

AN OVERVIEW ON THE CHINESE CHALLENGE



SECOND LINE OF DEFENSE

STRATEGIC PERSPECTIVES

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## AN OVERVIEW OF THE CHINA CHALLENGE

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# CHINESE MILITARY POWER REPORT HIGHLIGHTS

## GROWING CHINESE NAVAL MIGHT



(Credit Photo: The Hudson Institute)

**By [Dr. Richard Weitz](#)**

On August 17, the U.S. Department of Defense released its latest edition of its annual assessment of China's military capabilities, intentions, and behavior to the U.S. Congress.

Although the title of this year's report has been changed from the previous "Military Power of the People's Republic of China" to the more anodyne "Military and Security Developments Involving the People's Republic of China 2010," the report's themes echo those found in previous editions. When one considers the recent reports collectively, one prominent theme is the growing strength of the Chinese Navy.

China's maritime strategy has traditionally centered on countering threats posed by foreign powers to its coastal region. A more recent function of the People's Liberation Army Navy (PLAN) is to defend the PRC's claims in off-shore territorial disputes with maritime neighbors. PRC policymakers want to protect their access to off-shore fisheries and gain access to the energy resources under nearby Pacific waters, whose estimated value has soared in recent decades. As China has become a global trading nation in-

creasingly dependent on overseas energy sources and other key imports, PRC leaders have likely become interested in protecting China's maritime supply lines from pirates and other threats to their freedom of the seas.

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ANNUAL REPORT TO CONGRESS

Military and Security Developments  
Involving the People's Republic of China  
2010



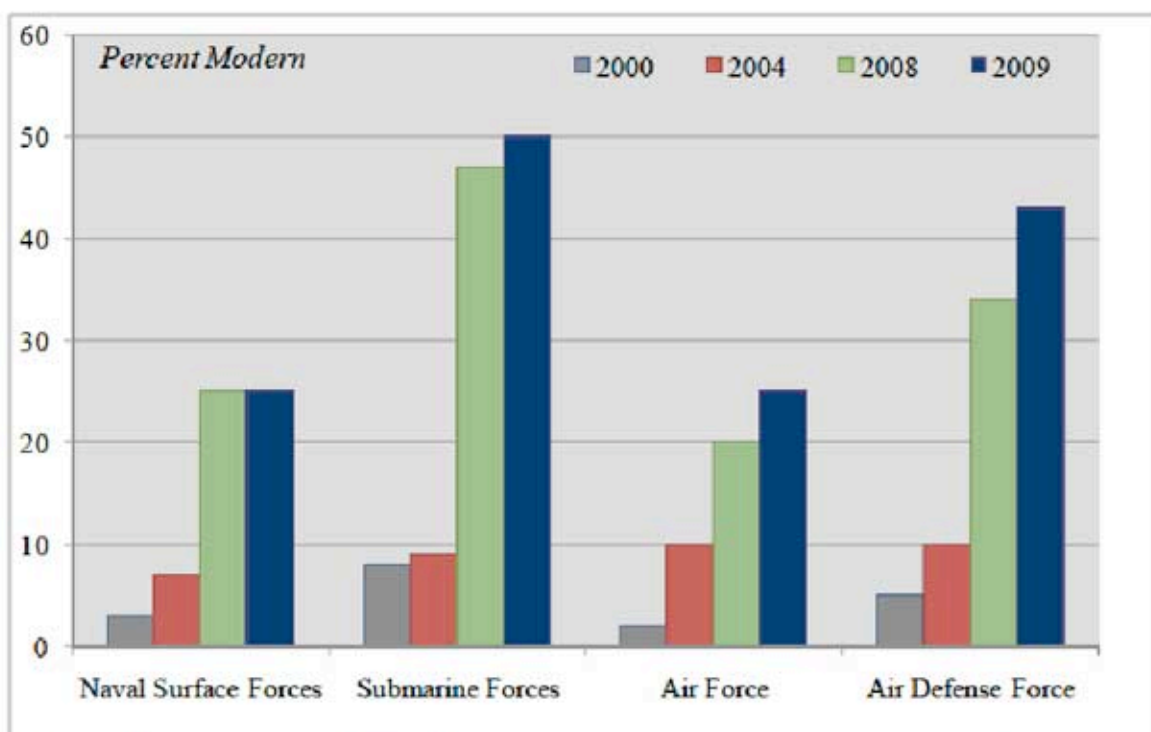
Office of the Secretary of Defense

(Credit Image: [http://www.defense.gov/pubs/pdfs/2010\\_CMPR\\_Final.pdf](http://www.defense.gov/pubs/pdfs/2010_CMPR_Final.pdf))

Over time, the PRC's sustained military buildup has allowed the PLAN to modernize many of its platforms and weapons systems. Since the late 1990s, China has begun revolutionizing its naval capabilities by undertaking an ambitious modernization program, producing approximately one hundred new warships since 2001. At its projected rate of expansion, the PLAN could possess more ships than the U.S. Navy at some point in the next decade or two. The qualitative improvement has been equally stunning. Successful introduction of anti-ship missile technology, near silent submarines, and Soviet-era radar and tracking technology has effectively turned what had been a primarily shore-defense Navy into a viable regional maritime power. These developments, along with parallel and anticipated future advancements, set the stage for the PLAN's possible acquisition of blue-water power projection capacity.

A PLAN priority has been to enhance the capabilities of its submarine fleet. The dozen Russian-made Kilo-class diesel electric submarines, along with the indigenously built Song submarine class, acquired by the PLAN during the last two decades have represented a marked advance in the PRC's undersea warfare capabilities. Most recently, the PLAN has acquired about a dozen indigenously made submarines whose capabilities are quite impressive compared with previous boats. The Jin-class SSBN (Type 094) is armed with 12 JL-2 ballistic missiles, with the theoretical range to hit targets in the

western half of the United States from strike positions west of Hawaii. The Shang-class SSN (Type 093) nuclear-powered attack submarines and the Yuan-class SSN (Type 041 or Type 039A) diesel-powered attack submarines complement one another due to their diverging power systems. In addition, the PLAN has by now acquired over a dozen slightly less advanced Song-class SSN (Type 039 or Type 039/039G) attack submarines. Furthermore, the PLAN order of battle includes around 60 older diesel-electric submarines of varying caliber that serve in anti-submarine and anti-surface roles using the newest Sino-Russian torpedo and missile design technologies. Although many PLAN submarines are outdated, the newest classes are approaching the capabilities of those of the other major world navies in sound-dampening technology, naval propulsion, and weapons systems.



Select PLA Modernization Areas, 2000–2009. This graphic compares the share of modern operational systems within the PLA in 2000, 2004, 2008, and 2009.

