract sufficient broad support to result in revolutionary violence.

16. Melvyn C. Goldstein, *Tibet, China, and the United States: Reflections on the Tibet Question*, Atlantic Council of the United States, Occasional Paper Series (Washington, DC, April 1995).

modernize China without destabilizing it. Will they continue to be successful? This paper argues that they will be and that their success will create problems that may be more difficult for the United States than failure scenarios.

# China's objectives

## Grand strategy

In 1975, with the presentation to the party of the country's next ten-year plan, Zhou Enlai signalled the Party's shift toward a new strategy for national development and security called the "Four Modernizations." It was a strategy by which China would become "a modern, powerful socialist country by the year 2000."<sup>17</sup> This strategy laid out the priorities for a comprehensive reform of society—not just the economy. The Chinese would invest their time, talent, and resources in modernizing agriculture, industry, science and technology, and defense. In general, Western experts were, and have remained, "show me" skeptics of the plan, doubtful that the leopard could change its spots. They have especially doubted that the military would accept such meager fare.

In 1979, the Peoples' Liberation Army (PLA) crossed China's southern border to teach Vietnam a lesson and promptly received a sound tactical drubbing at the hands of Vietnam's army. The significance of this loss is not well understood in the West. As a result of the loss, any significant reluctance within the Chinese Communist Party, either civilian or military, to accept the "Four Modernizations" strategy was laid to rest.

When the PLA attacked, much of the Vietnamese army was already engaged in combat on its own southwestern border,<sup>18</sup> and thus had the disadvantage of fighting on two fronts. Still, it was the most

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17. Alfred D. Wilhelm, Jr., "National Security—The Chinese Perspective," in Alfred D. Wilhelm, Jr., ed., *China Policy for the Next Decade* (Boston: Oelgeschlager, Gunn & Hain, 1984), 201–205.

18. Interviews by the author with PLA staffs in Beijing and on the China-Vietnam border while on the faculty of the National War College, 1984–86, and later as U.S. Army Attache in Beijing, 1986–88. Charles R. Nelson, "The Sino-Viet War: Causes, Conduct, and Consequences," *Parameters*, September 1979.

combat-experienced army in Asia and, in comparison to the PLA, was more mobile and technologically superior. For China's military leaders, the magnitude of the PLA's losses was a humbling and compelling argument for reform. And it was clear to everyone, military and civilian alike, that not only the military but China's entire infrastructure required reform. The Chinese did not have the technological or industrial capability to build the modern military equipment needed, couldn't afford to buy it on the foreign market, and did not have the military education and training system to effectively use it. Even if they had had the equipment and could have used it effectively, they couldn't have moved it to where it might have been needed—even on interior lines of communication—and couldn't adequately support it once there. Both the nation's and the PLA's infrastructure had to be overhauled. As a result, Deng was able to put the Four Modernizations strategy into place quickly.

Through the equivalent of three different administrations, the priorities of the Four Modernization strategy have been essentially sustained, including keeping investment in defense modernization in fourth place. Twenty years of economic, social, and political reforms in each of the four priority areas have resulted in dramatic changes in the quality of life of the average citizen and in the infrastructure, both necessary to sustain continued improvements over the long term.

If the pace of reform is maintained, the goal of a "modern, powerful socialist country" will have been realized by the year 2010. Even so, China will not be a developed nation, but still a developing nation—although one in which the basic systems necessary for a market economy to flourish will have been woven into the socio-economic structure. China's leaders, national and local alike, will continue to face the daunting challenges of making new and relatively unfamiliar systems work, both within China and with the rest of the world. But these challenges will occur as a function of maturation and adjustments rather than through the radical or revolutionary changes being implemented today.

Although China will probably become a major member of the World Trade Organization in 1996<sup>19</sup> and will join other international trade and financial institutions, its problems will continue to discourage its national leaders from adopting an aggressive international leadership role commensurate with its potential as a hegemon—a nation with power to influence by virtue of its size and location. Nevertheless, China's leaders will be far less reluctant than they are today to assert their views in the UN, WTO, and elsewhere concerning international and regional issues.

China's strategy has been implemented through what has become known as the "Asian model of development," in which economic reform precedes and takes priority over social and political reforms. Having examined the experiences of the successful Asian modernizers (e.g., Singapore, Taiwan, South Korea, Japan, and Hong Kong), China's leaders are convinced that their approach will be more successful, and less painful for the Chinese people, than the "political reform first" model practiced by the states of East Europe and the Former Soviet Union and advocated by the West. But these priorities will be a continuing source of friction with the United States.<sup>20</sup>

## Economic reform

Beijing is radically changing the nature of the economy and the role of the state by increasing the ability of China's planners to use the macro-economic tools of the world's market economies and decreasing their ability to direct the economy through the use of specific sectorial production objectives used by command economics. Depending on its audience, the government describes itself as moving toward market socialism or a market economy with Chinese characteristics.

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19. Lee M. Sands, Assistant U.S. Trade Representative, discussion with author, Washington, DC, April 12, 1995.

20. Jisi Wang, "Pragmatic Nationalism: China Seeks a New Role in World Affairs," *The Oxford International Review* (Winter 1994), 30.



## Decentralization

Many economic decisions formerly made at the national level are now made at the province, county, or city levels, guided in varying degrees by broad national guidelines. The decentralization process will continue to ebb and flow over the next decade as Beijing simultaneously experiments with a range of complicated and mutually dependent reforms; these include adjusting the role of the central bank, remaking the national tax system, making labor more mobile by developing a national social security system, and developing a legal system designed to adjudicate and not just punish. At the same time, such negative experiences as destructive interprovincial competition, declining central revenues, rampant inflation, and the increasing labor mobility that is already beginning to overtax local transportation systems and city utilities,<sup>21</sup> will push local and national leaders to develop a general consensus over their respective roles—province (states) rights versus national rights.<sup>22</sup>

The step-by-step approach of the Four Modernizations strategy has so far avoided the economic distress experienced by Russia and other former command economics. But the release of the pent-up energy of the Chinese people through the decentralization of many economic decisions to the local level has pushed economic growth and the accompanying strains of inflation to such a dizzy pace that many parts of the economy and society are having trouble adjusting.<sup>23</sup> It is

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21. Harry Xiaoying Wu, "Rural to Urban Migration in the People's Republic of China," *The China Quarterly*, No. 139 (September 1994), 669–698.

22. Wang Zhongyu, "China's Economy: Review and Prospects," *Beijing Review*, Vol. 38, No. 8 (February 20–26, 1995), 8–11.

23. "These inflation rates (23 percent in 1993 and 13 percent in 1992) are far below those that some other countries—including countries in Eastern Europe and the former Soviet republics—have endured. It is a mistake to term these rates 'hyperinflation.' Nevertheless, they are alarming to Chinese leaders and to the population at large." *Remarks on the Chinese Economy in 1993 and 1994 by the Director of East Asian Analysis, CIA, to the Joint Economic Committee of Congress, Hearings, 103rd Congress, 2nd Session, 22 July 1994.* For a listing of Chinese-calculated inflation rates since 1986, see table 1, page 45.

difficult for those managing the economic reforms to maintain the confidence of other leaders and the public in the new and unfamiliar tools of a market economy in the face of the strains produced by high inflation, corruption, shortages, and demonstrations against these problems. The pressure on national leaders to regress to using some of the disciplinary tools of a command economy, including the coercive tools of the state's police system, to deal with these problems is always present.

### Conversion of state enterprises

A particularly vexing problem is presented by the state enterprises, which are the largest and least reformed segment of the economy. The much-discussed objective to privatize large segments of the state's enterprise system remains elusive, in large part because of the difficulty of dealing with the questions of social security and inflation. Most of China's urban retirees depend upon the state enterprise where they spent their working years for their retirement benefits (income, apartment, medical coverage, and access to cheaper co-op prices).<sup>24</sup>

One 1994 experiment with the transfer of state enterprises to the private sector involved repackaging the assets and liabilities associated with a state enterprise's retirees into a separate corporate entity and passing them to the state while the productive assets were sold to private investors.<sup>25</sup> If this experiment were rapidly implemented nationwide, the result would be financial disaster for the central and provincial governments and nationwide economic chaos. Without

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24. As of mid-1994 China's pension funds totaled only 30 billion yuan (\$3.95 billion) and unemployment insurance funds were slightly more than 4 billion yuan. All of these funds are under the control of local governments (province, municipality, and autonomous region) and none are under the control of the Labour Ministry. Jie Wu and Dapeng Pan, "Pension Insurance Funds Are Gradually Entering the Stock Market," *Zhongguo Zhengquan Bao*, 8 November 1994 in FBIS-CHI-94-220, 15 November 1994, 50-51. Hongyong Lu, "Pension Listing Unlikely," *China Daily (Business Weekly)*, 13-19 November 1994, 3, in *ibid*.

25. Interview with two employees of the PRC State Council, Beijing, 1994.

the reimposition of coercive discipline, the central government couldn't pay its bills, given its weak system for collecting tax revenues; couldn't control inflation, given its weak central bank and underdeveloped macro-economic tools; and couldn't control corruption and cronyism, especially among the Party's elite.

Instead, Beijing is moving forward with a more balanced approach to enterprise conversion that, from their perspective, is more humane and politically sound. (Many foreign observers have argued for a faster process.)<sup>26</sup> The process will simultaneously encourage large and medium-size state-owned enterprises to convert to shareholding or limited liability companies, and contract out the management of small enterprises.<sup>27</sup> At the same time, individual ownership, private enterprises, and foreign joint ventures will be further encouraged, even as the role of government in enterprise decisions is reduced. The experiments with various bankruptcy mechanisms will be consolidated and the results used over the next 15 years to encourage the transformation. Furthermore:

- To empower labor with mobility and reduce the burden on state enterprises, the PRC will invest in a social security system—despite the resultant drag on economic growth and inflationary pressures.<sup>28</sup>

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26. "Gradual Reform Said Inconsistent with Deng's Views," *Zhongguo Gaige*, No. 9 (13 September 1994), 7, in FBIS-CHI-94-220, 15 November 1994, 50.

27. Cassindy Chao et al., "Electricity Sector Overview, Watt's Up in China?" *China Research* (New York and Hong Kong: Goldman Sachs & Co., November 30, 1994).

28. CIA testimony, *China's Economy in 1993 and 1994: The Search for a Soft Landing*, Subcommittee on Technology and National Security of the Joint Economic Committee, 103rd Congress, 2nd Session, July 22, 1994.

- The role of private insurance is being expanded with an experiment in the gradual opening of the insurance market to foreign companies.<sup>29</sup>
- China's previously unmanageable tax system is being restructured to introduce a value-added tax, uniform corporate taxes, and a process for the fiscal sharing of tax revenues between central and local governments, on an approximately 60/40 basis.<sup>30</sup>
- The central bank is being strengthened to independently regulate monetary policies along the lines of the central banks of other countries and is expected to move the Renminbi (RMB) to full convertibility by 2000. (China's dual exchange system was abolished on January 1, 1994, a major first step.)<sup>31</sup>
- Other state-owned banks are adopting more commercial roles and being relieved of their mandated lending activities, and private banks are being introduced.<sup>32</sup>

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29. American International Group (AIG), with 1994 revenues of \$22.4 billion, is the largest international insurance company based in the United States. It was founded by an American in China in 1919. Readmitted in 1992, it is presently the only U.S. insurance company licensed to underwrite policies in China. It operates in Shanghai with 4,000 life insurance agents. Provided by L. Oakley Johnson, Vice President, Corporate Affairs.

30. Nina Li, "China Adopts New Taxation System," *Beijing Review*, vol. 37, No. 11 (March 14-20, 1994), 11-15.

31. Commentator, "An Historic Leap Forward—on the 'Three Great Campaigns' on China's Reforms in 1994," *Jingji Ribao*, 3 September 1994, 1-2 in FBIS-CHI-94-198, 13 October 1994, 41-45. Among the reforms discussed are (a) a new circulating tax system featuring a value added tax (VAT) that was implemented 1 January 1994, and (b) the reform of the foreign exchange system (foreign exchange certificates were eliminated 1 January 1994), the banking system (policy was separated from commercial finance by establishing three policy banks—State Development, Agriculture Development, and the Import and Export Banks—and by beginning the transformation of specialized state banks into commercial banks), (c) experimenting with enterprise reform, and (d) continuing social security, housing and commodity price reforms.

32. "Foreign Banks Reportedly Allowed in Nine Cities," Hong Kong *AFP*, 28 December 1994 in FBIS-CHI-94-249, 28 December 1994, 45.

None of these tasks can be accomplished expeditiously; all will take up to a decade to reach full impact on the economy. In the meantime, a variety of experiments are being conducted to make enterprises more efficient until they can be converted.

Conversion of the economy is expensive, both in time and resources; it is also unsettling—even frightening—as it touches daily lives, and it requires extensive education if it is to be effective. It took several hundred years for the Western societies to develop their system for protecting intellectual property rights (IPR) and nearly 50 years for the system to take root in Taiwan under U.S. tutelage; yet near-instant protection is expected of China, where, as with so many of the West's systems, there is no parallel in the Chinese historical experience.

The Chinese bureaucracy and people had to begin from scratch. In 1983, under pressure from the international community, China's National People's Congress adopted a national copyright law based on an international standard and adapted to China's unique circumstances. But the passage of such a law was not sufficient to ensure effective implementation, as foreign businesses soon learned.<sup>33</sup> In China, the legal system has been based historically on punitive law, with no provisions for the adjudication of differences. Therefore, the courts, lawyers, and legal understanding of the average citizen had to be reformed. Also, provisions had to be made for the resources necessary to create a bureaucracy to validate and record copyrights, for the development of an education system to train lawyers to deal with entirely new types of law ranging from litigation to investment, and for the expansion of the court and police systems to deal with new forms of crime.

## Infrastructure

China's difficulties in 1995 in resolving its IPR differences with the United States, conforming with GATT standards, and entering the World Trade Organization are in large measure derivative of its

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33. Interviews in Beijing and Washington in 1983 with one of the NPC staff persons that assisted in the development of the legislation that eventually became China's copyright law.

difficulties in overcoming its infrastructure problems; they are less a result of the better-known problems of import substitution to protect infant industries, and cronyism.<sup>34</sup>

The IPR infrastructure problem is but one of many such difficulties the PRC is attempting to resolve as it continues to modernize and integrate into the world economy. Another example involves China's efforts to increase its access to global funds for infrastructure development without the government having to guarantee project risk. Unlike the West's financial infrastructure, China's cannot handle limited recourse financing for lack of a way to satisfy lender claims through a mortgage market or other loan security.<sup>35</sup> State ownership of property reduces the availability of property for collateral, and because of the lack of renewal and liberalization of the lease authority by the NPC until early 1995, alternative markets in transferable land leases have not developed. Further compounding the problem is the fact that contract enforcement is extremely weak; state enterprises are among the most notorious in not living up to their contracts, reflecting again upon the nature of the legal system. Both foreign and domestic investors need confidence in the probable success of the project and, by extension, in its management—but effective management control without a controlling interest in the project (usually meaning ownership) is difficult.

Another major problem is the tension created by the need to invest (both out of self-interest and in response to the foreign demands) in environmental laws, enforcement, and R&D without crippling the ability of many of China's comparatively inefficient industries to compete in the international market. This problem is compounded by the

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34. "Licensed 'Intermediary Bodies' Reach 300,000," *Xinhua*, 20 October 1994 in FBIS-CHI-94-203, 20 October 1994, 40-41. Number includes 5,800 law offices, 6,000 accounting firms, 9,000 notary offices, and 21,000 patent, trademark, tax, and financial agent offices.

