中国简报 China Brief
a journal of analysis and information
The JAMESTOWN FOUNDATION

Volume X • Issue 7 • April 1, 2010

IN THIS ISSUE:

Google vs. Beijing

China Brief is a bi-weekly journal of information and analysis covering Greater China in Eurasia.

China Brief is a publication of The Jamestown Foundation, a private non-profit organization based in Washington D.C. and is edited by L.C. Russell Hsiao.

For comments or questions about *China Brief*, please contact us at pubs@jamestown.org

1111 16th St. NW, Suite #320
Washington, DC 20036
Tel: (202) 483-8888
Fax: (202) 483-8337

In a Fortnight

China-Taiwan Up Missile Ante

By L.C. Russell Hsiao

In spite of thawing ties along the Taiwan Strait, Beijing is reportedly deploying more sophisticated missile systems in the coastal province across Taiwan. The director of Taiwan's National Security Bureau (NSB)—the island's principle intelligence agency—confirmed independent reports at a legislative hearing that China has deployed eight battalions of advanced S-300PMU2 long-range surface-to-air missiles in Fuqing county in Fujian province's Longtian Military Airbase. According to NSB Chief Tsai Der-sheng, "It is impossible to deny that Beijing still sees military intimidation as an effective tool in preventing Taiwan from moving toward [de jure] independence," adding that the number of missiles targeting the island has climbed to nearly 1,400 (Taiwan Today, March 18).

According to Tsai, the Taiwanese military obtained intelligence about the new Chinese missiles two years ago even before the beginning of cross-Strait direct flights, which serves as the first milestone of cross-Strait rapprochement under the Ma Ying-jeou administration. Tsai's statement can be seen as an effort to downplay the news that sparked an uproar from the opposition-Democratic Progressive Party (DPP) in Taiwan's parliament, which has been critical of the current Ma administration's "pro-China" policy (Xinhua News Agency, March 30).

Following reports about this and other recent Chinese missile installations (e.g. Shandong in Northeastern China), a Taiwanese-weekly magazine, *Next Weekly*, revealed that the Taiwanese military plans to test its indigenously designed Hsiung Feng (Brave Wind) IIE surface-to-surface cruise missile in June and produce 80 units by the end of the year. This missile, with a range of 800 kilometers (497 miles), is capable of striking targets along coastal provinces within China (*Next Weekly* [Taiwan], March; *China Times* [Taiwan], March 23). In response to questions concerning the reported June test, Taiwan's Deputy Defense Minister Andrew Yang neither confirmed nor denied the report, instead stating: "We [Taiwan] have the capacity to develop high-tech missiles. He added, "Research is an ongoing process. We need to consolidate our indigenous defense abilities and missiles are part of it". Further, Yang believed that developing cruise and surface-to-surface missiles was "a step in the right direction" (*Liberty Times* [Taiwan], March 30; Reuters, March 30).

According to *China Times*, in October 2007, Taiwan successfully test-fired a Hsiung Feng IIE missile, a land attack cruise missile variant with a range of 600 kilometers (373 miles), which was reportedly being deployed on a small scale (*China Times*, September 1, 2008). The same report claimed that Taiwan also successfully test-fired an advanced Hsiung Feng missile with a range of 800 kilometers in January 2008, which is believed to be another variant of Hsiung Feng IIE that at the time had not reached mass production stage (*Ta Kung Pao* [Hong Kong], September 1, 2008).

The Beijing authorities' refusal to renounce the use of force, despite President Ma's conciliatory overture since the Kuomingtang's (KMT) landslide electoral victory in 2008 (a lead that has been ebbing with each by-election), has largely kept military relations between the two sides on ice. According to NSB Chief Tsai, "[Taiwan's] intelligence indicates that Beijing has conducted a risk-benefit assessment of removing the missiles targeting Taiwan, but not surprisingly, policy on this issue is still yet to surface." He continued, "regardless, even if the fixed-base missiles are withdrawn, mobile launchers can be positioned any time to pose a potential threat" (Taiwan Today, March 18). Tsai's statements underscore one of the many concerns that Taiwan's military have identified over engaging in cross-Strait confidence building measures with China. Moreover, at the legislative hearing where Tsai delivered a NSB report, KMT Legislator Chang Hsien-yao pointed out that China had not relaxed its military preparedness against Taiwan. Chang noted that China had conducted 31 military drills and exercises in 2009, 74 percent of which involved scenarios targeting Taiwan (Taiwan Today, March 18).