*(Credit Graph: 2010 Annual Report to Congress on Military and Security Developments Involving the People’s Republic of China)*

In addition to modernizing its fleet of submarines, the PLAN has developed increasingly sophisticated surface combatants. Since the early 1990s, the PLAN has put five new types of destroyers and frigates into service, with each successive model featuring new variations and improvements. Taken together, these modern warships are substantial improvements over China’s aging Luda (Type 051) destroyers that entered service in the 1970s and 1980s. Many of these new warships feature stealthy hull designs; effi-

cient propulsion systems; and enhanced sensors, electronics, and weapons systems. blue sky ship.

During the 1990s, China purchased two Sovremenny class missile destroyers (DDG) from Russia. These outclassed any surface combatant fielded by the PLAN at the time, providing improved anti-submarine warfare capabilities; more advanced anti-ship missiles, and longer expected sea-duty time. Since the original purchase of these four Russian destroyers, the PRC has introduced its own improvements regarding both design and functionality to its indigenously made surface warships. At present, concurrent generations of indigenously manufactures destroyers, and to a lesser extent



Chinese Destroyer of the Sovremenny Class (Credit Photo: <http://www.sinodefence.com/navy/surface/sovremenny.asp>)

frigates, have been increasingly more capable due to the longer reach of their platforms, improved active electronic countermeasures, advanced ASW helicopters, and newer generations of air defense and anti-ship cruise missiles. The Luzhou, the most current version of the Chinese destroyer, serves the role of a fleet air defense ship with the SA-N-20 missile system capable of engaging targets upwards of 150 km away utilizing an onboard radar guidance system. The slightly older Luyang-II missile destroyer features an indigenously developed radar system similar to the Aegis AN/SPY-1 used by the U.S. Navy, along with advanced anti-ship cruise missiles capable of engaging targets at a distance of 280 kilometers. Although it does not employ the SA-N-20 missile, the air defense capabilities on the Luyang II offer substantial improvements to earlier Chinese models and, coupled with some ASW capabilities through the use of an onboard all-weather ASW helicopter, provide the Chinese Navy with a solid foundation on which to build additional fleet support surface combatants.

The latest PLA-N destroyers, the Taizhou and Ningbo, were constructed in 2004. They offer more advanced on-board weapons systems than their predecessors. Again, though, only two ships were constructed, since the PLAN seems to be looking to combine the best ASW capabilities, fleet air defense, and anti-ship missiles all on one ship



class. The latest versions of frigates, the Jiangkai I and II offer similar improvements as the Luyang or Luzhou class destroyers by employing the latest in conjoined radar and air defense technology. In addition, the Jiangkai II offers advanced sea-skimming anti-ship cruise missiles capable of engaging targets at 180 kilometers and an ASW helicopter.

Furthermore, the Chinese Navy has been developing a large number of smaller vessels, including littoral and coastal vessels, gunboats, missile boats, torpedo boats, amphibious craft, and mine warfare ships. These vessels can be used for a variety of missions, both offensively and defensively or in support of larger ships, though many of these vessels are for coastal combat only because of their limited range and size. The dozens of small Houbei-class (Type 022) fast-attack craft, armed with anti-ship cruise missiles and using stealthy catamaran hulls, might prove the most useful. They perform coastal patrol and defense missions, allowing larger ships to extend their operations elsewhere.



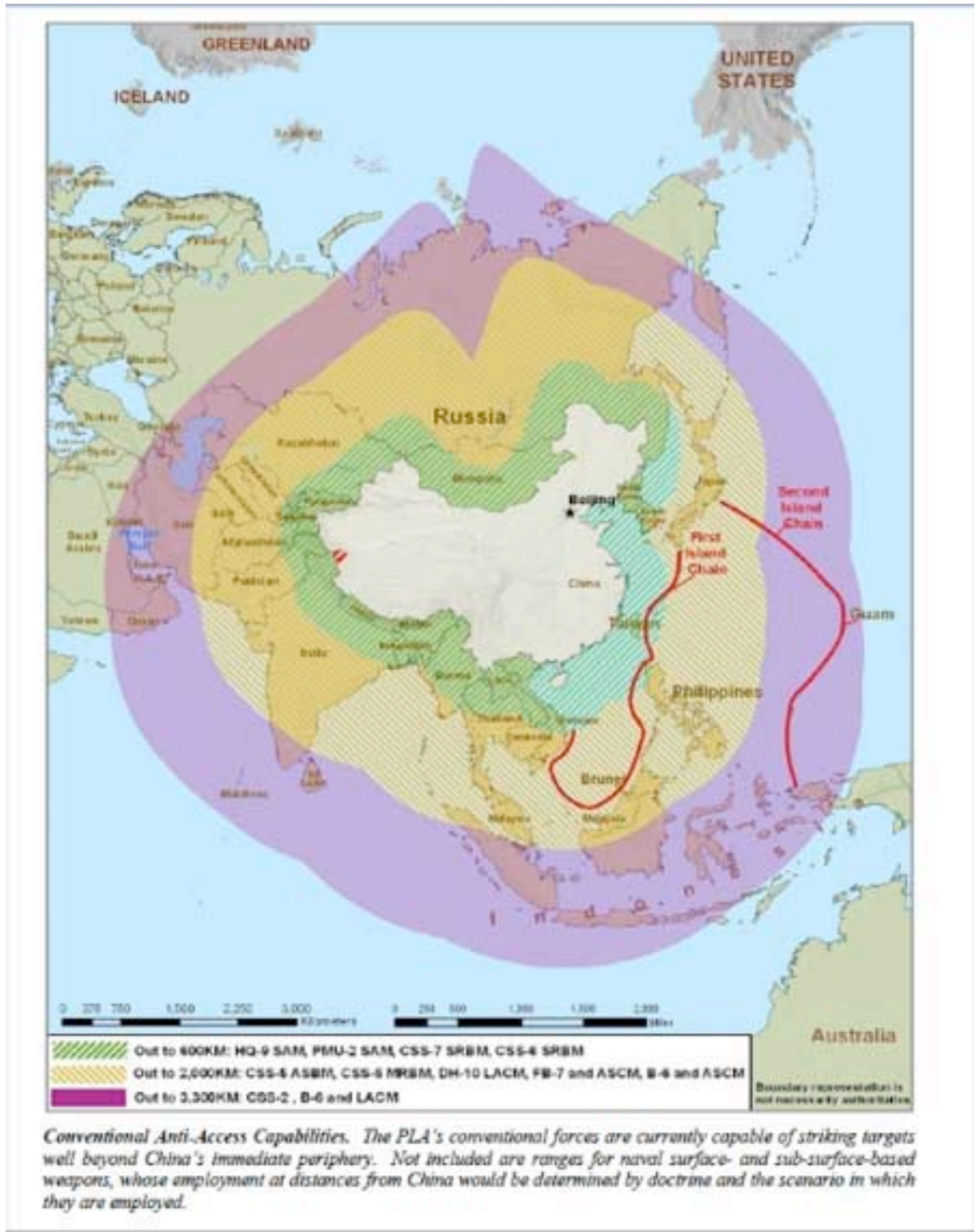
*Houbei-class fast-attack craft (Credit Photo:  
<http://www.sinodefence.com/navy/littoral/type022.asp>)*

These new warships in both the frigate and destroyer classes offer significant improvements over the Navy's designs of the 1970s and 1980s. The roles of these ships, that of air defense and power projection, provide the beginnings of what could become a fleet battle group. Most notably, though, is the absence in the PLAN order of battle of any cruisers or aircraft carriers. It is speculated that, when the PLA-N is comfortable with the

improvements made to these smaller classes of ships, work will start on these vital but more complex elements of a blue-water fleet. The PLAN has already purchased from Ukraine the aircraft carrier Varyag, an uncompleted Soviet-era sloped-deck carrier. The expectation is that the Varyag will serve either as a training vessel or as a model for future carrier development.