35. "Steadily and Prudently Promote Flow and Reorganization of Enterprise Property Rights," *Zhongguo Zhengquan Bao*, 14 October 1994, 1 in FBIS-CHI-94-220, 15 November 1994, 53.

aforementioned difficulties of obtaining foreign investment.<sup>36</sup> For China the cost of creating an economic system that is environmentally friendly competes directly with the cost of ensuring industrial competitiveness in an economy that increasingly will be hammered by the cost of social security reform. The cost of converting the economic system is high.

Demands on telecommunications are forcing China's leaders to attempt to bypass a whole generation or more of technology to generate communication systems based on fiber optics, satellites, and cellular and digital phones.<sup>37</sup> Even with these Herculean efforts, five out of ten families will still be looking forward to their first phone by 2020. Personal computers are a rapidly expanding market,<sup>38</sup> and with the establishment in 1995 of a commercial Internet link, a small but ever-increasing number of Chinese have been empowered with disciplined access to the international community.<sup>39</sup>

## Population and resources

As China's planners have long known, rational economic growth requires national and local governments to make sizeable investments in basic infrastructure, both to expand and modernize existing capabilities and, as they are now learning, to attract significant private

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36. "Program to Reduce Rural Industrial Waste," *Xinhua*, 17 November 1994; in FBIS-CHI-94-223, 18 November 1994, 33. VacLar Smil, *China's Environmental Crisis: An Inquiry into the Limits of National Development* (Armonk, NY, & London: M.E. Sharpe, 1993). "Symposium Studies Radioactive Waste Management System," *Xinhua*, 9 October 1994; in FBIS-CHI-94-196, 11 October 1994, 48.

37. "Shanghai to Install 800,000 More Telephone Lines," *Xinhua*, 26 December 1994 in FBIS-CHI-94-249, 28 December 1994; 58. From 470,700 lines in 1990, Shanghai's capacity grew to 1.53 million lines in 1994, with another 800,000 to be added in 1995.

38. Yuqin Wei, "'Information Nerve' Goes Through the Five Continents," *Renmin Ribao*, 11 August 1994, 1; in FBIS-CHI-94-200, 17 October 1994, 53-55. "National Information Highway Enters Initial Stage," *Xinhua*, 12 October 1994; in FBIS-CHI-94-200, 17 October 1994, 61.

39. "Hello, anyone @ chinamail.net?" *Far Eastern Economic Review*, December 1, 1994, 66.

and foreign investors. At the top of the government's infrastructure investment priorities are the transportation, communications, and energy sectors—necessary if China is to cope with its growing population.

Having reached 1.2 billion people in 1995, five years sooner than previous government estimates projected, China is attempting to cut its birth rate from 1.1 percent per year to 1.0 percent per year by 1996 in order to not exceed 1.3 billion by the year 2000. And despite its huge land mass, China's population density is triple the world's average; it stuffs one-fifth of the world's population onto 7 percent of the world's arable land.<sup>40</sup> In part because farm land is being lost to industrial expansion and housing, China is fast becoming a major food importer, causing some analysts to predict that China will disrupt the world's food market within the next 20 to 30 years.<sup>41</sup> Even if China reaches zero growth by 2040, its population will be between 1.5 and 1.6 billion people.<sup>42</sup> Just creating enough jobs will be an overwhelming task. Between 1993 and 1997, over 10 million surplus urban workers and more than 100 million surplus rural workers will have sought new employment, and 36 million urbanites and 78 million rural laborers will enter the work force for the first time. As China enters the 21st century, the requirements for new jobs will be even greater.<sup>43</sup>

As if finding jobs, feeding, clothing, and housing such a large, growing population on declining arable land were not enough of a challenge, there is a growing expectation of a higher quality of life. In 1978, per-capita living space was 3.8 square meters; by 1993 the average was 7.5 square meters and climbing. Expectations are for even more space—by 2010 the average is likely to have doubled again, with

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40. "Government to Increase Irrigated Areas," *Zhongguo Xinwen She*, 14 October 1994; in FBIS-CHI-94-200, 17 October 1994, 75.

41. Wandu Jiang, "China Poses No Threat to Future Global Food Supplies," *Beijing Review*, vol. 38, no. 5 (30 January–5 February 1995), 14–16.

42. Steven Mufson, "Population Curbs Slip in China," *The Washington Post*, February 14, 1995, A17.

43. Kenneth Lieberthal, "China's Open Door: Reform in Process," *China Series*, vol. III, no. 4 (Washington: Atlantic Council of the United States, March 6, 1992), 2.



staggering implications for such basic construction materials as cement and steel.<sup>44</sup>

China expects to spend 10 billion yuan (\$1.2 billion) annually to wipe out poverty by the year 2000. It has 592 poverty-stricken counties, primarily in the mountains and deserts. Seventy percent (55 million) of the people who live in the 18,240 towns and 205,200 villages of these counties are classified by the PRC as poor.<sup>45</sup> Another 7 billion yuan (\$823 million) will be spent on water projects to alleviate the acute drinking water shortage that affects 240 million people (about 24 percent of China's rural population) and their livestock. Many carry water more than 10 kilometers to their homes, and schools and businesses often have to close their doors because of the shortages.<sup>46</sup>

At the same time, China is pushing to increase grain production from 456.4 million tons in 1993 to over 500 million tons by 2000; meat production from 38.42 million tons to 48 million; and aquatic products from 18.23 million tons to 28.5 million tons.<sup>47</sup> The latter two objectives in particular reflect the Chinese people's rising demands and ability to afford improvements in their quality of life. Obstacles include a shortage of time and of domestic sources of funds, inadequate agricultural infrastructure, and backward technology. China's solution is to import technology to improve crop strains, and to introduce plant disease prevention, cultivation technology, pest control, and processing technology. The task is to find \$7.47 billion in foreign investment in agriculture alone between 1995 and 2000, plus dozens

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44. New Guo, "Building Industry Sets Pillars in Economy," *China Daily*, 14 October 1994, 1 in FBIS-CHI-94-199, 14 October 1994, 48-49.

45. "An End to Poverty in China by 2000," *Beijing Review*, vol. 38, no. 9 (27 February-5 March 1995), 20. "Chen Junsheng on the Effort to Wipe Out Poverty," *Xinhua*, 16 October 1994; in FBIS-CHI-94-200, 17 October 1994, 43-44.

46. "Shanghai is First City with Full Water Service," *Xinhua*, 25 December 1994; in FBIS-CHI-94-249, 28 December 1994, 58. The effort involved constructing 409 water plants in 218 towns for 5.48 million residents.

47. "Foreign Capital Sought for Technology, Agriculture," *Xinhua*, 14 November 1994 in FBIS-CHI-94-220, 15 November 1994, p. 62.

of new technologies.<sup>48</sup> According to President Jiang Zemin, agriculture is now deemed the weakest link in the modernization process—and demands even more attention. As the number-one priority among the Four Modernizations, it raises the pressure on the other three.<sup>49</sup>

## Transport

A growing and wealthier population will want to travel, and China is expecting gridlock. With only about 1.5 million cars on the road today, China's highways already appear full. China expects to have 4.2 million cars by 2000, 15.5 million by 2005, and up to 37.6 million by 2010.<sup>50</sup> The need for roads, car parks, fuel, and maintenance garages will be unfulfillable. Interstate, or expressway, construction is still in its infancy but will demand dramatic increases in the commitment of land and construction resources. National level plans include adding, by 2000, an 850-km expressway as its part of the Tokyo-Pyongyang-Seoul-Beijing-Moscow-London international highway transport network, a 2,300-km highway from Beijing to Guangzhou, and a 3,500-km road from Harbin to Ningbo.<sup>51</sup>

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48. Daniel Kelliher, *Peasant Power in China: The Era of Rural Reform, 1979-89*, (New Haven & London: Yale University Press, 1992). Y.V. Kueh and Robert F. Ash (eds.), *Economic Trends in Chinese Agriculture: The Impact of Post-Mao Reforms* (Oxford: Oxford University Press, 1993).

49. "A Rash of Agricultural Problems," *Inside Mainland China*, vol.17, no. 5, 197, May 1995, 36-54. "Li Peng Urges Efforts to Spur Rural Growth," *Xinhua*, 14 November 1994; in FBIS-CHI-94-220, 15 November 1994, 49-50.

50. Hong Liu, "In Light of China's National Condition, a Family Can Afford To Buy a Car When Its Annual Income Reaches 50,000 Yuan," *Zhongguo Xinwenshe*, 31 October 1994; in FBIS-CHI-94-218, 10 November 1994, 55. Xiangwei Wang, "Price Controls Introduced to Stabilize Auto Market," *Eastern Express*, 11 October 1994, page 1 in FBIS-CHI-94-196, 11 October 1994, 47.

51. Naitao Wu, "China Expands Construction of Key Projects," *Beijing Review* (March 28-April 3, 1994), 13-16.

Rail transportation accounts for most of the movement of both passengers and freight in China; over 40 percent of the freight is coal. Yet vast areas of China, such as Tibet and Xinjiang, have yet to be included in the rail system—virtually a prerequisite for major economic development. Two major state rail projects in progress are a Beijing–Kowloon line of 2,370 km by 1996 and the 1,600-km double-tracking project from Lanzhou to Urumqi (Xinjiang), a section of the new Eurasian Continental Bridge.<sup>52</sup>

Air transportation is also in desperate need of modernization and expansion. Until mid-1994, China couldn't get airplanes quickly enough to satisfy the demands for either passengers or freight.<sup>53</sup> Some airlines have even resorted to "wet leases" that involve a foreign plane, pilots, and maintenance crews as a package. The rapid expansion, poor airport facilities, limited flight control capability, lack of sufficient training, and lack of maintenance facilities have generated a fairly unsafe flying environment. Annual growth is double-digit and in some areas nearly 20 percent per year. Shanghai, for example, expects to handle 10.37 million passengers in 1995 and 0.4 million tons of freight; these figures will rise respectively to 20.85 and 0.7 by 2000; 33.58 and 1.0 by 2005; 42.86 and 1.5 by 2010; and 70 and 2.5 by 2020.<sup>54</sup> Expansion of the existing airport can't possibly keep pace with this growth, any more than China's aviation system at large can, without major foreign financial and technology investment.

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52. Ibid.

53. Juan Liu, "China's Civil Aviation Enterprises Are Suffering Heavy Losses," *Jingji Cankao Bao*, 26 October 1994, 1; in FBIS–CHI–94–218, 10 November 1994, 55–56. Competition over service quality was boosted dramatically, especially on foreign routes, by the elimination of foreign exchange certificates, which made it possible for Chinese to fly airlines of their choice. Loss of passengers to foreign airlines and a few domestic competitors, safety concerns, and expensive leases have contributed to airline losses and a temporary market glut. Following corporate and market adjustments, the business will recover as the demand for air travel will continue to grow.

54. Xiaolin Li, *Investment Guide to Shanghai Pudong International Airport* (Reston, VA: Songbin System International Corp., Dec 1993).

Even if by 2010 China successfully achieves most of these and other planned objectives, its transportation systems will still be under stress and unable to meet the accelerating demands to move people and goods. New commercial requirements and opportunities to travel for business and pleasure will unleash new expectations and change the lifestyle of more than 1.3 billion citizens.

## Energy

Producing 183,000 megawatts (mW), China already has the fourth-largest electric generating capacity base in the world, behind the United States, Japan, and Russia. Yet it is electricity starved; it ranks 86th in the world on a per-capita basis, with an estimated 120 million (10 percent of the population) without access to electricity. China's per-capita installed capacity of 0.154 kilowatts (kW) is among the lowest in the region and compares with 2.702 kW for the United States. Per-capita consumption is 587 kilowatt hours (kWh) versus 10,685 kWh in the United States. China has grown from 66 gigawatts (gW) in capacity in 1980 to 183 gW in 1993; it is striving to add 117 gW of capacity by 2000 at a cost of about \$120 billion, and another 325 to 370 gW by 2010.

Heavy and light industry together consume about 77 percent of the electricity produced in China, and residential users about 9 percent. Consumer demand is already forcing the government to plan so that by 2010, industry should be at about 49 percent and residential consumption at 33 percent. Yet despite this expected growth, 5 percent of the population will still not have electricity by 2000 and per-capita consumption will still be less than 20 percent of that of the United States.<sup>55</sup> By 2015, energy demand across the board—from coal, natural gas, oil, hydro, and nuclear sources—will have jumped 160 percent over today's demand. To satisfy this demand, China will need to

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55. Japing Sun and Chiensheng Liu, Information Research Institute of Water Resources and Electric Power, *Electric Power Industry in China* (Hong Kong: Epoch Printing Co., Ltd., 1993). Chao et al., "Electricity Sector Overview."

invest \$1 trillion in energy production, an impossible mountain for domestic financing alone.<sup>56</sup>

Nuclear facilities currently have a capacity of 2,100 megawatts (mW) and will grow to 20 gW by 2010 (approximately 20 to 30 facilities) at approximately \$2,000 per kilowatt. As China proceeds further, nuclear fuel reprocessing is going to become another bone of contention with the United States if current U.S. policy is maintained. Hydro-electric power accounts for about 24 percent of today's electricity, or 40 gW. The percentage is expected to remain the same, but the output will be around 140 gW by 2010. This estimate includes the 18.2 gW that will come on line with the completion of the Three Gorges Dam (Yangtze River) by 2009—at the cost of \$17 billion, and the relocation of 1.13 million residents, two cities, 11 county seats, and 1,599 firms in 17 years—a historic effort.<sup>57</sup>

By 2010, energy will still be a shortage commodity and an impediment to economic growth. Energy production will still be adding to the growing air-quality problem despite washing of coal, greater use of “scrubbers,” more nuclear power, and the more efficient movement of electricity between provinces via an investment in expensive transmission lines and towers. There will be a shortage in spite of aggressive diversification in the South to bring on line oil-fired and nuclear generators; historic efforts to harness the Yangtze (Three Gorges Dam) and other central China rivers; and the accelerated use of cleaner coal technologies, coal slurry pipelines (such as the 800-km pipeline being built from Shanxi to Shandong Provinces), and minemouth power generation connected to long-distance transmission lines in North, Northeast and Southwest China, all

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56. “China’s Energy Demand, Invest Needs to Soar,” *Oil and Gas Journal*, April 10, 1995, 30–32. “Solely Foreign Funded Power Plants to be Allowed,” *Zhongguo Xinwenshe*, 10 October 1994; in FBIS–CHI–94–196, 11 October 1994, 49–50.

57. “Hydroelectric Resources on Yangtze River Tapped,” *Xinhua*, 17 November 1994 in FBIS–CHI–94–223, 18 November 1994, 32–33. Ship-Hung Luk and Joseph Whitney (eds.), *Megaproject: A Case Study of China’s Three Gorges Project* (Armonk, NY, & London: M.E. Sharpe, 1993).

supporting the more efficient distribution of power through regional grids.<sup>58</sup>

Although 20 years under the Four Modernizations have significantly improved the PRC's ability to provide for the welfare and security of its people, systemic inefficiencies and underemployment remain intractable problems. Consequently, most of the critical economic issues facing China are associated with adapting, maturing, and improving on the management systems and physical infrastructures technologies used by the developed economies. The basic conversion process will near completion by 2010, but maturation will continue well past 2020.<sup>59</sup> Improvements or changes made to the ideas borrowed from the West will begin to appear within the next five years, as will the learning that will take place in other developing societies and the reverse learning that will occur in the West.

## Political reform

Politics is the least visible element of China's reform, although it is not as backward as most Western observers believe. Since 1978, Deng Xiaoping has made systematic efforts to reform the political structure, including preparations for the eventual separation of the Party from the State. These actions have created some anxiety and are not widely heralded; however, they have had the salutary impact of enabling many to feel justified in their relative political inactivity, despite their disenchantment with and dislike of the Party, because they feel that with time non-violent but still revolutionary alternatives will be available to them. Although the Party is still an important force in the rural areas, the generally accepted lack of respect for the Party

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58. Kari Huus, "A Question of Economy," *Far Eastern Economic Review*, November 17, 1994; 52-53. Weimin Chang, "Electricity Suppliers Turn Up Capacity," *China Daily*, 7 October 1994, 2; in FBIS-CHI-94-196, 11 October 1994, 52.

59. "China's 21st Century Agenda—'Excerpts' of White Paper on China's Population, Environment, and Development in 21st Century (Deliberated on and adopted by the State Council's 16th Routine Meeting on 25 March 1994)," *Renmin Ribao*, 19 September 1994, 3; in FBIS-CHI-94-198, 13 October 1994, 34-45.

has empowered farmers in recent years to challenge those Party or government officials that are corrupt or overstep their authority. These challenges have taken place either at the polls (increasingly available as a result of the 1987 Organic Law of Villagers' Committees) or via demonstrations (to include some cases of stoning and other acts of physical violence). The most recent publicized example of poor Party discipline is the excessive and unauthorized imposition of taxes.

### **Dilution of Party power**

As a result of the reforms, it is increasingly possible for government officials to be advanced on merit without Party membership. The most notable but not the only example is the Vice President of the PRC, Rong Yiren, a former capitalist manufacturer from Shanghai, who from 1978 until he became Vice President applied his considerable talents to the development of CITIC, China's first and largest investment and trust corporation. The state has established a professional bureaucracy that, in adapting to new professional standards including entrance and proficiency testing, is gradually moving toward political neutrality. An ever-increasing number of laws are being passed by the National People's Congress (NPC), accompanied by a small but gradually growing ability of the judicial system to adjudicate, not simply punish. And of late, the top leadership of government is pressing the enforcement of corruption laws and regulations; particularly vulnerable are the highest levels of the Party and State, as seen in 1995 by the tribulations of the past mayor of Beijing and the Chairman of Shougang, China's largest steel producer. Although Party Chairman Jiang Zemin is undoubtedly using these actions as a means to remove or hamper some of his opposition, these corruption cases are also an example of the Party moving to address a wrong and to respond to popular demands that the Party be held accountable for its actions according to its own standards.<sup>60</sup>

The effort to separate the party and state was even extended to the PLA, albeit with somewhat less success. In the mid-80s, Deng created the Central Military Commission, a state version of the Party's Military Commission, in an effort to separate party and state responsibilities. The two entities both exist, at least on paper, but there is little signif-

icant, practical effect as they have the same membership and staff. However, Deng has established the concept as an ideal to be achieved, and as an opportunity for the future that may be achieved by 2010. The resistance to dividing the Military Commission rested primarily in the perceived need for unity of command in times of national crisis. Because the PLA answers to the Party and through the Party to the State, a division of the responsibilities was not considered wise. It should be noted that Tiananmen produced a constitutional crisis for the Party when the PLA objected to being asked to impose martial law. Fortunately, the crisis was resolved in favor of the constitution.

Despite a subsequent stress on ideological training, the efforts to make the military's officer corps more professional have been reaffirmed. Thus, despite the disastrous events of 1989, the results bode well for the future. The PLA is unlikely to challenge the authority of the Party, or to significantly resist any constitutionally justified order to transfer its allegiance from the Party to the State. Assuming the transfer occurs, it will do so in a manner similar to that which took place in Taiwan in the early 1990s. Such a future transfer will be a major but necessary hurdle if the PRC is to develop a multi-party political system.

Other reforms include the enhanced responsibilities of the NPC and its supporting legislative structure at lower levels of government.<sup>61</sup> Since 1949, most observers have considered the NPC and the Chinese People's Political Consultative Congress (CPPCC) to be rubber-stamp

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60. T. Wing Lo, *Corruption and Politics in Hong Kong and China* (Buckingham: Open University Press, 1993) points out that there are no universal definitions of corruption. Nepotism which is normal in societies based on family links, becomes corruption in others. The author discusses corruption as a way to eliminate opponents to reform and vice versa.

61. Murray Scot Tanner, "The Erosion of Communist Party Control Over Lawmaking in China," *The China Quarterly*, No.138 (June 1994), 381-403. Decentralizing Party control over lawmaking was advanced in early 1991 with CCP Central Committee Document No. 8, which defined lawmaking roles of the Party center, the National People's Congress, and the State Council and its ministries. Yuxin Geng, "Reform Advance Relies on Legislation," *Beijing Review*, vol. 37, no. 11 (March 14-20, 1994), 4.



institutions. However, since 1978 their responsibilities have gradually, if somewhat erratically, increased to the point that the NPC has on several occasions taken actions contrary to those proposed by the government and even initiated actions not sponsored by the government. Although the NPC is nowhere close to possessing the power exercised by the U.S. Congress, it is making progress toward being an independent political force in Chinese politics. Tian Jiyun's recent speech in the NPC advocating multiple-candidate elections is an example of the NPC providing a forum for change.<sup>62</sup> Qiao Shi, the NPC Chairman and the former head of China's security forces, is considered to be building the NPC into a competing center of power—not an alternate.

The same is true to a lesser extent of the CPPCC, which may be the institution through which China's other parties may eventually gain an independent and sufficiently powerful voice to offer an alternative to the Communist Party. Although such independence does not appear likely in the near term, 15 years may be sufficient time for it to develop. Already at city and county levels the PRC has permitted experiments with direct elections. The Ministry of Civil Affairs has been supervising the development of local election procedures, as previously mentioned, since 1987.<sup>63</sup> In a recent election in Shanxi Province, about one third of the voters cast blank ballots, presumably to protest the choice of candidates.<sup>64</sup> Some locales have gone so far as to elect write-in candidates. These are still local and widely separated experiments with the election process, very much in line with

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62. "Behind Tian Jiyun's Outburst at the NPC," *Inside China Mainland*, vol. 17, no. 5, issue no. 197, May 1995, 3–5.

63. Kevin J. O'Brien, "Villagers' Committees, Implementing Political Reform in China's Villages," *The Australian Journal of Chinese Affairs*, no. 32, July 1994. Susan V. Lawrence, "Village Representative Assemblies, Democracy, Chinese Style," op.cit., 61–68. Edward Friedman, *National Identity and Democratic Prospects in Socialist China* (Armonk, NY, & London: M.E. Sharpe, 1995).

64. Interview in March 1995 with an observer of the elections in Shanxi Province.

the practice of the “scientific method” that the Party has employed in other areas of reform.<sup>65</sup>

## Human rights

Human rights or individual rights are an inevitable, albeit not always highly visible, part of the reforms in China. From the Chinese perspective, including that of most individual citizens, human rights have improved enormously in China since 1979.<sup>66</sup> Obviously for China’s idealists, especially those who are courageous enough to be revolutionaries, the reforms have not been enough. They measure progress in terms of what remains to be done, not in terms of what has been done.

Nevertheless, the individual rights of the average citizen have grown relatively steadily. Citizens have a fairly recent and growing access to lawyers and the associated right in the legal system to contest actions by the government or by other citizens. They have more freedom to move, to change jobs, or to go to college—even a college according to their ability to pay,<sup>67</sup> to vote for someone from a slate of competing candidates for political office, to travel abroad, and to practice religion.<sup>68</sup> Although none of these rights has yet risen to the level of

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65. “Wen Jiabao Delivers Speech on Implementing CPC Central Committee’s ‘Circular on Strengthening the Building of Rural Grassroots Level Organizations,’” *Nongmin Ribao*, 30 November 1994, 1,4; in FBIS–CHI–94–236, 8 December 1994, 12. “Sources Detail CPC Rejuvenation Plans,” *Hong Kong Standard*, 8 December 1994, 1–2 in FBIS–CHI–94–236, 8 December 1994, 14.

66. “Life Gets Better for Chinese People,” *Beijing Review*, vol. 38, no. 2 (January 9–15, 1995, 18. For example in 1993 per-capita net income for rural Chinese was 922 yuan and for urban residents it was 2,336.5 yuan, increases of 238.6 percent and 151.6 percent respectively over averages for 1978, and infant mortality and life expectancy were better than average for middle income countries.

67. Jun He, “University Tuition to be Required by 1997,” *China Daily*, 14 November 1995, 1; in FBIS–CHI–94–219, 14 November, 57.

68. Interviews in China conducted while living in Beijing 1986–88, and during semi-annual visits, 1989–95.

come very fast, because of China's near-paranoid obsession with reducing population growth.

Human rights will continue to be an area of disagreement between the United States and China, but it will create fewer problems with the passage of time and progress in the PRC.<sup>69</sup> By 2010, the PRC will not likely be a full-service democracy, but the trend will be firmly established and it will be seen by many in the developing world as the most dramatic example of the Asian model of development, and as having far surpassed the Russian/East European model in terms of causing the least hardship on the average citizen during the transition and development processes.

## Outlook

China's leaders have studied the political reform processes and current practices of Singapore, Taiwan, and Japan in comparison with those of the European states. Their objectives clearly include: (a) popular elections, albeit only after another ten years of experimentation; (b) professional civil servants (they are in place, but it will take several decades of service before the transition from politically responsive to professional is finished); (c) multiple parties (equality for parties is another matter—the current trials of the Taiwan model for Taipei's KMT leaders are not lost on Beijing); and (d) the rule by law.

Like so many of Asia's leaders, China's leaders believe that there is a distinctive process by which Asian states can and will make the transition to democratic states with market economies. They expect to make the transition more quickly than the West European states did and with less of the turmoil that the East European and former Soviet Union states (if they are even successful) are experiencing. Although, given Beijing's concerns with stability, democratization objectives are not clearly stated China's leaders expect to be wrestling on a nation-

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69. Guoxiang Fan, "International Cooperation on Human Rights, A Reasonable and Practical Choice," *Beijing Review*, vol. 37, no. 11 (March 14–20, 1995), 9–10.

wide basis with the process of democratizing China's domestic political structure by 2010. This assumes that the relative peace of the last decade in the Pacific region continues and the global economy does not suffer a major depression.<sup>70</sup>

## Defense modernization

Since its losses in Vietnam in 1979, China has been engaged in the most comprehensive experiment with military reform that any country has undertaken since Japan's Meiji Restoration.<sup>71</sup> The PLA has experimented with change in virtually every area of endeavor. These experiments have focused on blending the best identifiable foreign (East and West) concepts and technologies with China's rich military heritage to provide a modern defense establishment—from infrastructure to fighting elements—tailored to China's unique circumstances and needs.

Although the grand design and much of the turmoil associated with such a comprehensive reform of the military is not clearly visible to outsiders, glimpses of the ferment found in brief press accounts and professional exchanges are sufficient to show that profound changes are taking place in all areas: education and training; force structures; command, control, communications, and intelligence; research and development; procurement; logistics; personnel management, from recruitment to demobilization; reserves; and management systems for each area. Innovation and experimentation have been the top priorities of the Central Military Commission since the early 1980s.<sup>72</sup> Major power status is the objective and the ultimate result desired of

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70. Joyce Barnathan et al., "China: Is Prosperity Creating a Freer Society?" *Business Week*, June 6, 1994, 94–99.

71. Alfred D. Wilhelm, Jr., "Modernization of China's Army Presents Political Concerns," *Signal*, December 1989, 73.

72. Wenming Jiang and Jian Li, "...Zhang Zhen, Vice Chairman of the Central Military Commission, Delivers a Speech, Stressing the Need to Attach Importance to Summarizing Experience and Augmenting Army Building in a Comprehensive Way," *Jiefangjun Bao*, 23 September 1994, 1; in FBIS–CHI–94–199, 14 October 1994, 40–42.

the Four Modernizations strategy—assuming that China's reforms continue to be successful.

The changes in China's defense structure to date have laid a solid base on which to develop the defense capabilities of a major power over the next 20 years. A nation becomes a major power not by purchasing and operating equipment sets, but by being able to develop and produce the equipment sets that it operates and sells to others.

### **Continental versus maritime strategy**

China's strategy for becoming a major power is based on its historical and potential success as a continental power, not as a maritime power. Because China has one of the longest coastal borders in the world and major centers of economic reform located along its Pacific coast, it is natural that there is debate and tension in the PLA between those who want to give first priority to the development of the navy and those who insist on the comprehensive reform and development of the PLA with the navy and air force as specialized supporting arms.

Nevertheless, the PLA is first and foremost a continental defense force. It is charged to defend the world's longest land border with the most nations (with some borders in dispute) over every known type of terrain and climate. To accomplish this task, in terms of both strategy and organization, the PLA Navy (PLAN) has been placed in the role of a supporting and subordinate force, not in that of a force coequal to the army.

Despite this continental orientation of the PLA, there is considerable confusion and apprehension among Western observers about China's maritime intentions and defense priorities. Some observers believe that China's leaders, especially the PLA, favor a blue-water navy. This belief is fostered in large part by a combination of the lack of transparency in the PLA's defense planning and Taiwan's fears for its defense, SEA nations' concerns about PRC claims in the South China

Sea, and China's development and use of selected naval capabilities against Vietnam.<sup>73</sup>

The 1979 Sino-Vietnamese War made it very clear to Deng, a former PLA Chief of the General Staff and experienced strategist, and other PLA leaders the importance of the navy and air force as supporting arms in a limited war. It was clear that China did not have the necessary capability to prevail over Vietnam sufficiently to secure its borders against Vietnamese claims and to provide a peaceful and secure environment for economic development in Guangdong Province. (Guangdong borders on Hong Kong; in 1979, it included Hainan Island and was designated to be China's test bed for its new economic reforms and Special Economic Zones.)

So it was that U.S. military assistance to China in the 1980s focused on the PLA Navy and PLA Air Force (PLAAF). The very senior General Liu Huaqing was assigned as PLAN commander (a demotion if viewed in terms of his personal rank compared with the traditional rank of the PLAN commander). With the weight of his rank and Deng's support, Admiral Liu<sup>74</sup> guided the Navy through the development of a marine force, reorganization of the navy, upgrading of bases, the development of a system of research and development facilities with a strong emphasis on the application of basic research, the systematic collection of information about Western naval strategy and tactics, organizational theory and application, weapons, weapons design, and ship building. The school system was restructured to emphasize the modern battlefield and the preparation of future leaders with sufficient education and flexibility to be able to adjust to rapid change, new technologies, and new warfighting platforms and techniques.

Having established the pattern for the modernization of the PLAN, Admiral Liu returned to the PLA General Staff and the title of

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73. For a more complete discussion of China's naval prospects, see CNA Research Memorandum 95-214, *People's War At Sea: Chinese Naval Power in the 21st Century*, by Christopher D. Yung (forthcoming).