The PLAN still lacks the sealift capacity to transfer and sustain a large expeditionary force for an extended period, though it is increasing its capabilities. China has effectively doubled its force of roughly 20 landing ship tanks (LSTs) by additionally building 10 Yuting-II and 10 Yubei-class LSTs from 2003 to 2005, each with a capacity to carry roughly 250 troops. The PLAN also maintains





The potential reach of Chinese weapons (Credit Map: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)

numerous smaller transports that augment the LSTs. In 2006, the Chinese Navy built a larger landing platform dock that can hold up to 800 troops and can provide greater mission flexibility. In total, the PLA-N can amphibiously transport a maximum of 15,000 troops in a single wave. China's airlift capability is comparably modest, with a capacity to transport a maximum of 5,000 parachutists in a single operation.

In addition to its sea-based assets, the PLAN currently encompasses a ground-based air contingent, the PLA Naval Air Force (PLANAF), along with a small Marine Corps. Al-

though Chinese warships have been making impressive gains, the PLAN's air and ground elements have not kept pace. The PLANAF includes hundreds of older J-7E (a Mig-21 variant) and J-8II air superiority fighters along with the H-6D (based on the Soviet Tu-16 Badger), which carries two anti-ship missiles. The effectiveness of these planes against modern air defenses such as those found on U.S. Navy ships is questionable. The planes, weapons, and other technology found in the PLANAF lags considerably behind those of the more generously funded regular PLA Air Force.

Still, the PLA-NAF has received some newer generation Russian fighters purchased by the Chinese government, including Su-30s and Su-27s. The Su-30MK2 variant provided China has some advanced C4ISR capabilities along with a long-range search radar to detect surface ships to engage them with anti-ship missiles. The Su-30MK2 variant is generally compared to the U.S. F-15E fighter, though it still lags behind newer 5th generation aircraft such as the F-22 and F-35. In comparison, the SU-27 originally purchased from Russia was later copied to build a Chinese variant, the Shenyang J-11, which has undergone several modifications and technological improvements from the original Russian version. The J-11 offers improvements in radar and early warning systems, but most of these warplanes have gone to the regular Air Force. Perhaps the newer J-11s could be modified to serve as carrier-launched fighter planes when the PLAN proceeds with its expected aircraft carrier development. Until then, existing doctrine calls for the PLANAF to conduct primarily territorial water defense and fleet air support in those within reach of land-based warplanes.

The PLAN Marine Corps is a small contingent of highly trained troops that serve on China's few amphibious transport dock ships, which are based at the Zhanjiang port attached to the South Sea Fleet. Numbering approximately 12,000 troops, the Marine Corps exists to provide the "first boots on the ground" during any sea based invasion, while also serving as garrison forces for islands under dispute yet controlled by the PRC. The Marine Corps equipment includes amphibious Type 63 and 63A tanks along with a variety of armored personnel carriers. These are all seriously outdated. Barring a significant investment in new equipment and larger numbers, the PLAN Marine Corps will continue to serve primarily as an instrument to garrison remote islands and board and fight pirate ships.



*China's import transit routes/critical chokepoints and proposed/under construction SLOC bypass routes.*

*(Credit Map: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)*

As partial compensation for its weak marine air and ground components—two areas that could be important should Beijing ever try to invade Taiwan—the PLA has developed a powerful strike capability in its large number of long-range missiles. They give the PRC the capacity to deter U.S. support for Taiwan as well as to improve its ability to project military power in Asia. The PLA has positioned more than one thousand short-range ballistic missiles opposite Taiwan to menace the island—periodically reinforcing this stockpile with a smattering of medium-range ballistic missiles and land-attack cruise missiles. The PLAN has also acquired a variety of indigenous and foreign-made anti-ship cruise missiles. Among the most powerful are Russian-made SS-N-22 Sunburn missiles carried aboard China's Sovremenny-class destroyers and SS-N-27 Sizzler missiles found aboard some of China's twelve Kilo-class attack submarines. Of special concern to the U.S. Navy is China's ongoing effort to develop an anti-ship ballistic missile based on the DF-21. With a sought-after range of more than 1,500 km (900 miles), the PLAN's wants to have a missile that would allow the PLA to strike deep into the western Pacific. The missile is also to be equipped with a maneuverable re-entry vehicle that would allow its warhead to target moving ships and a warhead sufficiently powerful to disable or sink an aircraft carrier. One important reason that missile technology is they would help compensate for the inferiority of China's conventional air power in a clash with the United States.

Notwithstanding the rapid modernization of the Chinese military, a significant technological gap continues to exist between the PRC and the United States in almost all important areas of military power. In addition to the continued existence of a disparity between the two nations in terms of air, naval and missile technology, China lags even farther behind the United States in other important areas, such as the capacity to organize joint operations; command and control communications systems; military computers; surveillance and reconnaissance; and precision strikes. The PLA's ability to sustain force at a distance remains limited, which means that China is still a regional rather than a global military power. How long this favorable balance will persist in the face of the PRC's sustained buildup of its military power is anyone's guess.

## THE FUTURE OF POWER PROJECTION: TEMPLATES FOR UNDERSTANDING THE CHINESE CHALLENGE

*By Dr. Robbin Laird*



(Credit image: <http://www.fastcompany.com/magazine/126/special-report-china-in-africa.html>)

Richard Weitz has provided a good look at the most recent Pentagon report on the evolution of Chinese military power. Clearly the new number two economic power, which has significant and growing manufacturing capability, is a force to be reckoned with.



But a difficulty facing American and Western analysts is how to interpret the challenge and ways to cope with or manage it.