74. The Chinese use the same word for admiral and general; only when it is translated into English is there a difference.

General. He currently is the PLA's most senior military officer, the senior Vice Chairman of the Central Military Commission (CMC), and the final authority on decisions that match China's defense strategy and its R&D and acquisition priorities. The CMC is the pinnacle of military power in China. It is the approximate equivalent in authority to a theoretical U.S. defense committee composed of the Secretary of Defense and the Joint Chiefs of Staff (in China, however, the navy and air force are not represented as institutions).

The CMC is essentially a general staff, like that of Germany in the first half of the 20th century. It is important to remember that this forum, given Liu's stature and naval experience, has maintained the budgetary priority of the Second Artillery—China's nuclear arm.

In the decisions about foreign acquisitions from Russia and the FSU states, the PLAAF fared far better than the PLAN. Since 1979 the CMC has consistently sustained the premise that the navy will be upgraded along with the rest of the PLA, but not to the detriment of the PLA's continental responsibilities. The forward deployment of forces outside of China and "out of area" missions are not compatible with China's military experiences or culture. The arguments within the PLA for a blue-water capability have not convinced the CMC to allocate the resources to implement such a capability.

As China's infrastructure has grown in the 20 years since the inception of the Four Modernizations, the PLA's infrastructure has also benefited. Occasionally the PLA is the innovator, but more often—per the priorities of the Four Modernizations—it is a cautious but deliberate supporter and then beneficiary of developments in other sectors of society. As others have acquired or developed new methods and technologies, the PLA has exercised discreet but interested influence in the process. This participation is most evident in the bureaucratic process in which infrastructure projects, such as roads, airfields, ports, power facilities, and communication systems are planned within a province with input from the PLA's regional command. The PLA also participates in nationwide organizations that use international conferences, publications, academic exchanges, and other forums to promote the development and proliferation of

knowledge about subjects of both civilian and military interest ranging from education, legal studies, and computer simulations to medical science, aviation, and nuclear engineering.

## Defense budget

Balanced development is about as difficult to achieve within the PLA as within the society at large. Similar levels of contention are generated as competing commands, mission elements, and strategies vie for finite resources. Preparation for limited war is the first priority and will continue to be so for the foreseeable future, but nuclear war and special operations cannot be neglected.<sup>75</sup> Each of these areas requires significant new investment annually in the development of strategy, doctrine, and tactics; education and training; new or enhanced command, control, communications, and intelligence systems; research, development, and procurement of at least a limited quantity of new weapons systems for testing, training, and evaluation; and the logistics to support each. Yet, as shown in table 1, the PRC government estimates that in the past decade the defense budget has grown only 314.2 percent, compared with an increase of 266 percent necessary to keep pace with inflation.

PLA leaders<sup>76</sup> say that about one-third of the official defense budget covers personnel costs, including basic salaries at approximately

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75. Paul Dibb of the Australian National Defense University projects in a study sponsored by the International Institute for Strategic Studies that the PRC will make heavier investments in its strategic systems, two to three times the level projected by this study. "China Forecast to Have Fearful Strategic Nuke Arsenal by 2010," *Korea Times*, no. 13842, 21 April 1994, 1.

76. The following discussion of PLA revenues and expenditures is drawn from Paul H.B. Godwin and Alfred D. Wilhelm, Jr., "Assessing China's Military Potential: The Importance of Transparency," *Bulletins*, vol. VI, no. 4 (Washington: Atlantic Council of the United States, May 1, 1995), 2-5; and discussions held in Beijing, March 1, 1995, with General Zhao Nanqi, President, Academy of Military Science and former Director, General Logistics Department of the PLA.



Table 1. Official defense budget of the PRC

Year	Budget (bil RMB)	% Increase	Inflation rate	% of State budget	% of GNP
1986	20.08	4.9	6.0	8.79	2.07
1987	20.96	4.4	7.3	8.64	1.85
1988	21.80	4.0	18.8	8.17	1.55
1989	25.15	15.4	17.8	8.56	1.57
1990	29.03	15.4	2.1	8.98	1.64
1991	33.03	13.8	2.9	8.70	1.63
1992	37.79	14.4	5.4	8.53	1.55
1993	43.25	14.4	13.2	7.64	1.38
1994 <sup>a</sup>	55.06	27.3	23.0	9.46	1.26
1995 <sup>b</sup>	63.10	14.6	15.0 (est)	9.92	1.32(est)

a. Financial Report of Finance Minister Lin Zhongli, presented at the National People's Congress, 25 March 1994.

b. 1995 figures made available by Morgan Grenfell Asia Securities, Hong Kong, Ltd.

3,000 RMB (\$345 U.S.) per soldier, uniforms, and food staples. Another one-third is for operations and maintenance (O&M) costs, including very limited allocations for large unit exercises, steaming and flying time, and live-fire training. The last one-third is invested in military R&D, procurement, and major facilities. At the market rate of 8.7 RMB to one U.S. dollar, the 1995 defense allocation equals about \$7.25 billion. In spite of low salaries and the fact that the purchasing power of the RMB is greater than the exchange rate would indicate, \$7.25 billion is not enough to field an army of 3 million troops.

### Other defense revenues

To cover all the components of military expenditures that other major nations define as such and pay for from central government budgets, the PLA relies on significant other government and off-budget support. The off-budget sources are primarily military owned business enterprises. In the mid-1980s PLA units were encouraged to augment their inflation-eroded budget with the profits from whatever commercial enterprises they might undertake. Most of these expand existing capabilities for the military in the areas of services, procurement, processing, manufacturing, and land management, and make

them available for tourists and civilians. PLA-operated businesses now go far beyond agriculture and animal husbandry—the pursuits traditionally operated by PLA units to supplement troops' diets and reduce the cost of feeding such a manpower-heavy military establishment.

Commercial enterprises owned and operated by the PLA are involved in the domestic and foreign sale of military and civilian goods, transnational pharmaceutical corporations, automobile and truck production, mining, real estate development, hotels, restaurants, airline and shipping services, and many other activities, including dealing in currency futures. In the press to pay their own way, PLAN ships have been seen carrying timber on deck from the ports of Northeast China to the coastal cities farther south and plying the seas between Japan and China with new Japanese cars on deck. The PLA is involved in the construction of economic development zones, including Guangdong Province's "gold coast." In 1997, it will receive valuable property in Hong Kong, which is currently used by the British military and is probably in excess of the PLA's needs.

From the more than 1,000 enterprises operated by the PLA, there are significant enterprise profits, a portion of which are forwarded to the logistics department and part of which are spent locally. However, after costs and reinvestment (at least 50 percent of the profits), how much is used in support of the PLA is not known. Off the record, the PLA reports that the General Logistics Department receives possibly as much as 6 billion RMB to use in subsidizing units with limited enterprise support (especially the remote interior provinces) or unusually heavy costs, such as the heating costs of China's troops stationed along its northern borders.

The Finance Department of the General Logistics Department (GLD) is responsible for the official defense budget and for reallocating the portion of defense enterprise revenues received. But the Finance Department has relatively little control over the revenue stream. First, there is no accurate count of the number of PLA-owned enterprises, as the major commands and enterprises are authorized to use a portion of their profits to create jobs by expanding and diversifying the operations of the enterprises. Second, beyond

rationalizing the process for allocating profits to meet the demands to support enterprise reinvestment and expansion, local command needs, and the central command's off-budget needs, there is the problem of determining what are profits—given the absence of national standard accounting and reporting systems and an enforcement mechanism.

The Xinxing Hotel in Beijing, owned and operated by the GLD, is an example of how the system works under the scrutiny of the center. In 1994 it recognized a profit of 10 million RMB, of which 5 million RMB were reinvested. Most of the other half was used to support the needs of the GLD staff. Local command needs include providing diet supplements, morale and welfare support, cost-of-living allowances (critical in the coastal provinces and major cities), salary supplements for career soldiers and officers, and the widow's mite. The balance—probably less than 25 percent—went into the central fund of the Finance Department for reallocation.

Arms sales by defense-related corporations are commonly viewed outside China as a major source of income for the PLA. However, most major weapons manufacturers are owned or operated not by the PLA but by one of the civilian ministries. The proceeds from most foreign arms sales go to the originating ministry and not the PLA. Notable exceptions occur when the PLA sells from inventory or from a manufacturer owned by the PLA. Furthermore, a review of arms sales from 1985 to 1992 shows that China's arms sales averaged little more than \$1.5 billion a year. Even if the entire amount were profit and all went to the PLA, the addition to the military's coffers would be minimal.

According to the PRC government, at least one-third of state-owned enterprises are operating at a loss and one-third are only breaking even. Arms industries are all state-owned; many are unprofitable, and all are attempting to convert their excess capacity to civilian production. Of those making a profit, at least half of the profits are being reinvested in defense conversion or modernization as part of the state's massive effort to create new jobs.

Finally, China's arms sales hit bottom when the 1991 Gulf War's demonstration of high-tech weaponry's effectiveness undermined China's sales. With the dramatic drop in arms sales, central government

revenue from such sales is at most minimal and is no longer (if it ever was) a major source of funding. This condition will likely continue well into the 21st century. By 2010, Chinese sales will again be a growing factor in the international market (although probably not for the PLA's revenue), as the quality of its weapons systems begins to catch up with international standards under the ongoing reforms.

The role of the PLA in job creation has been critical to China's economic reforms. It will continue to be so until China has in place a social security system that empowers labor with mobility, and Beijing has effectively implemented a tax structure that supports the central government's revenue needs. By 2010, the PLA will have divested itself of most of its enterprises. The benefit will be an even more trim and professional force, having been reduced to about 2 million.

The last major source of defense funding consists of local governments and the industrial ministries, which, for example, absorb at least one-half of the costs of China's R&D. The central defense budget pays only the basic procurement or production costs for nuclear weapons and major conventional weapon systems (both domestic and foreign). The other costs are substantial and as yet appear to be serviced sufficiently to ensure development of the infrastructure in each of these areas; still, as state enterprises are privatized, the pressure on the defense budget to fund these cost will increase accordingly.

### **The mission is limited war**

Because limited war includes air, land, and sea conflicts over disputed territory, and conduct of punitive attacks in defense against them (e.g., Russia into China, and China into Vietnam or India), the PLA has reduced the number of its military regions and has restructured those regions to emphasize their war-fighting capabilities (a sinicized version of the unified commands of the United States), and ordered them to study and develop the unique tactical and doctrinal requirements of their operational areas. Ground forces have been reorganized into group armies to emphasize the combined nature of the modern battlefield.

Although new and more modern equipment is not being sent to the field units in large numbers, mostly because of the expense, the organizational framework and tactics for the modern battlefield are gradually being set in place. "Fist" units are believed to have been established in each of the combined army groups. These are elite units that are the models for other units, the vehicles for imparting new tactics and doctrine to the PLA at large, and the means for testing new ideas under local conditions and experimenting with new concepts.<sup>77</sup>

Where necessary to deal with the modern battlefield, new units are being formed based on adapted Western experiences to meet specific needs. One example is the PLA Navy's marines, which were formed to meet anticipated needs in the South China Sea to help ensure that Hainan Island and Guangdong Province have peaceful environments for economic development. Under China's modernization plan, contentious geographical claims cannot be allowed to threaten the peaceful development in nearby Chinese provinces. Another new unit that is based on Western experiences is testing helicopters. The need for mobility in the mountainous jungles of South China, the rugged terrain of Tibet, and the deserts of Xinjiang (all of which contain contested border regions) and on the nuclear battlefield, resulted in the formation of an army aviation test unit (reminiscent of the test division of the United States during its Vietnam era, the First Air Cavalry Division). The unit has been testing a variety of foreign and domestic helicopters to determine the types and combinations of helicopters, performance characteristics, support requirements, doctrine, and tactics best suited for China's circumstances.<sup>78</sup>

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77. Paul Godwin and John J. Schulz, "Arming the Dragon for the 21st Century: China's Defense Modernization Program," *Arms Control Today*, vol. 23, no. 10 (December 1993), 3-8.

78. Interviews in Beijing in 1987-88 with General Can Gangchuan when he was responsible for the "Army Aviation" test unit program.

## R & D and acquisition

Military research, development, and production in China are based on the principle of self-reliance; thus, the PLA is expected to provide its own equipment and judiciously apply foreign technology where necessary. Unable to bridge the gap rapidly between its best aircraft and the state of the art in the West, the PLA first enlisted the aid of the United States, Italy, and the United Kingdom in the 1980s and is now enlisting Russia's help in enhancing China's aircraft with foreign technology. It has purchased foreign aircraft—the most recent of which are 26 Su-27s, and an even more limited number of transport planes, long-range bombers, and attack helicopters.<sup>79</sup> It has also purchased components for purposes of back engineering and test beds, and for experimentation and practice with respect to training, doctrine and tactics development, and logistics and maintenance experience. From the limited numbers purchased abroad, the PLA is expected to develop its own capability to serial produce its own equipment. The same is true for a wide variety of other army, air force, and navy equipment, ranging from counter-battery radars, to artillery fuzes, to aircraft carriers, that has been acquired or will be considered for acquisition in the future.

## PLAN acquisitions

The requirement to place the defense of China's borders over a longer-range power projection capability obviously affects acquisition priorities. For the PLAN, it means a higher priority on the enhancement of its submarine and ASW capability than on the acquisition of a large aircraft carrier.<sup>80</sup> Acquisitions from Russia likely will emphasize the technology needed to defend the borders. This priority was first seen in the early 1980s, when China asked the United States for assistance in producing more effective torpedoes—but even then,

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79. "Russian Experts Warn of Future Trouble for Selling Weapons to Beijing," *Inside Mainland China*, vol. 17, no. 2, Issue 194 (February 1995), 74–76. "Beijing Intends to Buy Su-35 Jets (latest models of Su-27) from Russia," *Lien Ho Pao* (Hong Kong), 17 October 1994, 8; in FBIS–CHI–94–2000, 17 October 1994, 14.

80. See Yung, op. cit.

nearly every high-level PLA delegation to the United States requested to see a U.S. carrier. The PLA's numerous visits to see U.S. aircraft carriers (up until 1989) and its visits to the Ukraine and, more recently, Brazil were educational. These visits enabled China's top military leaders to understand and play a more informed role in the debates on acquisition priorities that took place within the CMC. The early visits helped them understand the magnitude of the effort required to obtain a carrier and put it into service, and subsequent visits enabled a wider range of leaders to familiarize themselves with the issue and to explore new options being proposed.

As the debate has progressed, it became clear that carriers are too expensive for the PLA, especially considering the infrastructure needed for research and design, construction, maintenance, training, and bases, and the other ships needed in a carrier task force. So in the early 1990s, the CMC decided to invest only in research and design and some education. As a result, the CMC is unlikely to decide to invest in the design and construction of a large indigenous blue-water carrier on the order of 60,000 tons that will have an IOC much before 2020. It will however, probably invest in two or three indigenously designed pocket carriers capable of inserting combat and troop transport helicopters into areas vital to China's interest and reachable by the PLAN. The Osa- and Komar-class boats of the 1970s, equipped with Soviet SSMs, gave the PLAN a relatively inexpensive defensive advantage over the U.S. Navy until the United States acquired a longer-range standoff capability. The PLA is likely to pursue a similar near-term strategy, at least in terms of doctrine, through the acquisition and development of precision guided munitions for defensive use by the PLAN and PLAAF jointly.