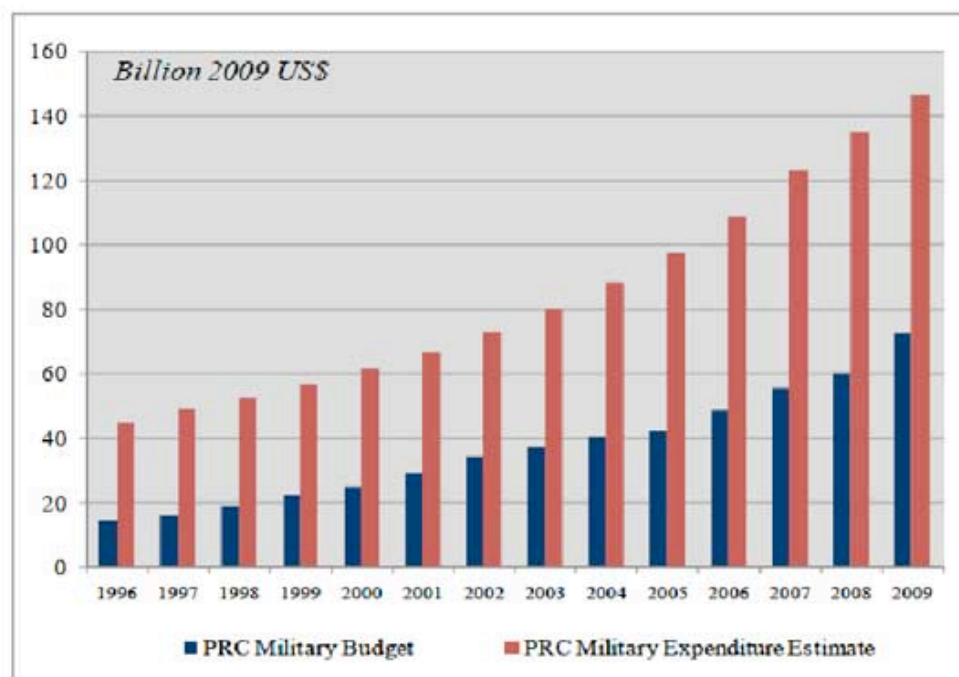
Clearly, a global shift in manufacturing capability towards China, a significant investment by China in global commodities and the enhanced presence of China on the world stage is clearly significant developments. When married to a growing investment in the development and fielding of military capabilities, something globally significant is afoot; of the sort which suggests changing epochs.

This all raises the question of what template or templates to use when dealing with interpreting the ascendant Chinese military challenge?

Many analysts simply compare or contrast the state of Chinese military power to that of the United States. This is seriously flawed because the U.S. built a power projection capability to deal with the Soviet Union and Asian operations, and the sunk cost in this investment still provides for unparalleled global capabilities.

But sunk cost is not the same as making significant investments to build new capabilities. And many analysts confuse past historical capabilities persistent *into the present* with *future realities* shaped by absent investments necessary to shape relevant capabilities for the future.

China does not need to mimic or match U.S. power projection capabilities to become ascendant. They need simply to project power into the Asian region to reshift the power relationships within Asia.



*China's Annual Real GDP and Military Budget Growth, 2000 - 2009.*

*(Credit graph: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)*

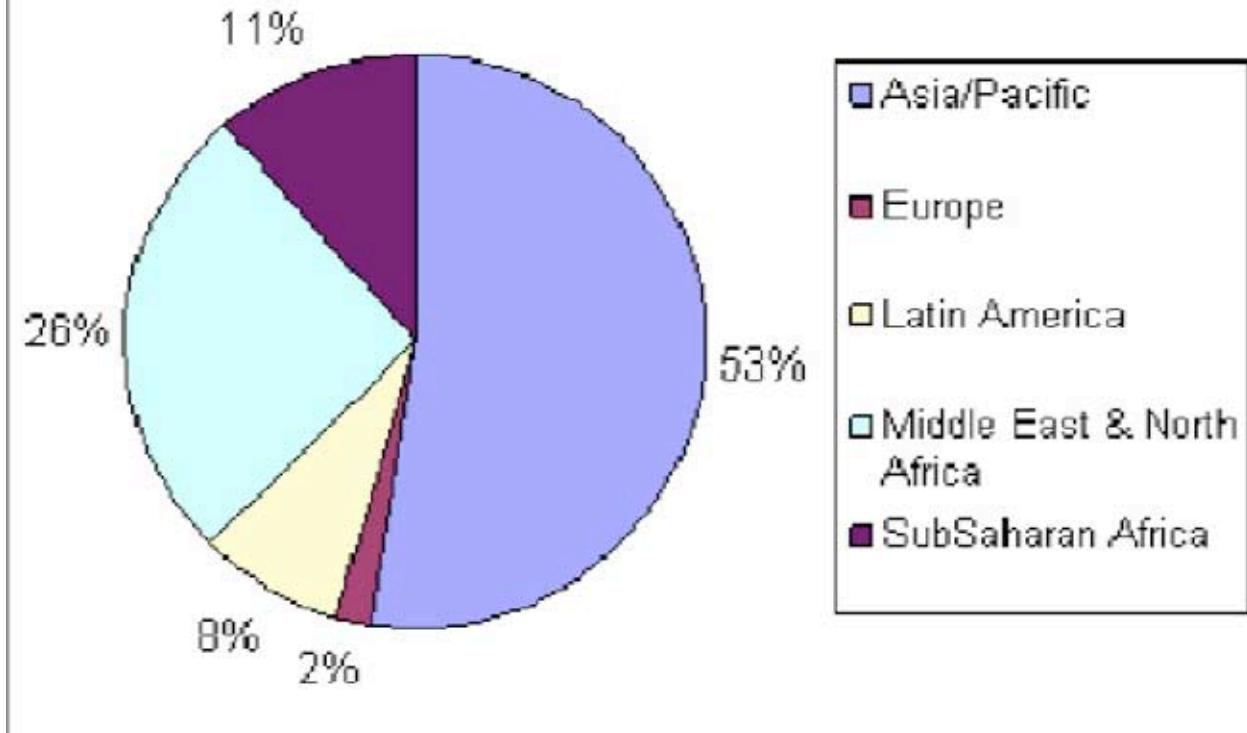


*The First and Second Island Chains. PRC military theorists conceive of two island "chains" as forming a geographic basis for China's maritime defensive perimeter.*

*(Credit map: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)*

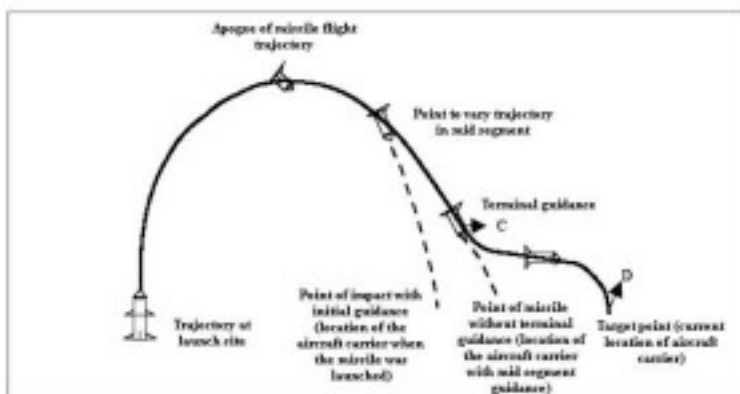


## China's Worldwide Arms Sales 2005-09



(Credit graph: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)

The U.S. has been the *key lynchpin* holding together the Asian powers, which de facto contain China. An ability to threaten the lynchpin function is almost enough *by itself* to create the effect which the



Missile Flight Trajectory with Terminal Guidance. This graphic of an anti-ship ballistic missile's use of mid-course and terminal guidance to strike an aircraft carrier appeared in a 2006 article from the Second Artillery Engineering College.