All of China's neighbors, especially Vietnam and Taiwan, are sensitive to these purchases and construction efforts as most of these experiments directly enhance (albeit on an abridged basis) China's ability to conduct limited war.<sup>81</sup>

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81. Based on interviews with PLA commanders and staff directly involved in the PLA's modernization planning.

By 2010, the reforms in the PLA will have put in place the infrastructure—ranging from C<sup>4</sup>I and education systems to logistics and R&D—necessary to support its strategy, doctrine, and tactics. China could be considered a great military power if it were to match this structure with equipment. By 2010 China will begin to look like a great military power; however, given the economic tasks ahead, unless China is threatened from the outside, it will not make the investment in equipment necessary to make it truly a great power militarily. Nevertheless, other nations will be influenced politically by both China's current capability and its potential.

Finally, the Four Modernizations strategy has already dramatically changed the role of the PRC in the international community. With the 1979 invasion of Vietnam, China bluffed the USSR, Vietnam's protector, into inactivity. Beyond weapons sales and other economic support for which Vietnam had to pay, the Russians offered no support. They put no military pressure on China along China's borders. Deng carefully backed his move with what some perceived as the tacit, albeit not explicit, support of the United States. The invasion marked a turning point in China's relationship with the United States and the Soviet Union.



## Foreign relations

With the exception of specialists in the defense communities of the Atlantic Community and China who are concerned about local conflicts spilling across borders, especially borders in dispute, and about the use and spread of nuclear weapons, the world generally dismisses the Former Soviet Union as a major source of potential conflict with the United States or China. However, despite the absence of the threat of global war, few countries—if any—feel more secure or feel that the world is more stable. Thus, most capitals have nearly continuously reshaped their views about the nature and possible severity of challenges (potential threats) from the international environment to their nation's security. Like the military analysts in every other capital, Beijing's analysts have been examining this new environment for any challenges that could be forecast as constituting a major problem for the PRC and the other East Asian governments in the next decade. According to most Chinese projections, the worst cases—world war and global instability—are both unlikely. Of greater concern are any issues that might disrupt its economic reforms (Four Modernizations strategy), especially those that might lead to costly military conflict.

The PRC has gradually been working toward a more equal status with the other two major powers.<sup>82</sup> It is a permanent member of the UN Security Council, where, through the manner in which it has voted on several crucial issues, it has begun to add its unique “non-interference in internal affairs” perspective to how the world will deal with global crises. It is a member of the World Bank, the IMF, several regional banks, the NPT, the exclusive nuclear club, and a growing number of other international organizations. It will soon join the World Trade Organization as a charter member, after finding “minimum essential”

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82. “It (China) will be one of the poles (in the multipolar system) by any criterion.” Selected Works of Deng Xiaoping, vol. 3 (Beijing: People's Press, 1993), 353.

common ground following recent and painful negotiations with the United States over its standards for protecting intellectual property. Twenty years ago, when it began to emerge from a period of autarky, the PRC was not a world player. Although it is not yet willing and may be unable to assume any significant leadership responsibilities, it is approaching the day when its leaders will seek more of a global leadership role in establishing the standards by which the actions of nations will be judged.

Already at the regional level, China is setting the pace economically and to some extent militarily. Openly expressed concerns by some of the other Asian states about China's manufacturing capability and the competition they are experiencing in the world market point to China's growing economic importance.<sup>83</sup>

During the late 1980s, China began reshaping its export orientation away from its virtually exclusive interest in the markets of the U.S. and Japan toward more of a 360-degree capability. It has given provincial governments more freedom to develop trade and financial relationships with foreign countries in their natural product related or geographic zone of interest. There is hardly a geographical area of the world that has not experienced growth in its economic relationship with the PRC.<sup>84</sup> Every country on its borders has reached new

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83. For example, see Bertin Lintner, "Burma, Enter the Dragon," *Far Eastern Economic Review*, 22 December 1994, 22-24. The author concludes from his interviews that Southeast Asians believe that China's "Open Door" policies and efforts to extend its influence beyond its borders "may eventually give birth to a Chinese Monroe Doctrine in Asia."

84. Bianhua Gao, "Trade with ASEAN Expected to Hit \$20 Billion by 2000," *China Daily (Business Weekly)*, 9-15 October 1994, 1; in FBIS-CHI-94-196, 11 October 1994, 50-51. Li Nina, "Bohai Rim—Focus of China's 21st Century Economic Upsurge," *Beijing Review*, vol. 38, no. 9, February 27-March 5, 1995, 11-15. The current strategy for opening to the outside world is known as the omni-directional, multi-tiered "Four Alongs": along the coast, along the river, along the border, and along the railway (the second Euro-Asian continental bridge from Lianyungang in East China to Rotterdam, Netherlands). Zongshi Ma, "China Dream in the Global 1990s and Beyond," *Contemporary International Relations*, vol. 3, no. 7 (Beijing: July 1993), 8.

political and economic understandings that have contributed to growth for both parties and to fears of China's potential as a hegemonic power. Particularly notable is China's relationship with the Republic of Korea. In 1981, prior to the normalization of relations between China and the ROK, indirect bilateral trade is estimated to have been about \$220 million dollars.<sup>85</sup> In 1993, bilateral direct trade reached \$8.22 billion, of which \$5.36 billion was in the form of imports from the ROK; thus, the ROK was the sixth-largest trade partner of China, and China the third-largest partner of the ROK.

As a result of the Four Modernizations, China has become a central factor in East Asian growth and is expected to remain so at least through 2010. All of the countries of Northeast Asia are projecting that China's reforms will continue and that the region will continue to enjoy the peaceful growth that it has experienced for over a decade.

Another example of China's flexibility that stems from the Four Modernizations has been the unanticipated growth in the relationship between Taiwan and China. For the past 20 years, the PRC has carefully monitored and learned from every aspect of Taiwan's experiments with economic reform, ranging from the use of export processing zones to reshape the nature of the economy, to the use of banking reforms, stock and commodity markets, and other tools to build and slowly convert to a market economy. Taiwan's political changes to facilitate democratization have also been closely studied, both for the implications for Taiwan independence and for political change in China. The fact that democracy followed economic growth on Taiwan is a lesson not lost on the PRC. China's Open Door has also enabled the two governments to slowly fumble toward increased bilateral relations.

Although the relationship is as yet far from a political settlement, it has grown to the point that when tourism in China nearly collapsed

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85. Jae Ho Chung, "South Korea—China Economic Relations," *Asian Survey* (October 1988), 1034–38. According to the Korea Trade Promotion Corporation (KOTRA), the level of bilateral trade in 1981 was \$218.8 million.

following Tiananmen, Taiwan tourists partially filled the void and essentially saved the tourism industry in China. Trade and investment have grown to the point that the government on Taiwan has on several occasions had to intervene to prevent the growth from becoming a national security problem. The Cross-Strait Talks have produced slow but steady progress in finding practical ways for the two sides to deal with matters that normally require formal state-to-state relations.<sup>86</sup>

There are problems that could cause the progress to have been in vain and that therefore worry both sides and foreign observers alike. The most significant is the call for independence among elements of the Taiwan community. However, if trends current in 1995 continue, it is possible that by 2010 the two sides will have worked out a political accommodation to the unification problem that currently divides them. Such a compromise would not necessarily mean a final solution, but rather an intermediate accommodation that both sides would find satisfactory for an indefinite period, a temporary solution that would remove the threat of conflict from the relationship and accelerate economic interdependence.

## Chinese perceptions

There is more to China's approach to its external relations than is apparent in the Four Modernizations. These factors are generic, historically based attitudes towards particular problems, and toward key countries. They are grouped below as "mindsets," "problems," and "geographic factors." Because these attitudes differ in varying degrees from dominant views in the United States, they deserve more complete treatment, as follows.

### Mindsets

**"Asians are different."** This statement is frequently heard in Beijing. It strikes both a positive and a negative note. On the one hand, it is

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86. Robert G. Sutter, "Cross-Strait Relations and Their Implications for the United States," *Issues and Studies*, vol. 30, no. 12 (December 1994), 69-96.

an assertion of sovereignty, independence, and freedom from hegemonic influences that recognizes with pride the differences that bring two sides to the negotiations table. But it contains a dangerous element that feeds nationalistic extremes when "I am different" is used to justify claims to unique rights and privileges. Such claims were heard in Japan and Germany in the 1930s and are often heard among the extremists of the Middle East today. When used to indefinitely postpone efforts to develop a cooperative security dialogue, whether Sino-American, regional or international, the claims to be different and unique are a challenge to the recipient that can become counterproductive and threatening, and thus eventually dangerous.

**Historical considerations.** Relations between nations of East Asia are often governed by motives that governments ascribe to others based on a historical legacy rather than an evaluation of exchanges of statements of policy, information, and measurable capabilities and actions. China is criticized and feared by others. In turn, it is critical, especially of Japan, citing motives and intentions that are based more on history than what current deeds and capabilities might otherwise indicate. Historically derived perceptions have to be overcome. Some form of forgiveness must occur if multilateral dialogues are to help the nations of East Asia, including China, to keep from misinterpreting the actions of others.

**Alliances.** Fear of apparent trade protectionist actions in other regions have led some Asian leaders to propose strategies that could eventually isolate East Asia from the rest of the world—creating a separate set of rules for East Asia. Such a proposal has elements that are both attractive and repulsive to Beijing. Yet from the PRC's experiences, alliances tend to create dependencies that are to be avoided. Therefore, the reasons that would discourage Beijing from joining such an economy-focused system also operate against its joining any security arrangements. China will be very cautious and reluctant to seek integration into regional or international mutual security systems well into the 21st century. Although this position is firm in principle, the Chinese are practical. In 1995 Chinese military analysts began to change their position from opposing U.S. military forward deployments in Asia (and then privately supporting them) to arguing that a substantial shift of forces in or out of Asia would be detrimental

to regional peace and security—a position likely to continue through 2010. This practical outlook may well extend by the turn of the century to multilateral security discussions in which China, still a cautious participant, will likely have considerable weight in defining any regional defense forum or system for Northeast Asia.

**Leadership changes.** Whether in Beijing, Tokyo, Washington, or Taipei, leadership changes portend policy changes. Even if these changes occur in friendly governments, they can make profitable investments unprofitable, require major budget reallocations, and even produce political instability. The region must now work with a new and possibly fragile government in Japan while at the same time adjusting to the policies of the Clinton administration as it wrestles with a Republican-led Congress. Major changes also may be in the offing in Russia and North Korea, and of course everyone in Beijing is sensitive to the possibilities of changes that may follow the death of Deng Xiaoping. China's planners must consider a range of policy options to deal with perceived changes in its neighbors' policies. Without the restraints of the bipolar world and given domestic pressures for change, the range of policy options is much broader and creates many more opportunities for misunderstanding, mistakes, and eventual conflict.

**Political and economic changes.** Today, change appears to be endemic in all regions of the world and in nearly every society. Every day, this external instability challenges Beijing to pace its political and economic change so as to avoid the chaos that has erupted in so many societies. Beijing is sensitive to the implications of change and chaos in the region for its own situation, thus will continue to focus on the efforts of the leaders of Vietnam and North Korea to accommodate major reforms without the disorder that has engulfed much of East Europe and the former Soviet Union.

**Power vacuum.** As nations in East Asia increase their commitment of resources to military modernization, one of the more common justifications heard is that the United States is withdrawing from the region, creating a vacuum that both China and Japan will attempt to fill. The evidence offered is the closure of U.S. bases in the Philippines and the overall reduction in force levels—despite U.S.

reassurances that such reductions are proportionately smaller than those in Europe and that they roughly represent that portion of the Pacific force that was committed to defense against the Soviet threat and is no longer needed. The balance or distribution of power in the region will continue to be an issue of deep concern throughout the decade. Only through dialogue, negotiations, and better understanding will a consensus be achieved over what distribution of power in East Asia produces a minimum comfort level.

## Problems

**Transparency.** Well known in the West is Sun Tzu's maxim, "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat."<sup>87</sup> The corollary is Beijing's national security practice of concealing the PLA's actual capability in such a way that estimates by outsiders make China's military capabilities appear larger than life—and, Beijing hopes, like a puffer fish, too large to challenge. Every government has national security secrets and to some extent pursues a "puffer fish" strategy to keep its opponents off balance. But when the veil of secrecy is so opaque that reasonable estimates cannot be made concerning strength or intentions, worst case estimates by neighbors result in escalatory investments in defense. China's policy is beginning to have such an effect. At the same time, other Asian countries use similar policies that have generated comparable uncertainties in Beijing, including North Korea's refusals to clarify its nuclear capability and research efforts, and Taiwan's version of a puffer fish or "poison shrimp" approach to enhancing its defenses.

There is evidence that China is beginning to see some benefits in a modicum of transparency, encouraged in part by the above-cited North Korean and Taiwanese strategies that are not in China's interest. On the other hand, European-style confidence measures between the Korean states and possibly between China and Taiwan would be in China's interests. Some of China's own limited efforts at defense

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87. Lionel Giles, *Sun Tzu on the Art of War* (Shanghai, China: Literature House, Ltd., 1910), 24–25.

transparency since 1979 include making available to high-level DOD delegations (including National Defense University student groups) staff briefings about the functions of the PLA; encouraging foreign delegations to visit PLA schools, training activities, combat and logistic units (air, naval, and ground), and field headquarters (including briefings on the Vietnam border); and to observe maneuver exercises and unit firings (ranging from small arms to space launches). Most recently (1995) the PLA sent a delegation to the United States to brief DOD officials on the PLA budget, both revenues and expenditures. China has promised senior Japanese defense officials that it will produce a defense white paper comparable to those released by the other nations of East Asia. However, the level of transparency is low and largely bilateral. It is an issue that will continue to need to be placed early on any bilateral and regional security dialogue agenda and vigorously pursued.

**Nationalism and terrorism.** Ethnic rivalries have splintered societies in most regions, especially East Europe and Central Asia, and have incited terrorism where ambitions have long been frustrated. Many Asian nations also have experienced the flames of sectarianism and terrorism, the memories of which will influence policy decisions and perceptions in the years ahead. China is especially concerned about its border regions—Tibet and Xinjiang—where external events and trends exacerbate the internal problems of culture conflicts, uneven economic development, and rising expectations. Beijing has begun to invest in the Central Asian republics, partly to understand and preempt any influence these areas might have on Xinjiang.

**Territorial disputes.** Others watch China's actions regarding potential conflict over unresolved border claims, especially the Spratlys and Taiwan. At the same time, China is watching how Japan will deal with Russia over the Northern Territories, how the Philippines will deal with territorial issues in the southern islands, and how the international community handles Law of the Sea questions and fishery violations.

**Proliferation of weapons of mass destruction.** Nuclear, chemical, and biological weapons once were the exclusive domain of the superpowers, but now they are within the technological capability of an ever-



growing number of nations. As the world has become more affluent and technologically capable, the nuclear issue has grown. The two early problems consisted of preventing the proliferation of nuclear weapons to countries that do not have the ability to develop their own, and encouraging those with the technological base (such as Japan and Taiwan) to not develop nuclear weapons. Now, two more problems have been added: that of taking action against countries who would acquire the technology to produce their own nuclear weapons, and that of destroying weapons inventories currently held by the nuclear powers.

Simply put, the problem for the foreseeable future is finding a way to put the nuclear genie back in the bottle on a global basis at a time when China may desire a nuclear-free world in principle but does not share with the West a common strategy for achieving such a goal. China is not sure how to proceed, particularly at a time when the West seems bent on identifying it as an enemy, and doesn't know whether it should change its strategy for maintaining its independent capability.<sup>88</sup>

China is not yet fully prepared to commit its resources to blocking the acquisition of nuclear technology by aspiring nuclear powers or to working with the other nuclear powers on an agreement that would lead to the destruction of its own arsenal. Chemical and biological weapons, with unique verification characteristics of their own, likewise present problems that are complex and probably longer term. Within the region, these problems are represented currently by concerns over North Korea's nuclear potential, China's sale of equipment and technology, verification of China's chemical weapons capability, and Japan's intentions (heightened by its recent purchases of spent plutonium).

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88. General Nanqi Zhao, President of the Academy of Military Science, "Comments on 'Further Reins on Nuclear Arms'—Personal Views," Beijing, July 4, 1993. Comments were written in response to a draft paper by General Andrew J. Goodpaster, Chairman of the Board, Atlantic Council of the United States.

**Conventional arms limitations.** Conventional weapons are generally accepted to be essential components of every government's resource base for securing the interests of its people; however, what one government determines to be necessary for defense, others often interpret as excessive and threatening. The easing of limitations imposed by the Cold War, plus the expanded investment options (especially in military systems), made available to planners by economic prosperity, have further complicated perceptions of "how much is enough," and have revived many old doubts about the intentions of neighbors. A frequent result is the upward ratcheting of estimates by East Asian governments of what conventional weapons systems are needed and affordable. There are almost always more potential threats than resources. Although the fear of a major or world war has diminished, the fear of regional or local conflicts has resulted in a greater demand for conventional weapons in East Asia and elsewhere at a time when Russia and the United States are downsizing. This global shift in defense responsibilities—"arms races," according to some analysts—is particularly evident and disquieting in East Asia, where prosperous economies are making major changes to military force composition possible relatively quickly and where there are no region-wide security regimes to ease the misunderstandings. Taiwan's purchase of F-16 and Mirage aircraft and China's purchase of Su-27s are examples of need, opportunity, and affordability resulting in purchases that have caused exaggerated fears, elevated tensions, and strained political relations.

As China's military planners look at the region, they see new, modern military aircraft and other offensive systems that are as capable as (or more capable than) China's—in Japan, North and South Korea, Taiwan, most of the ASEAN states, India, and Russia.<sup>89</sup> Although the planners may be taking a worst-case view, this situation does complicate their work: they look forward to a small procurement budget but know that huge military hardware purchases are required to achieve even parity in their calculus.

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89. Renshi Luo, "Post-Cold War Strategic Trend in the Asian-Pacific Region," *International Strategic Studies*, no. 2, 1994.

**Mass migration.** Whether motivated by political or economic disorder, deprivation, natural disasters, or war, the number of refugees worldwide is growing. In many cases, national treasuries have been severely strained and inhumane actions taken to protect one society from the potentially crushing burden of unwanted refugees from another. China and many other Asian countries have felt the burden of Vietnamese refugees; the West is wrestling with a new problem of Chinese illegal emigres; and Taiwan has a growing cost associated with illegal movements across the Taiwan Strait and with the attendant problems of smuggling and piracy. China's economic successes are now generating these same problems for China on its borders. Economic growth has also stimulated growing internal population shifts as many people attempt to migrate toward the more affluent coastal areas. The problems are difficult enough now. No East Asians would welcome the enormous population shifts (like those that have been taking place in Europe and elsewhere) and that might occur in East Asia if China's reforms failed and the government collapsed, if North Korea disintegrated, or any one of several other governments failed.

**Health issues.** Increasingly, governments are finding that health issues require international cooperation. Drug use and AIDS<sup>90</sup> are the most visible problems, but they are not the only problems that drain public coffers, threaten the welfare of a population, and require external assistance to effectively address. For a long time, China was fairly immune to such developments; now, however, after opening itself to the West, it is experiencing a rapid increase in the same health problems as other states.

## **Geographic factors**

**Taiwan.** Most Western observers doubt that China could accept an independent Taiwan without a fight and, by the same logic, doubt that China will ever give up the option to use force. Nevertheless, both sides are looking for ways to give Taiwan more room in the inter-

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90. "Aids Plague Threatens Asian Nations," *The Washington Post*, December 2, 1993, A38.

national community to pursue its development objectives while preserving the idea of one China and eventual reunification. One possibility that has been quietly discussed is a compromise by the PRC with the government of the popularly elected Lee Teng-Hui (1996) in which Taiwan enters the United Nations under some variation of a divided nation formula. Another possibility is a bilateral agreement worked out in the Cross-Straits Talks to pursue unification through a step-by-step process leading to a confederation or another relationship that allows for a gradual process, each with a veto, leading to a commitment.<sup>91</sup>

Although dissimilarities between the two political systems will continue to generate stress periodically, the two economies and cultures are inextricably interdependent.<sup>92</sup> Taiwan aims over the next ten years to become a regional center of manufacturing, air and sea transportation, communications, media, and finance—thus further strengthening its role as an irreplaceable bridge between the West and China. The Asia Pacific Regional Operations Center (APROC), established in January 1995, has such a mandate to develop Taiwan in

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91. David Dean, "Peace or War in the Taiwan Strait" (paper presented at the 12th International Conference on Asian Studies, St. John's University, September 10–11, 1994). Dean discusses a confederation concept and a divided-nations solution for UN membership. Benjamin Yeh, "Confederation Predicted for Future PRC Ties," *CNA*, 17 January 1995; in FBIS–CHI–95–010, 17 January 1995, 95. Yeh describes a confederation scenario presented by Dr. Wei Yung, a KMT legislator.

92. In 1994, trade across the Strait rose to an all-time high of \$12.3 billion (Jan–Oct), up 15.8 percent over 1993. PRC-to-Taiwan trade was \$1.64 billion, up 54.9 percent, and was composed of raw materials and sale back of manufactured products of Taiwan-invested enterprises. Taiwan to PRC exports were \$10.7 billion, with the PRC now Taiwan's second largest export market. Taiwan investment jumped 61.3 percent to 3 billion for January to September 1994; total Taiwan projects in PRC numbered 25,849, second only to Hong Kong, accounting for 60 percent of Taiwan's total external investment. Ren Xin, "Mainland, Taiwan Economic Ties Enhanced," *Beijing Review*, vol. 38, no. 11, March 13–19, 1995, 16.

this way, and the off-shore trans-shipment facility being established in Kaohsiung is an excellent beginning.<sup>93</sup>

A formal declaration of independence would be a particularly incendiary action that would likely evoke a PRC military response. The strongest PRC reaction probably would be a PLA naval blockade. The highest levels of command on Taiwan see any stronger action as unnecessary, given the severe economic shock such action would have upon the Taiwan economy.<sup>94</sup> As discussed below, the ambiguity of the Taiwan Relations Act should discourage conflict by ensuring that neither party could be certain of U.S. actions in such circumstances.

**Hong Kong.** The transition from British to Chinese sovereignty in 1997 will occur during a period of uncertainty for all concerned, in or outside the colony—which is soon to be renamed a special administrative region (SAR). There will be many opportunities to fail as PRC officials and Hong Kong citizens clash over such issues as “democracy,” the importance of predictability in the rule of law, tinkering with the system, corruption, and Beijing’s responsibilities and obligations versus its preferences.

Throughout, there will be great concern among the overseas Chinese, especially in Taiwan, about the precedent the process may set for Taiwan. China is well aware of the economic and political consequences of failure, and is working to ensure a successful transition—one that will at least enable China to continue to benefit from Hong Kong’s contributions to the PRC’s economic reforms, especially in Southeast China, thus advancing its relationship with Taiwan. Failure

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93. “An Initiative into the Next Century, A Plan for Building Taiwan into an Asia-Pacific Regional Operations Center,” Council for Economic Planning and Development, Executive Yuan, Taipei, Taiwan (March 6, 1995). APROC is described as a winning strategy for the “omni-directional economic development of Taiwan” as a business center for investment and business activities in the Asia-Pacific region (including China) and a means for Taiwan to develop “comprehensive economic and trade relations with nations of Asia-Pacific region.”

94. Interview with Admiral Liu Ho-chien, Chief of the General Staff, Ministry of National Defense, ROC, Taiwan, on March 10, 1995, in Taipei.

will be the product of ignorance in the PRC about what makes Hong Kong function (and Beijing has a great deal yet to learn), or will occur because too many of the next generation of Hong Kongers find opportunities in the PRC more attractive than in Hong Kong—a problem that has already begun to emerge.<sup>95</sup> Because there is so much at risk and there are so many problems, Beijing is increasingly focused on finding solutions to these problems and is thus likely to be successful with the transition.

**Korea.** Whether in competition with each other or unified, the two Koreas will continue to be a source of worry for Beijing. After a period of stress during the leadership succession in Pyongyang (1995–96), which included Beijing's veiled cooperation with Washington and Seoul to keep the peninsula free of nuclear weapons, China will work to facilitate North Korea's gradual opening to foreign trade and investment. The resulting societal changes in Korea may lead to a relatively peaceful and self-paying unification, but not before 2020.<sup>96</sup> A slow process of change is less likely to be chaotic, and a unified Korea is an unknown element. From an economic standpoint, slow change would send more South Korean investment to China and create more of a market for Chinese goods. The North would be the target of Chinese exports and investments, including extractive resources. China's role in each society would be different, satisfying Chinese financial needs and, at the same time, increasing the economic dependence of both Koreas on China.

Unification would significantly reduce China's role and divert most of South Korea's capital and attention to the North. Rapid or near-term unification would provide fewer opportunities for China to become more integrated into the economies of both Koreas. A slow process would enable China to gradually wean the South away from its

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95. Interview with Major General Bryan Dutton, Commander of British Forces, Hong Kong, on March 6, 1995, in Hong Kong.

96. Interviews in Seoul, Korea March 13–14, 1995, with LTG Cho, Assistant Minister for Policy and staff of Ministry of National Defense, Major General Han Kwang-Duk, President, and staff of the Korean National Defense University, and with Vice President T. Y. Kwon and the staff of the Korean Institute of Defense Analysis.

dependence on the United States while taking advantage of the common interest of China and the United States in seeing that the peninsula is free of nuclear weapons and independent of Japanese influence.

A unified and nationalistic Korea with a somewhat reduced but combined conventional and nuclear military capability would present an unhealthy and disturbing uncertainty for China, especially if the United States were to withdraw the moderating influence of its forces. Since the 1950s, China's strategy for its Korean border has been based on having a relatively weak Korea, which, by virtue of its division, provides a buffer. A unified Korea significantly changes China's defense equation, and China's defense planners have relatively little positive historical experience to draw upon. China would also have difficulty with a unified Korea that had a U.S. presence, i.e., was aligned with the United States.<sup>97</sup>

**South China Sea.** Agreements to share the resources of the region may well be negotiated by Beijing with the other claimants prior to 2000. The process that began as an Indonesian-led Track II initiative to bring together individuals from all the nations that have an interest in the South China Sea, could gradually evolve into government-to-government talks using the Law of the Sea as a common point of reference.<sup>98</sup> At the same time, each of the Southeast nations will become more economically interdependent with the PRC and less politically alienated from the PRC as political reform occurs in China. China is aware of Southeast Asians' fears that it will be an economic competitor, especially in terms of labor-intensive manufacturing, and will be a regional military hegemon.

China needs the markets of Southeast Asia to fuel its own reforms and is taking steps to emphasize the complementary nature of its markets with Southeast Asia and to make investment in China attractive.

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97. Alfred D. Wilhelm, Jr., "Sino-Korean Relations: The Years Ahead," *The Korean Journal of Defense Analysis*, vol. IV, no. 1 (Summer 1992), 85-103.

98. Discussions with Ambassador H.E. Hasjim Djalal, March 31, 1995, in Washington, DC. Amb. Djalal has been a leader in the development of the South China Sea Informal Meeting (SCS-IM) process.

Thais, Singaporeans, and Indonesians in particular have found investments in China very attractive and rewarding. China's economic reforms dictate good relations with SEA; nevertheless, the growing capabilities of the PLA will generate concern and influence attitudes.

To ensure their independence of action, the SEA nations will continue to rely upon the United States to balance their relationship with China.<sup>99</sup> However, the process will in effect make them less dependent on Washington and slightly more deferential toward Beijing.<sup>100</sup>

**Japan.** China's leaders will continue to value the presence of the United States in Japan and the underlying bilateral alliance as the primary means by which Japan's leaders are discouraged from acquiring the military trappings of power that historically accompany a major nation's economic success. China's defense policy, as correlated with its economic development policies, will continue to be based on a strategy in which Japan is blocked from becoming a military threat to China.

At least through 2010, the PRC will fear the military potential of a resurgent Japan (a legacy of World War II) and will accept a U.S. military presence in Japan as the key preventive. At the same time, Japan will continue to be an important source of foreign aid, investment, technology, and training and education, and a critical export market—all of which are essential to China's reforms. The two countries are financially complementary, although China would like to

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99. For a more extensive discussion of issues related to Southeast Asia, see CNA Research Memorandum 95-212, *The Security Environment in Southeast Asia and Australia, 1995-2010* by Lyall Breckon, March 1996.

100. Nayan Chanda, Rigoberto Tiglao, and John McBeth, "Territorial Imperative," *Far Eastern Economic Review*, vol. 158, no. 8 (February 23, 1995), 14-16. Samuel S. G. Wu and Bruce Bueno do Mesquita, "Assessing the Dispute in the South China Sea: A Model of China's Security Decision Making," *International Studies Quarterly* (1994), no. 38, 379-403. The authors conclude that despite a dramatic increase in military expenditures and a significant strengthening of China's naval forces in the South China Sea, China is unlikely to engage in any significant use of force to pursue its agenda in the South China Sea.



have greater access to the Japanese consumer market directly rather than through joint ventures with subsidiaries of Japan's Keiretsu.

Japan will continue to see a U.S. military presence, including the USN, and the American nuclear umbrella as important deterrents to the PRC and North Korea, unless the U.S. denuclearization program draws U.S. capability below a number perceived to be sufficient to insure that the U.S. nuclear umbrella covers Japan.<sup>101</sup> It is noteworthy that the Japanese joint staff's annual review continues to recommend a non-nuclear Japan as long as the U.S. nuclear umbrella is in place.

Concerns about Japan's intentions will continue throughout the region and will both work against regional cooperation, where it might enhance Japanese power, and motivate cooperation where cooperation might limit the hegemonic influence of both Japan and the PRC without being seen as being specifically directed at either. For example, regional, including U.S., concerns about Japan's plutonium reprocessing plus concerns about PRC policy could well inspire an Asian version of Euratom—Asiatom—a regional forum for coordinating nuclear fuel reprocessing, use, and storage by Asian nations.<sup>102</sup>

**Russia.** The Russian foreign ministry has indicated to the Chinese that in 1995 the Russian parliament will ratify the border agreement concerning China's western borders. In conjunction with the 1994 eastern border agreement, this will eliminate age-old sources of territorial conflict between the two sides. These agreements reflect significant concessions by both sides and represent important examples of how the Chinese are attempting to peacefully resolve their border disputes. However, these agreements will not eliminate Chinese fears of Russia's nuclear capability or the centuries of distrust. For China's strategists, Russia will remain China's greatest potential threat, whether it remains in political and economic distress through

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101. See CNA Research Memorandum 95-208, *Japan 2010: Prospective Profile*, by Kent E. Calder, Princeton University (forthcoming).