Missile Flight Trajectory (Credit image: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)

Chinese leadership would wish to create – Asian powers competing with one another without the binding power of the American lynchpin. This leaves them open to Chinese hard power being married to the ascendant soft power of China in the region.

The capabilities which the Chinese are emphasizing – notably air and missile systems – are eminently exportable. By having a first class missile business a decade out, the Chinese can change regional power balances by export policy only incidentally supported by the power projection capability necessary to dominate in far away regions.

Also, the Chinese are enhancing their Coast Guard capabilities to shape their role in securing the conveyor belt of goods and services. They have entered the world in the fight against piracy and are participating with Coast Guard or Navy ships and assets far away from Chinese waters.

Additionally, the tool sets of no interest for Western or U.S. forces to acquire, such as mini submarines, are of interest to the Chinese. They have a distinct interest to invest in “asymmetric” technologies to shape disruptive capabilities to U.S. and allied forces.

For example, the Chinese recently used a mini sub to project power. According to [Reuters](#): *China said on Thursday it had used a small, manned submarine to plant the national flag deep beneath the South China Sea, where Beijing has tussled with Washington and Southeast Asian nations over territorial disputes.*

*The submarine achieved the feat during 17 dives from May to July, when it went as deep as 3,759 meters (12,330 ft) below the South China Sea, the official China News Service said, citing the Ministry of Science and Technology and State Oceanic Administration.*

The largest Coast Guard fleet in Asia belongs to Japan, but the Chinese are expanding their fleet. Americans often forget the significance of global USCG activities and with the USN entering into some traditional domains operated by the USCG with its littoral assets, the role of Coast Guard activities as part of the global presence activity will grow in significance. This is especially due to the role of



Chinese Deployment to Conduct International Counter-Piracy Operations (Credit photo: <http://news.bbc.co.uk/2/hi/asia-pacific/8486502.stm>)

global maritime trade, the need to protect the “conveyer belt of goods” and the expanded significance of offshore minerals and commodities. Presence is a key good for power projection in the 21st century, even if this presence is playing “civil” functions.

In other words, the Chinese can invest in technologies for global export, for enhanced “asymmetric” capabilities, and anti-access denial and it is enough to degrade declining numbers of U.S. forces.

Indeed, unless the U.S. shapes innovative joint con-ops and invests in new technologies leveraging some of the core new capabilities, such as the fifth generation fighters, the ability to deter will go up for the Chinese simply by enhancing degradation of U.S. capabilities. Again, the lynchpin function for the United States is central to its Asian role.

## U.S., CHINA AND TRADE DYNAMICS

***By Dr. Harald Malmgren***

Resurgence in economic nationalism and protectionism is unfolding in the US. President Obama’s bold promise to “double US exports in the next five years” has raised many eyebrows, as questions multiply about how this might be achieved.

In the meantime, recent Obama Administration statements have emphasized commitment to more aggressive enforcement of existing trade agreements. The USTR (United States Trade Representative) has for several decades been the primary Executive Branch proponent of more liberal trade policies and continued multilateral trade liberalization.



(Credit image: <http://trendsupdates.com/china>'s-exceeds-expectation-as-economy-expands-by-8-8/)

Under President Obama, the USTR and other cabinet officers have instead argued for priority attention to implementation of import restrictions, through revised interpretation and regulation of antidumping and countervailing duty actions and other restrictions on cross-border flows. While it is argued that this is simply a matter of “enforcement” of existing law, the reality is that interpretations of existing law and appropriate remedial actions are being altered to ensure greater restriction on imports.

In this area of law governing “unfair trade practices,” there has long been broad room for discretion in applying remedial action. Exercise of such discretion to bring about limitations on imports has varied significantly over recent decades, but under the current Administration has become far more protectionist in intent.

There has recently been a resumption of Presidential interest in the long-pending South Korea-US FTA, under pressure from US exporters. However, the Administration still seems to be unable to function without acquiescence of industrial unions that argue that they are affected. Until 1967, American unions, including the industrial unions, supported more open international trade. Since then, industrial unions opposed trade liberalization agreements.

Since the 1960’s, all Presidents have nonetheless politically overridden union opposition and continued to seek international agreements to liberalize trade. In the last five decades, in spite of domestic political opposition driven by industrial unions, the Congress continued to give approval of multilateral trade agreements that were endorsed by Presidents.

Now, in a period of extended economic slump and high unemployment, the current President has been unusually responsive to pressures from industrial unions to avoid new international commitments and instead focus Administration attention on import restriction.

In this context, President Obama has gone along with G-20 commitments to seek success in another round of negotiations to liberalize trade in the WTO, but in practice his Administration has given virtually no attention to the WTO. Rather, trade policy has been relegated to the bottom of a very long list of priorities, most of which are determined by domestic priorities.

The most important political driver behind enhanced import restrictions has been US domestic political attention on China. There has always been some Congressional emphasis on assigning blame for domestic problems on foreign governments and businesses.

Assisting US businesses or economic segments usually requires government funding. If restricting imports can provide assistance, politicians know that the domestic cost will be spread thinly among all voters without meaningful opposition, whereas the primary cost will be imposed on foreigners, and “foreigners don’t vote.”

In the 1980’s the principal cause of trouble was believed to be Japan, giving rise to a period known in Congress as “Japan bashing.” At present, China is politically perceived as the principal challenge to American competitiveness, and “China bashing” is in fashion.

A core issue underlying the anti-China political sentiment is a perception that the exchange rate between the Chinese Yuan and the US dollar is set by Chinese authorities to provide “unfair” competitive advantage. Alongside this politically potent argument are other issues: The Chinese laws regarding protection of intellectual property are weak and fail to deter or penalize Chinese “theft” of American product and production technologies and replication of American branded products. Chinese treatments of US enterprises operating in the Chinese market are discriminatory.

However valid these and other complaints might be, the strategies of world-diversified corporations in dealing with China are changing.