102. Gerald Segal, "Confrontation between China and Japan," *World Policy Journal*, vol. X, no. 2 (Summer 1993), 27-32.

2010, re-emerges under an autocratic government as many Chinese analysts anticipate, or is recovering economically under a democratic government. The Chinese expect Russia to reemerge as an active power in the region sometime between 2010 and 2020. In the meantime, Russia will remain a source of concern and China's greatest potential threat—its only neighbor with major power capability to harm it.

**Central Asia.** China's presence in the region will continue to grow as it presses its geo-economic advantage in Central Asia and seeks an outlet for the resources of its western provinces, not the least of which is its fossil fuels.<sup>103</sup> Of particular interest to China is the potential for tapping into the pipelines under consideration to move oil across the Caspian Sea and across China to Dalian. China's presence in Central Asia will grow and be both a source of economic development for an otherwise volatile area and a source of distrust and stress in Sino-Russian relations that will result in some increase in military attention—and possibly deployments—by Beijing to the West.<sup>104</sup> At a minimum,

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103. Afforestation in Gansu Pays Off," *Xinhua*, 23 December 1994; in FBIS-CHI-94-249, 28 December 1994, 65. "Northwest Region Taps Natural Resources," *Xinhua*, 26 December 1994; in FBIS-CHI-94-249, 28 December 1994, 64. NW China includes Xinjiang, Uygur Autonomous Region, Gansu Province, Ningxia Hui Autonomous Region, Qinghai Province, and Shaanxi Province—the last parts of China to be developed. Resources include at least 40 percent of China's oil, 50 percent of natural gas and 60 percent of coal, nearly all reserves of nickel, potassium, strontium, beryllium and lithium, plus large quantities of gold, copper, molybdenum, lead, and zinc. In the Junggar, Tarim, Turpan, and Hami Basins of Xinjiang, the "Seas of Hope," 35 oil and gas fields have been located; 20 have reached some state of development, and the total production is up to 13 million tons per year. Ten billion yuan have already been invested in transportation, including the Lanzhou-Xinjiang double-line railroad, a highway from Horgos, Xinjiang, to Lianyungang, the expansion of airports in Urumqi and elsewhere, and optical cables from Lanzhou to Urumqi. China expects the northwest to have economic takeoff in the early 21st century.

104. Sen Yang and Linsheng Qiao, "Be of One Heart and One Mind," *Jiefangjun Bao*, 30 July 1994, 1; in FBIS-CHI-94-200, 17 October 1994, 56-60. See discussion of Jiang Zemin's visits to Tibet and Xinjiang.

the length of China's borders and the vast, sparsely inhabited nature of China's portion of Central Asia provide an incentive for the PLA's efforts to develop rapid reaction forces.

**Middle East.** China will continue to be the only major power that has relations with all parties in the Middle East. It shares with the United States the common objective of peace in the region, but believes that U.S. policies will result in U.S. interference in the domestic affairs of these states (and by extension to China) and thus will not deliver peace. For example, China believes that nuclear power should be available to all nations, consistent with its general principles, and unlike the United States, does not preclude the possibility of each country acquiring its own nuclear fuel reprocessing capability. Another area of potential conflict is based on Western analytic concerns that China will be under increasing economic and possibly diplomatic pressure to trade arms—in opposition to U.S. interests—for Middle East oil. While possible and seemingly logical, arms sales for oil are likely to be a low-priority alternative in China's energy plans. China is investing heavily in energy plans that will diversify its sources domestically, and will enhance its self-reliance, but will require major foreign investment and support. And as pointed out earlier, PRC arms have been less competitive since the end of Desert Storm. China and the United States will continue to have different views on how to deal with Middle East conflicts and different needs resulting from their respective relationships with the countries of the Middle East. These will result in a continuous potential for disagreement between the United States and China and the need to negotiate, at least privately, every disagreement, because both sides will use these policy differences to attack and criticize the other as supplements to other more significant differences.

## Implications for China's future

China may have to accept a leadership role (albeit reluctantly due to resource competition from domestic challenges) in building regional structures and in working to increase the effectiveness of international organizations. China's entry and experiences in the Asian Development Bank (ADB) and, in recent years, in the Asia Pacific Economic Cooperation (APEC) meetings have been important

precedents. The practical experiences of membership held during both favorable and unfavorable periods in the international arena have been helping China's leaders overcome their mistrust of multilateral organizations formed within the region—mistrust historically grounded in fear that such organizations are in effect directed against China.

For well over one hundred years, China's experiences with regional structures were largely negative. As a result, the Chinese are more comfortable with bilateral relationships akin to the "hub and spokes" nature of U.S. relations in the Pacific. However, they are gradually becoming more adept at using multilateral organizations to augment and enhance their bilateral relations, as opposed to seeing such organizations as weapons to be used against them or by them. Domestic pressure for regional cooperation to facilitate development plus external pressure, at least partially derived from a need for greater transparency among states, is pushing China toward more active multilateral engagement. The fast-growing need to share data and to find common solutions to problems in such diverse areas as health, transportation, power, environment, and migration is slowly generating China's interest in the mechanics by which other regions cooperate. For example, Euratom is the antecedent of the growing Northeast Asian interest in an Asiatom to provide a means for coordinating the region's development and use of nuclear power. In Southeast Asia, it appears that China is beginning to move toward defining its claims in the South China Sea in terms of the Law of the Sea as the next step toward finding a regional solution to conflicting claims.

In China's approach to cooperative or friendly bilateral relations, defense will continue to be the area in which China seeks the least interdependence. The military element of China's power has been the last tool of statecraft to be advanced or exposed to the scrutiny of the outside world—either as a vehicle for building relations or as a means to intimidate. The military and its abilities are kept generally shrouded and shadowy, although the next generation of military leaders appears to see merit in less isolation and in exploring international and regional means for providing security at minimum costs. Thus the semi-coordinated efforts of the United States, China, Japan, Republic of Korea, and Russia in dealing with North Korea in the

mid-1990s is an important step toward a regional dialogue. It is likely that by 2010 China will be a major player in any regional defense arrangement.

Despite the foregoing more positive possibilities, some of the external forces at work could easily result in the outbreak of local conflict in Asia and either directly or indirectly involve China. The impact on China's domestic reforms naturally would vary with the severity and location of the conflict, but in general any such conflict would have a retarding effect on China's reforms. As this paper discusses in more detail later, the inability of China and the United States to find a peaceful compromise on any of the major issues involving both also has great potential for negatively affecting China's domestic reforms. China is adjusting to vitiate these forces, but it may not be successful. Where it is not, however, its leaders are keenly aware that the effect will be felt in the reforms.

# Alternative futures

## Background

So far, this study has examined China's objectives and the internal and external factors that bear on their achievement. This section looks at the implications of success, and at two alternatives: partial success and failure.

Western analysts spend more time predicting alternative failure scenarios than assessing what successful reform in China would mean for the world—that is, for the stated goals of China, the United States, and others. Most assume that a democratic China with the world's largest market economy would be less troublesome than a failure scenario in which regional and global economic and military security are affected by general economic failure in China and the resulting famine, social disorder, banditry, and migration. The logic of the assumption follows from the popular notion that democracies don't fight democracies and that peaceful competition is the product of the interaction between peaceful, open-market economies. But there is little historical evidence to support this assumption beyond the 20th-century relationship between the democratic states of Europe who share much in the way of common culture and who were forced through two world wars and the common threat of the Cold War to find ways to compromise.

Most of the major international institutions that shape the world order today and will continue to do so for the foreseeable future have grown up from relationships among the states within the Atlantic Community, i.e., the GATT, WTO, World Bank, OECD, IMF, UN, and IAEA. With good reason and intention, these institutions have been expanded from their initial Atlantic Community orientation and imposed through the persuasion of logic and the influence of hegemonic power upon the rest of the world. Where nations have had difficulty adapting to these standards, whether economic, political, or

defense, it has often been where non-Western cultures have clashed with the Western cultural bias of these institutions.

As the leader of the West and the preponderant influence, the United States often becomes the focus of efforts to resolve these differences and the focus of resentments where non-Western countries in particular do not accept the solutions as just. No non-Western culture has had the power of size and success to effectively challenge the assumptions of the dominant Western influence. The challenges by Japan in World War II and then Russia in the Cold War came from authoritarian regimes that failed. But what if a powerful, highly nationalistic, non-Western democratic state representing 20 percent of the world's customers were to emerge with cultural values—particularly as they pertained to problem solving—that often clashed with the values of the Atlantic Community? France, a Western, democratic but highly nationalistic state with cultural values that sometimes conflict with those of other European states and the United States, has proven to be an extremely difficult challenge to the solidarity of the Atlantic Community. A similar challenge coming from China would likely change the nature of the global system, and could have a profound impact on how nations defend their interests, particularly how they use military power in the arbitration of differences.

A modern China will have a modern military to defend itself and its interests. Those interests will be defined by a highly nationalistic population that may not feel that the international playing field is level, particularly if it does not share common values with the 20 percent of the world's population that is using 80 percent of the world's resources. If the Chinese do not perceive equity in the outcome of the competition over access to resources, labor, and markets, conflict may result. Equity is in the eyes of the beholder and, for the disadvantaged, usually requires an "offset" or "handicap." So unless China, the United States, and other societies have built up mutual trust and confidence through common experience and understanding (including an appreciation of one another's culture and heritage where possible), it would be a mistake to assume that the relationship between two major democratic powers with highly nationalistic (patriotic) polities will be peaceful.

The more difficult set of circumstances for U.S. national security is more likely to be a China that successfully modernizes. If steps are not taken to find mutually acceptable frameworks for the resolution of issues on the basis of equality and trust, the United States and China are likely to continue to have significant disagreements—centered on sovereignty—in just about every area of bilateral and international interaction including such areas as trade barriers, foreign ownership of property and other financial system rules, legal rights, due process and the meaning of rule of law, the use and sources of nuclear power, technology transfers, arms sales and purchases, environmental standards, resource depletion, and mass population movements.

In many ways, failure scenarios for China would be easier to deal with in terms of policy and resources. They would not require the United States to make adjustments that were as significant or as large. For the most part, such scenarios could be dealt with through an extension of current policy and planning and, as they might affect the U.S. military, with the current or planned force structure as adjusted year to year for age and technology developments.<sup>105</sup>

## **Success of the Four Modernizations or continued reform<sup>106</sup>**

Since 1978, China has been undergoing a paced transformation from a command economy to a market economy; thus far, it has done so without the kind of displacement or disaffection of large segments of the population that occurred during China's Cultural Revolution (1960s/70s) and during the reforms in Russia and East Europe (1990s). And since the mid-80s, China has been experimenting with elements of political reform in a manner very different from that of the European and Russian models. The pace of these changes has

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105. For a description of three economically oriented alternative scenarios see Albert Keidell, III, "China's Economic Challenge in the 1990s," David M. Lampton and Alfred D. Wilhelm, Jr., *United States and China Relations at a Crossroads* (Lanham, MD: University Press of America, Inc., 1995), 67–77.

106. For a similar but more detailed discussion see Karl W. Eikenberry, "Does China Threaten Asia-Pacific Regional Stability?" *Parameters*, Spring 1995, 82–103.



generally left foreign observers frustrated—they are slow to recognize or accept that significant change is taking place in some parts of society, and overstate the change in others; they are pessimistic about the probability of success for comprehensive reform without wide-scale violence and disorder; and they are satisfied only with visible, declared, immediate, and thus revolutionary change. Nevertheless, by 2010, there is a 75- to 80-percent probability that the reforms described earlier will continue on track sufficiently for the PRC to become a major power with a basic market economy that is making significant progress toward being a democratic society.

Economically, China will still be a developing country, with a per-capita GNP that will place it in the middle tier of nations, but with a total GNP that will place it, at a minimum, among the top three. In terms of political development, China will be a constant source of foreign speculation and doubt, but the Chinese people will have a much greater voice in government. Its international political influence could rival that of the United States in many parts of the world, including East Asia, Central Asia, and the Middle East. Militarily, China will not be able to project power far beyond its borders in competition with the United States, but in some parts of Asia it could challenge U.S. forces. As Alain Juppe might say, the Chinese are constructing their future, one that will reestablish China as a major power.

## **Partial success**

Partial success (16- to 20-percent probability) includes everything on a long continuum between the success described above and the failure of a China in disintegration. It will mostly likely mean that the economic reforms in China will be prolonged, the process for integrating China into the global economy will be slower, and China's market will still not be fully open to foreign participation. China will still be practicing protectionist policies for much of its economy and unwilling to assume a leadership role in the global economy. It will be a passive global player, not an activist. Human rights violations will be fairly frequent as more Chinese express their frustrations with the slowness of change, but the discontent will be controllable. Political reform will be slower, and the PLA will be pressed to play a stronger

role in domestic politics than it would under a more successful scenario. This would not necessarily mean a greater force projection capability, but it might mean a more aggressive attitude toward protecting its interests—a more nationalistic stance—to include the more aggressive use of the PLA in attempts to intimidate Taiwan. The lower the level of success, whether due to failed domestic policies or to an external crisis, the greater the perception of failure and loss of public confidence and the greater the likelihood of more outbreaks of public disorder in one sector that could ignite broad segments of the society. Incidents of civil disorder will occur even under the Continued Reform scenario, but they are unlikely to sidetrack the reform movement until the society at large senses that there is no hope.

If wide-scale civil disorder should erupt, and as in 1989, become too great for police forces to control, the CCP would eventually have to turn to the PLA—still an instrument of the Party, not the state, through 2005—to restore order and support central government control through the imposition of martial law. Having successfully faced a constitutional crisis over this very issue in 1989, an even more professional and patriotic PLA would probably support the Party (90-percent probability). It is likely that such an intervention would set China's reform programs back five to ten years, but after a period of assessment and readjustment, a younger generation of leaders would attempt a revised reform program. Such a program is beyond the period of this report, but with cooperation from the developed world, a second attempt is likely to succeed. If the restoration of order fails (4- to 5-percent probability), China might lurch along from one domestic crisis to another, turning inward from fear, and eventually disintegrating into chaos.<sup>107</sup>

## Failure

The reforms are unlikely to completely fail (4- to 5-percent probability), and they are even less likely to fail overnight or to be cataclysmic

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107. For a similar but more in depth analysis, see Melvin Gurtov, "The Future of China's Rise," *Asian Perspective*, vol. 18, no. 1 (Spring-Summer 1994), 109-128.

failures. At some point as the reforms failed, the national leadership would first make an attempt to reimpose an authoritarian regime, possibly communist but more likely simply an authoritarian government that would use the Party as a fig leaf. The effort would be expensive economically, because much of the reform progress today depends upon a less restrictive political environment. Nevertheless, with the support of the PLA, as a professional institution, the reimposition of an authoritarian regime might be possible. It is also probable that such a government would be relatively short lived and violent, leading to the crash of the state in bloodshed and little possibility of anything but economic chaos and dislocation for one-fifth of the world's population. The impact on East Asia and the West would be dramatic, as investments in China were lost and investors fled.

The alternative scenario might be a more peaceful disintegration into a series of smaller states. For several years, some people in South China have fantasized over the possibility of several southern provinces breaking off to form a state with Hong Kong and Taiwan. Northeast China has a history of being a separate state, and Xinjiang might find its way into union with states in Central Asia. Tibet would turn inward or toward its southern borders, and Inner Mongolia might find new happiness with Mongolia. The result might be a revisit of the warlord period in Chinese history with nuclear sidearms. (Beijing military analysts argue that under this worst scenario, the Second Artillery's nuclear weapons would at worst only be hostages, because the safety measures controlled by Beijing would preclude their use.) As none of China's provinces have sufficient resources, they would still need to trade and have other economic intercourse that would be complicated by new boundaries; thus, already inefficient industries would, in many cases, become even less efficient. Under these circumstances, some provinces would fare better than others; for instance, the seacoast provinces would do better than the continental ones. Nevertheless, none would do well. Much of the economic progress made to date would be lost within months, and it would be a long time before new patterns of trade and commerce could be stabilized sufficiently to reengage the growth process. Undoubtedly, such a redistribution of power would encourage mass population movements that would eventually overwhelm the resources of the recipient provinces.

## Conclusions and recommendations

This section examines the implications of the alternative China futures described above, and derives policy recommendations for the United States and for U.S. forces. It first discusses the three factors that should be borne in mind: the inhibitions imposed by China's domestic attitudes, the ambiguities of the Taiwan Relations Act, and the outlook for regional cooperation.

**Inhibitions.** When dealing with challenges to its security, Beijing, like any government, must decide to what degree it is able or willing to rely on its own resources and to what extent it will rely upon others through bilateral, regional, or international agreements and regimes. In its experiences since 1949, Beijing has found unilateral security, the national security equivalent of autarky, to be prohibitively expensive and not achievable against most challenges from the international environment. For reasons of pride, freedom of action, and lack of confidence in others, significant dependence on foreigners is very difficult. Consequently, most internal defense arguments are over how much defense is necessary and cost effective.

**Taiwan Relations Act.** In the early 1950s, Taipei depended heavily on Washington and its alliances to guarantee Taiwan's security. Since then, it has significantly reduced this dependency—thanks to 20 years of economic growth, which made a modern military affordable, and to ten years of successful trade and investments, which have nurtured a web of useful bilateral relations. But its military capability would fall far short of an adequate defense in a full-scale conventional war, to say nothing of a nuclear war. Taiwan would be relatively self-sufficient only at the low end of the scale of military conflict. The farther it were to move up the scale toward conventional and then nuclear war, the more it would depend on outside support for equipment, intelligence, or physical cooperation. Today Taiwan is even cooperating to some extent with China, to combat piracy and smuggling.

Taiwan has developed an admirable defense capability that alone or in cooperation with others is very effective in dealing with most of the challenges to its security. Nevertheless, Taipei still depends on Washington to level the international playing field, whether it is dealing with Beijing, the European Community, or the United Nations. This is a mutually developed relationship that has been uniquely codified in U.S. law by the congressionally driven Taiwan Relations Act (P.L. 96-8, April 10, 1979). Although most Americans firmly support this relationship, American support in a crisis would be neither automatic nor guaranteed, particularly if U.S. military forces were required in response to a threat that Americans perceived as having been generated by a unilateral action in Taipei. A declaration of independence by the government on Taiwan might be an example, but neither Taipei nor Beijing can be sure.

**Regional cooperation.** Many observers have long considered multilateral security cooperation in East Asia to be impractical, given the major political and economic differences and the strong historical animosities that exist in the region. Although China has generally shunned alliances, other East Asian governments have supplemented their own resources through bilateral relations either with the USSR or with the United States through its "hub and spokes" concept of bilateral relationships. The end of the Cold War and the economic prosperity of the past decade opened the door to the creation of forums for regional economic cooperation. But the continued development of East Asia's economic prosperity will require a more comprehensive approach to regional cooperation. The collapse of the Soviet Union and a closer look at the security challenges of the next decade strongly point to the need for a dialogue on more than economic issues. This dialogue should be broad enough to include any issue that could challenge the peace and stability of the region—especially, misinterpretations of intentions. In early 1993, U.S. Assistant Secretary of State Winston Lord signalled a major change in U.S. policy when he noted U.S. interest in regional security cooperation in

addition to its existing series of bilateral relationships.<sup>108</sup> The next step appears to be that of increasing inclusiveness: how to ensure that all the players of East Asia are participants in the discussion.

Multilateral cooperation requires a degree of mutual understanding and trust. These can be facilitated significantly by multilateral forums, in which all potential antagonists can address their concerns in a relatively nonthreatening environment. Of the areas of potential conflict in East Asia, the Korean peninsula appears to be the most likely to have a conflict involving two or more major powers. A conflict involving Taiwan may be the least likely, but it has the greatest potential for escalating into a major power clash and having the most adverse impact on the region at large. It follows that these are issues in which everyone in the region has an interest and that North Korea and Taiwan should be players in any multilateral dialogue. Furthermore, Taiwan is a major regional economic power with a significant military capability to assist others; therefore, it also has an interest in, and can make a contribution to, the resolution of other issues in the region and internationally.

At the international level, East Asia as a region is as yet an erratic player. It is often distrustful of "Western" law and institutions. The status derived from membership is often more important than the responsibility, and the protection provided by a negative vote is often more important than the influence of a proactive policy. For example, Beijing's UN Security Council seat gives it a veto power, which it has exercised cautiously to protect its options, but as yet it has not assumed a proactive leadership role commensurate with its major power status.

## **Implications of the three most likely futures**

Continued reform will contribute to the region's basic stability, peacefulness, and high growth rates. The scenario assumes that no major

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108. Winston Lord, "A New Pacific Community, Ten Goals for American Policy, Opening Statement, Confirmation Hearings for Ambassador Winston Lord, Assistant Secretary of State-Designate, Bureau of East Asian and Pacific Affairs, March 31, 1993.

fault lines will split Japan, China, Russia, and the United States. In addition, this scenario will:

- Produce a major power that will rival the United States for influence in the Pacific region and on a global basis. But this power could have interests that are more parallel to those of the United States than divergent from them. China could be a nation with which Washington will be able to cooperate more effectively with time. If China internalizes the norms of the international community (most of which originated in the West) and the United States nurtures this process, the result will be a pattern of cooperation beneficial to both nations.
- Cause the United States to need to maintain a forward-deployed posture in the Pacific at least through 2020. Forward deployment beyond 2020 will depend on the nature of U.S. relations with Japan and China and on whether an effective regional collective security mechanism has been established.
- Result in China's military capability becoming more capable of challenging the military influence of the United States in a broadening range of situations. If during this process a relationship of mutual trust, respect, and bilateral and multilateral defense cooperation is not developed, a concomitant requirement will emerge for the United States to be prepared to counter the PLA's capability through both strength and alliances where U.S. vital interests might be threatened.
- Result in a China more willing to negotiate with confidence on equal terms, but not necessarily to the complete satisfaction of the United States. The Chinese and many other Asians are not yet convinced that democracy, market economies, and interdependence necessarily mean peace and prosperity. Experience will be necessary. Chinese success is preferred to Chinese failure, but it will result in new and as yet undefined problems for Washington that will be difficult to manage.
- Produce an environment in which defense relations between the United States and China could advance faster than other government-to-government relations.

A Partial Success scenario will have many of the same results for U.S. interests, only over a much longer and more stressful period of time. The key will be to maintain the U.S. forward deployments well into the 21st century.

The Disintegration or Chaos scenario is the least desirable for the United States in terms of economic dislocation and subregional conflicts that could expand to affect U.S. allies in East Asia, but will likely require the least in terms of U.S. military adjustments of force levels, missions, and strategies. Although new force projection capabilities of the PLA will not materialize under this scenario, instability in the region will be pronounced. The resultant chaos and conflict will precipitate major economic losses and increased deployment requirements to deal with problems ranging from piracy to economic refugees.

## Recommendations

A U.S. policy towards China should be viewed in a broad global and regional context. Unlike much of the rest of the world, the Asia-Pacific Region is basically stable, peaceful, and characterized by high economic growth rates. For the first time, no major strategic fault lines split Japan, China, Russia, and the United States in the region. The principal task of American policy should be to contribute to making the continuation of these circumstances possible, while articulating America's conflicting interests and values in its bilateral relationship with China. A passive policy toward the PRC would be an unfortunate mistake. Only an active, fully engaged relationship will enable the United States to obtain substantial Chinese cooperation in achieving common interests and resolving differences.<sup>109</sup>

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109. David M. Lampton and Alfred D. Wilhelm, Jr. (eds.), "The Policy Paper," *United States and China Relations at a Crossroads* (Lanham, MD: University Press of America, Inc., 1995), 13-45. Also see Henry A. Kissinger and Cyrus R. Vance (Co-chairs), "The Policy Impact Panel on the Future of U.S.-China Relations," Public Hearing by a panel sponsored by the Council on Foreign Relations, Washington, DC, March 15, 1994. Shuzhong Wang and Xudong Xia (eds.), *Trends of Future Sino-U.S. Relations and Policy Proposals* (Beijing: Institute for International Studies, The Beijing Academy of Social Sciences, and the Beijing Society for Comparative International Studies, January 1995).



With respect to regional and global security cooperation, the United States should do the following:

- Not slow the pace of normal and cooperative relations between the PRC and U.S. defense communities as long as they (1) are mutually advantageous, (2) advance the PRC's acceptance of international norms and standards, (3) are reassuring, and (4) ease the concerns among Asian-Pacific nations about threats to peace and prosperity in the region.
- Maintain a military presence in the Western Pacific sufficient to inspire confidence in the future of peace and stability. This would include a military presence in South Korea at least until the time of unification, and a presence in Japan sufficient to alleviate China's concerns about Japanese resurgence and Japanese worries about Chinese hegemonism, North Korean blackmail, and an aggressive unified Korea. Only frequent high-level dialogue on both a bilateral and multilateral basis will enable American decisionmakers to ascertain what is sufficient at any one point in time.
- Work towards engaging the PRC in the next phase of multilateral nuclear arms discussions to reduce nuclear weapons stocks worldwide. This process should first help the Chinese understand what the United States, Russia, and the Ukraine are doing, the experiences of each party, and the logic that has been applied to date. It should then lead to engaging the PRC in the development and implementation of future nuclear, chemical, biological, and delivery system conventions—as an architect, not merely a subscriber—that would eventually engage the PRC in dismantling systems.<sup>110</sup>
  - Encourage and capitalize on work already being done by U.S. NGOs in cooperation with PLA and other PRC policy research institutes.

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110. See General Andrew J. Goodpaster, "Further Reins on Nuclear Arms: Next Steps for the Major Nuclear Powers," a consultation paper published by the Atlantic Council of the United States, Washington, DC, August 1993.

- Develop educational exchange programs between U.S. military research centers and counterparts in the PRC as a follow-on to senior military exchanges, e.g., CNO, CSA, CSAF, with a specific focus on both sides getting a better understanding of the strategic and tactical implications and concerns of each side in eliminating weapons of mass destruction, the economic costs, and the technical lessons learned in actually dismantling nuclear weapons in Russia and the Ukraine, and of dismantling nuclear, chemical, and biological weapons in the United States. Some elements of the PLA are already acutely aware of the problems associated with disassembling conventional weapons, having sought commercial help in the United States.
- Encourage China through every possible bilateral defense meeting to join the United States in encouraging Northeast Asia and East Asia to develop multilateral fora for discussing security issues of common concern. The multi-nation setting of the Nimitz Center in Hawaii could be a good place to meet. There students or research associates from the nations concerned could discuss specific defense-related issues, such as safety at sea, and could search for applicable lessons for Asia from how these issues are dealt with among the NATO nations, the Southeast Asian nations, the United States and Japan, South Korea, and Russia. The results of such efforts might lead to bilateral arrangements, even agreements, on how to handle safety at sea, in the air, or in other international environments. The multilateral arrangements and procedures used by the United States in its daily relations with friendly powers could be explored with the PLA as representatives of another friendly power.
- Promote high-level official military exchanges, but do so early enough in the tenure of the senior officials that they can then have a significant impact on the bilateral and multilateral defense relationship. Far too many senior U.S. defense officials wait until the end of their assignment—a safer time politically—to visit China. From the Chinese perspective, this

implies that the United States has less than a significant commitment.

- Work with the PLA and the military of other nations on a bilateral and multilateral basis to find out what lessons each has learned from its experiences in UN peacekeeping operations. Based on shared experiences, develop a UN curriculum, standard operating procedures, and common organizational doctrine for future UN operations. Again, the Nimitz Center offers a modest, non-intrusive forum, as does the training center at Garmisch, where the PLA might gain a better understanding of U.S.-European cooperation.
- Develop bilateral military exchanges that advance the interests of both nations in the areas of safety, medicine, engineering, transportation, and troop support. For example, the PLA has extensive experience, data, and treatments relating to high-altitude sickness that could complement U.S. experience. A previous cooperative effort between the U.S. Army and the PLA in finding means to treat hemorrhagic fever provide a viable model for other efforts to treat tropical and other diseases. Various national labs might benefit from sharing research on such items as clothing, individual equipment, and rations, with similar research and test facilities in China. China has requirements that are similar to those of the United States, given its great variation in climates within its borders. Travelers in China will be the greatest benefactors from the PLA's acquisition of air traffic control equipment that U.S. contractors are competing to place at airfields throughout China. Other safety technologies will enhance the PLA's capabilities, but the benefits to both sides far outweigh any disadvantages.
- Develop institutional relationships between roughly comparable military education, research, and gaming centers to exchange ideas about strategy and tactics, basic doctrine, and training experiences that will help each side to better understand the other. Both can learn from the other and neither expects to copy the other. The exchanges should be on the basis of equality and reciprocity, but that does not mean one person for one person. One creative approach might be to use

man-days. For instance, the U.S. side might send ten students for two weeks, pay their international airfare, and ask the PLA to pick up the in-country expenses. In return, the PLA might send a researcher to the United States for 20 weeks (about the same number of man-days but one-tenth the airfare), with the same travel and in-country expense arrangement.

- Give mandatory briefings and study assignments to officers who will be assigned to international organizations and headquarters. These should prepare them to deal with PLA counterparts as representatives of a power that the United States desires to integrate into the international system, not as intelligence targets of a hostile power. Such officers should be tasked to consider ways to locally encourage greater PRC participation and propose ways for official engagement of the PRC at higher levels.

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FF42 NAVPGSCOL MONTEREY CA  
FF44 NAVWARCOL NEWPORT RI  
FP1 COMNAVDOCCOM  
V12 CG MCCDC QUANTICO VA  
V12 MARINE CORPS UNIVERSITY

## OPNAV

N00  
N00K  
N2  
N3/N5  
N31/N52  
N51  
N513

N522  
N8  
N81

## OTHER

ACDA  
ARMY WAR COLLEGE  
BMDO  
CIA  
DIRNSA FORT GEORGE G. MEADE MD  
DISA ARLINGTON VA  
DNA  
DIA  
DTIC ALEXANDRIA VA  
IDA  
LOS ALAMOS NATL LAB  
JOINT CHIEFS OF STAFF  
Attn: J-5  
NDU  
NSC  
PENTAGON LIBRARY  
RAND SANTA MONICA  
SANDIA NATL LAB  
SECARMY  
SECAIR FORCE  
STATE DEPARTMENT  
USAF AIR UNIV  
USCG WASHINGTON DC  
USD/ACQUISITION  
USD/POLICY  
USSTRATCOM OFFUTT AFB NE  
USTRANSCOM SCOTT AFB IL