First, many multinational enterprises have found that wages in the Chinese export sector have risen sufficiently to reduce the apparent competitive advantage of China for sourcing parts, components and final products for consumption in the US and Europe.

Second, recent problems in labor relations between foreign corporations and Chinese unions have reduced Chinese attractiveness as a hub for supply chain production.

Third, it is extremely difficult to maintain international quality control standards in Chinese production facilities. Multinational companies are increasingly mindful of the need



to maintain quality standards in order to avoid product recalls and damaging consumer responses to faulty or toxic imports from China.

Fourth, there is little advantage to deploying advanced technology in China as it is likely to be copied and replicated by Chinese competitors, and there is no advantage in undertaking research in China as intellectual property will be pirated.

*A common conclusion is that producing inside China for Chinese consumers makes sense, but that using Chinese labor and facilities to produce for sales to more advanced economies is increasingly less attractive.*



(Credit graph:

<http://www.mbablogs.businessweek.com/Daveforce/archive/2009/02/16/1g6u6she5cx9a.htm>)

Thus, the Congressional focus of attention on imports from China as a cause of job outsourcing from the US is becoming obsolete. As for the exchange rate, the Chinese manipulation of its exchange rate was closely interlinked with Chinese reliance on exports as the primary engine of growth. Since the collapse of world trade in the second half of 2008, this export engine faltered.

The Chinese leadership recognizes the need to boost domestic consumption and reduce reliance on exports to drive GDP growth, but making the transition from almost complete dependence on exports to greater economic diversification will take several years. In the interim, the industrial export sector has suffered and labor displacement inside China has been substantial.



Table 1 *Composition of the Chinese Fiscal Stimulus Package*, in billion Yuan and %

Item of spending	Amount to be spent (in billion Yuan)	Share in total amount (%)
Major Infrastructure	1500	37.5
Post-Quake Reconstruction	1000	25
Low Income Housing	400	10
Rural Development	370	9.3
Industry and Technology	370	9.3
Environment	280	5.3
Health, Education and Culture	150	3.8
<b>TOTAL SPENDING</b>	<b>4000</b>	<b>100.0</b>

Source: Compiled from <http://blogs.wsj.com>.

The Chinese Fiscal Stimulus Package (Credit table: <http://www.tiss.edu/announcements/attachments/res-brief-china.pdf>)

Government fiscal stimulus and an extraordinary level of Chinese bank lending mandated by the government have kept Chinese growth going since the collapse of exports in late 2008. One consequence has been overflow of extraordinary lending into many other economic sectors, including investments in Chinese real estate, commodity stockpiling, expansion of industrial capacity, investments in credit derivatives, and other “bubbles.”

Now, as world growth slows, the dependence of the Chinese economy on external drivers is resulting in economic slowdown. Given the huge artificial stimulus measures of last year, the Chinese government finds its policy responses to global slowdown limited by domestic bubbles.

As growth slowed, Chinese exports to the US have become less vital as Europe has replaced the US as number one buyer for Chinese exports. Weakening of the Euro hurt competitiveness, especially when the Yuan was pegged to the dollar. With export demand still weak, there is minimal incentive for China to encourage rise in the dollar exchange rate and strong incentive to discourage Euro weakening. “China bashing” in Congress now may have diminishing impact on US jobs, and instead generate other, undesirable tensions with China.



## EU-China trade

- \* Bilateral trade in goods was €296 billion and €31 billion in services in 2009.
- \* Europe's imports from China grew by 16.5% on average per year during 2004-2008. This growth rate reversed in 2009 with a 13% drop recorded due to the crisis. Nevertheless, the EU still imported €215 billion worth of goods in 2009 from China. China thus remains Europe's biggest source of manufactured imports.
- \* China is Europe's fastest growing export market. Europe exported €81.7 billion worth of goods to China in 2009 - up by 4% compared to 2008.
- \* Exports from the EU to China grew by approximately 60% or €30 billion between 2005 and 2009. Through better market access, European exporters should be well placed to sell more of their quality products on the rapidly expanding Chinese consumer market.
- \* Europe runs a surplus on trade in services with China of €5.0 billion in 2009 (up from €4.9 billion in 2008). This is about 27 times smaller than its trade deficit for goods.
- \* Europe's total trade deficit (including services) in 2009 was €128 billion euros. The trade deficit is focussed in office and telecom equipment, textiles, and iron and steel. The trade deficit reflects a huge shift within the economies of Asia to focus production in China. Although imports from China have surged, to the detriment of developing Asia and notably Japan, Asia's share of total EU imports has remained rather stable over the last decade. But the deficit still reflects the considerable problems EU businesses have accessing the Chinese market.

# MILITARY DIPLOMACY WITH CHINA: CAN HOPE TRIUMPH OVER EXPERIENCE?



(Credit photo: The Hudson Institute)

**By [Dr. Richard Weitz](#)**

Another theme in this year's DoD report on the Chinese military is its appeal to China to make its military programs and objectives considerably more transparent by disclosing more data and engaging in more comprehensive military exchanges with the U.S. armed forces. Although acknowledging "modest improvements" in this area in recent year, the authors caution that, "The limited transparency in China's military and security affairs enhances uncertainty and increases the potential for misunderstanding and miscalculation."

Conversely, they argue that, "Sustained and reliable U.S.-China military-to-military relations support this goal [of avoiding an adversarial relationship]" by reducing mistrust, enhancing mutual understanding and broadening cooperation." *Unfortunately, the report confirms that, "China's recurring decision to suspend military exchanges has impeded this effort."*

Despite the vigorous efforts of several different U.S. administrations since 1990, little progress has been achieved in the military dialogue between the United States and the PRC during the past two decades. Since the early 1990s, the two defense communities have negotiated a series of bilateral security and confidence-building measures seeking to reduce mutual tensions and advance common interests. These agreements have promoted a better understanding of the other side's security concerns, but they remain highly constrained and vulnerable to disruption from external shocks.

The two governments still fundamentally disagree regarding how to manage military relations in ways that eschew these acute confrontations. Incidents between PRC and U.S. military units operating in the international waters and airspace near China have repeatedly disrupted their bilateral relations. In addition, the PRC frequently suspends Sino-American defense ties due to disputes over Taiwan and other issues, making clear how little Beijing values the relationship between the People's Liberation Army (PLA) and the Pentagon.



South China Sea as Area of Competition (Credit map: [http://www.abanet.org/intlaw/committees/industries/energy\\_natural\\_resources/schina.pdf](http://www.abanet.org/intlaw/committees/industries/energy_natural_resources/schina.pdf))

Several factors have impeded the development of Sino-American defense ties:

- The contentious territorial and sovereignty issues have led to recurring PRC-U.S. military confrontations.
- Although Chinese and American leaders have long differed over the legitimate extent of Beijing's control over its EEZ and the South China Sea, the main dispute centers on Taiwan, where the DoD and U.S. arms sales to the Taiwanese government have become the main obstacles to any PLA military occupation of the island. (See [sinodefence.com's coverage](http://sinodefence.com) of the East China Sea)

- These specific territorial-cum-sovereignty disputes have reinforced the often contentious nature of PRC-U.S. political relations, which reflects deep differences between Chinese and American leaders over values as well as their competition for influence in East Asia. The resulting conflicts and mutual suspicions have provided an unfavorable environment for flourishing defense relations.
- China's inferior military capabilities with respect to the United States lead PRC policy makers to conceal information that could provide the DoD with insights into the PLA's vulnerabilities.
- As a rising military power, the Chinese government does not want to codify existing disparities in force capacities or military operating patterns that currently favor the United States.
- Influenced by a strategic tradition that emphasizes deception, many PLA strategists believe that opaqueness assists in deterring potential adversaries by complicating their defense planning.
- PRC policymakers want to obscure the full extent of their military buildup.

The absence of a robust relationship between the Chinese and American militaries is indeed disturbing since the PLA has expanded its level of external engagement considerably in recent years. The December 2008 decision to send a naval task force to assist with the multinational counter-piracy mission off Somalia's coast has established a precedent for further Chinese military operations at great distances from the PRC.

More occasions are likely to arise when Chinese and American ships and other military units operate in close proximity. The PLA's growing global presence increases the risks of further Chinese-American military incidents, whether due to accidents, miscalculation, or other causes.





Figure 2. The First and Second Island Chains. PRC military theorists conceive of two island “chains” as forming a geographic basis for China’s maritime defensive perimeter.

*(Credit map: 2010 Annual Report to Congress on Military and Security Developments Involving the People’s Republic of China)*

As long as Beijing insists on reestablishing control over Taiwan, the Taiwanese people insist on their right to exercise their hard-won democratic liberties independent of the mainland’s Communist government, and Washington insists on its obligation to provide Taiwan with weapons to resist a PLA military invasion, the Taiwan situation will remain an insuperable obstacle to better PLA-Pentagon ties.

This Taiwan triangle almost obliges the People’s Liberation Army and the U.S. Department of Defense to perceive one another as potential military adversaries. In the Pentagon’s assessment, the PLA’s modernization drive is shifting the military balance between the mainland and Taiwan further in the PRC’s favor.

Although tensions between Beijing and Taipei have decreased following the March 2008 election of a new Taiwanese government led by President Ma Ying-jeou more committed to improving cross-Strait relations, the PLA is still seeking through its military build-up to deter Taiwan from declaring independence as well as to acquire the means to coerce Taipei into accepting Beijing’s terms for the resolution of any cross-Strait dispute. To this end, the PLA is pursuing capabilities to defeat Taiwan in any military confronta-

tion as well as to “deter, delay, or deny” potential American military intervention on Taipei’s behalf.



**Figure 7. Taiwan Strait SAM coverage.** *This map depicts notional coverage based on the range of the Russian-designed S-300PMU2 system equipped with the SA-20 SAM. Actual coverage would be non-contiguous and dependent upon precise deployment sites.*

(Credit map: 2010 Annual Report to Congress on Military and Security Developments Involving the People's Republic of China)

PRC leaders have become increasingly interested in ensuring China's access to the offshore undersea resources situated near the PRC but beyond the country's traditionally defined territorial waters. For example, they want to secure access to offshore fisheries and the oil and gas deposits located on China's continental shelf.

The PRC government has exerted various types of sovereignty claims over the seabed, seas, and airspace of within its Exclusive Economic Zone (EEZ). The extent of China's sovereignty claims over its EEZ differs from internationally accepted standards. According to one calculation, one-third of all the world's commercial shipping traverses waters that Chinese policy makers claim belong to them.

China's assertive claims have led to conflicts with the U.S. military directly as well as the PRC's neighbors. Chinese officials have sought to exclude the U.S. Navy from conducting surveillance operations within its EEZ, contrary to common interpretations of the international law. In contrast, the United States and other states hold that defense surveillance missions are permissible within EEZs as long as they remain outside a country's territorial waters and do not aim to exploit the undersea natural resources located there. These conflicting interpretations contributed to the EP-3 collision in 2001 and the Impeccable incident in March 2009.

Beyond these concrete territorial issues, the underlying climate of ties between China and the United States has exerted the most significant impact on progress in developing bilateral military confidence-building measures. Repeatedly, adverse political-military developments have derailed PLA-Pentagon military-to-military ties and impeded both the consolidation of existing confidence-building measures and the development of new ones.

For the Chinese, curtailing defense exchanges has been a favored way of signaling displeasure with some development in the overall PRC-U.S. relationship. Whenever Beijing has been angered by some U.S. action, the PRC suspends defense ties with Washington.

U.S. objections to PLA behavior have also disrupted military exchanges. The Tiananmen crackdown of June 4, 1989, when Chinese troops forcibly repressed peaceful democracy activists in Beijing, resulted in the George H. W. Bush administration's suspending military contracts and defense technology transfers. A decade later, members of Congress demonstrated their alarm about alleged PRC espionage in the United States by imposing restrictions on Chinese-U.S. defense contacts that could lead to inappropriate PLA access to an itemized list of advanced U.S. military capabilities.

Accidents—which ironically might have been prevented had the bilateral defense relationship been stronger—also have disrupted PLA-Pentagon exchanges. The mistaken U.S. bombing of the PRC Embassy in Belgrade in May 1999, which killed three people and wounded more than twenty, led the Chinese government to drastically curtail mili-

tary contacts. Similarly, the April 2001 crisis resulting from the collision between a U.S. Navy EP-3 reconnaissance aircraft and a Chinese warplane near China's Hainan Island discouraged the new Bush administration from attempting to reinvigorate military ties.

Another reason for the poor state of Sino-American relations has been the underlying mistrust and competition over power and values between China and the United States. The fragility of relations between the PLA and the DoD are endemic of the deeper suspicions that shape the perspectives of each government toward the other.

Since at least Tiananmen, influential PRC leaders have feared that, whatever their declarations of practical intent, U.S. officials would like to change the PRC's communist regime. Chinese leaders argue that, as long as Americans view the PRC as an adversary or strategic competitor, defense ties cannot develop significantly between the two countries.

Suspicious about the other side's intentions also affected the U.S. approach toward PLA-Pentagon ties. Some Americans express concerns that the Chinese were using military exchanges to acquire U.S. defense secrets or, at a minimum, would exploit any knowledge they gained to enhance their military strength vis-à-vis the United States and its allies (especially Taiwan).

Chinese strategists also adhere to a strategic tradition that lauds deception as a means to confuse potential opponents and promote deterrence through uncertainty rather than by robust displays of military capacity. In addition, PLA leaders fear that improved defense transparency could provide U.S. military intelligence with revealing insights into the PLA's defense vulnerabilities. Concealing China's military assets and plans complicates foreign military efforts to identify potential PRC military targets or respond effectively to the PLA's programs and strategies.

Unfortunately, not only does the PLA's penchant for secrecy increase the risks misunderstanding and miscalculation, these uncertainties could also mislead China's political leaders regarding their country's real military capabilities and problems. For example, they might mistakenly consider new systems as fully operational and integrated into China's military arsenal. In addition, defense managers could use the lack of transparency to conceal inadequacies within their units.

More generally, the PLA's lack of openness alarms China's neighbors, which encourages them to respond to their worst possible interpretations regarding the PLA's capabilities and intentions by strengthening their own military capabilities. If this occurs and provokes a reciprocal response from the PRC, East Asia could experience avoidable negative security spirals and regional arms races.

PLA leaders perceive that they have little incentive to reciprocate U.S. openness:

- They likely presume that increased mutual defense transparency would disproportionately benefit the United States and other possible adversaries.

- The DoD is already very transparent to outsiders about its policies and programs due to the demands of the U.S. Congress, the vigorous American news media, the U.S. practice of displaying military strength to deter challenges, and other factors.
- In one area where the PRC would benefit more from military-to-military ties, technology transfers, the U.S. side has enacted restrictions, such as those in the FY2000 Defense Authorization Act, which limit the possible benefits to the PLA of increased engagement. It is likely that PRC cyber spies and other espionage operations are capturing some of these items already.
- In addition, as the weaker military party, PLA leaders aim to rely on strategic and technological stealth and surprise to negate the conventional superiority of the U.S. military in any direct armed conflict.
- Finally, the unshakable commitment of U.S. administration to selling arms to Taiwan makes evident that the PLA could not hope to discourage future U.S. weapons transfers to Taipei through better ties with the DoD. Yet, they might well hope that shifting strategic relationships might lead to such an outcome regardless of the state of PRC-U.S. defense ties.

Solving the reciprocity problem will require overcoming many of these underlying factors that prompt the PLA to limit what it conscientiously shows and tells the Pentagon.

## AMERICAN MILITARY BEGINS TO CONTEMPLATE THE IMPACT OF AMERICA'S DEINDUSTRIALIZATION

**By Richard McCormack**

# MANUFACTURING & TECHNOLOGY NEWS

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The U.S. military is starting to consider how China's economic growth and the corresponding loss of important American high-tech industries might impact future national security. The Project on National Security Reform run by U.S. Army War College's Strategic Studies Institute, an independent academic group, has put together a "Vision Working Group" that is assessing various future possible military scenarios including how to deal with a more aggressive China if the United States does not have much left of an industrial base.



“Weaknesses in our defense industrial base supply chain, dependency on third-party vendors, continual disregard for the Berry Amendment, and lack of foresight regarding the interplay between the global economy and national security are the root causes” of a potential U.S. “failure,” according to the assessment, which notes that its views do not reflect the official policy or position of the U.S. government, the Army or the Department of Defense.

The U.S. government does not do an adequate job of assessing the national security implications of China’s rise, notes the Strategic Studies Institute in its “Vision Working Group Report and Scenarios.” “Nowhere in the U.S. government will one find personnel dedicated exclusively to developing overarching strategy with a long-term view. It is imperative to remedy this deficiency in order to avoid disastrous consequences, and reduce risks — both potential and real.”

It is not hard to imagine China exerting its increasingly high-tech and capable military muscle against the United States. Such a scenario “is not a product of fantasy or prediction, but rather of practical reasoning and logical deduction,” says the Vision Working Group’s report. “To be sure, the framework required for disaster [if] this scenario [is] to unfold is largely already set.”



*The military uses of nanotechnology are just part of China’s massive program of research and development. (Credit Photo: AFP/Getty Images*

<http://www.guardian.co.uk/technology/2009/mar/26/nanotechnology-china>

The Chinese have already “infiltrated” much of the U.S. industrial base by targeting automotive, aerospace, metals and electronics, according to the assessment. The U.S. military has further enabled China by insisting on purchasing “off the shelf ” commercial technologies that are now made in China, and through the near elimination of MILSPEC requirements. “These changes have caused some concerned individuals within industry,



government and the Pentagon to derisively call the changing state of affairs in terms of weapons systems development and procurement, along with acquisition support materiel, 'the Wal-Mart Military,' " according to the vision report. "Economy and competitiveness, not security and performance, are the overarching parameters of DOD supplier participation."

National security vulnerabilities "are literally being built into our offensive, defensive, and detection systems," says the study. "A veritable Pandora's box of systems security compromises was thrust open due to a gradual reduction in standards and shortsightedness by too many within industry and government. . . It is only a matter of when — not if — disaster will occur."

The Chinese are actively engaged in acquiring the most advanced military technologies through commercial operations in the United States, and the lack of U.S. federal government oversight of Chinese business acquisitions. "We know from interactions with Chinese representatives, industry spokesmen, and government and military personnel that specific strategies are in place to gain control of various elements of the U.S. industrial and defense industrial bases," says the study. The Chinese are purchasing high-tech U.S. suppliers that are under financial stress. They are also providing financial assistance to U.S. companies that are in need of cash "until they work their problems out," according to the Vision Working Group. Such partnerships provide the Chinese with cover from charges of industrial espionage and copyright laws.

The Chinese are able to gain access to important technologies. . . . U.S. defense contractors have no transparency within their supply chains, the study notes. The Pentagon does not know which components in military systems are made overseas.

Furthermore, the Chinese control of global shipping puts the United States in a dependent and precarious position, with the potential for "economic chaos in the United States and its surge capability," which could "disappear." The United States, says the vision document, "needs a plan to 'win' the war, economically, diplomatically, politically and militarily with China and other emerging powers."

The Vision Working Group recommends the creation of a new Center for Strategic Analysis and Assessment that would reside within the Executive Office of the President. "Fragments of such a system exist in various parts of the federal government," writes Leon Fuerth, from the Project on Forward Engagement.

"But no single system exists for the application of foresight to governance as a whole." The center would provide policymakers with "foresight and awareness of the path we are on, of the consequences of our decisions and of the major challenges that await us. Doing this involves, in part, the continuous development and exploration of future scenarios to enhance our preparedness and improve our chances of success. . . . If this goal is to be achieved, the United States will move from merely reacting to emergencies to pre-empting them, from responding to threats to seizing opportunities. . . . Failure to act could mean that the nation is caught off guard by emerging threats, unable to see them

until they have become imminent and, perhaps, intractable problems. In the worst case, the country could suffer what has been described as a synchronous failure, wherein the adaptive capacity of government and society is overwhelmed by the convergence of diverse and interacting stresses, resulting in a breakdown of institutional and social order.”