According to Tsai, the Russian-made S-300PMU2 deployed along the Fujian coastline is designed to counter U.S. and Indian ballistic missiles and should not be seen as an offensive threat (Taiwan Today, March 18; Radio Taiwan International, March 17). Yet, the S-300PMU2 long-range surface-to-air missiles have a range of 200 km, so Taiwanese fighters entering airspace in the northern Taiwan Strait could be susceptible to its attack.

As China continues its acquisition, development and deployment of new ballistic and cruise missile systems, the region appears to be slowly edging toward a missile race as China's neighbors equip themselves with both offensive and defensive systems to hedge against Beijing's growing array of strategic weapons. Current developments in Taiwan appear to follow the policy reversal set in motion at the onset of the Ma administration, which discontinued any additional research in developing anti-ship missiles or surface-to-surface missiles that have a range beyond 1000 kilometers (621 miles) (See "Amid Warming Ties Taiwan Scraps Plans for Developing Long Range Cruise Missiles," *China Brief*, September 3, 2008). Yet, in light of a lack of reciprocal response in China's missile deployments across the Taiwan Strait, which has in fact increased in the past couple of years, the balance of power between the two sides is rapidly changing. Deputy Minister Yang's open-ended response about Taiwan's missile ambitions raises the question about the Ma administration's policy toward future missile developments.

L.C. Russell Hsiao is Associate Editor of The Jamestown Foundation's China Brief.

***

China's Ecological Woes: Drought and Water Wars?

By Willy Lam

Are there policy and administrative failures behind the unprecedentedly severe drought that is devastating China's southwestern provinces? The same question is being asked about the unusually ferocious sandstorm that blanketed northern and eastern China last week. The country's ecological degradation has had dire global consequences. Dry conditions in Yunnan—a province through which the upper reaches of the Mekong river flow—have been blamed for the depletion of the once-mighty waterway that serves as a lifeline for 65 million residents in the downstream nations of Thailand, Laos, Cambodia and Vietnam. And as sand and dust particles from northern China spray across Taiwan, South Korea and Japan, unless the Chinese government can reassure its neighbors that it is taking effective measures to improve the environment, the "China threat" theory could assume a chilling new dimension.

Drought in the five southwestern regions of Yunnan, Guizhou, Guangxi, Sichuan and Chongqing has affected the livelihood of more than 50 million farmers. Crop and livestock losses have exceeded 24 billion yuan ($3.51 billion). Twenty-three million people are reportedly running out of drinking water. In the worst hit regions of Yunnan and Guizhou, each resident is rationed a mere 7.5 kg of water a day. There are also signs the arid conditions are spreading to Hunan, Guangdong and other central and eastern provinces (Xinhua News Agency, March 26; *Guangzhou Daily*, March 23). So far, the Chinese Communist Party (CCP) administration has sought to reassure the public on several fronts.

Firstly, meteorological officials have insisted that the drought is solely caused by unusual weather patterns including global warming and the El Nino effect. Last week, the People's Liberation Army (PLA) joined water-conservancy and disaster relief departments in providing aid to the victims. Moreover, while the drought has affected some 111 million *mu* (7.4 million hectares) of land, this represents only 6 percent of China's total arable acreage. The National Development and Reform Commission (NDRC) reiterated that food shortages would be limited—and unlikely to raise the inflation rate significantly (Xinhua News Service, March 25; *People's Daily*, March 24).

Independent experts as well as commentators in relatively outspoken media, however, have zeroed in on so-called "man-made disasters" behind this natural catastrophe. A series of policy errors has, for the past two decades, upset the delicate ecological balance in southwest China, which until the 1980s boasted some of China's lushest forests and richest bio-diversity. Well-known water researcher Ma Jun believes that "man-made factors have contributed to the drought...for example, deforestation has caused serious soil erosion and pollution has destroyed limited clean water resources" [1]. Environmentalists have decried how, in response to rising energy prices, politically well-connected state-run corporations have scrambled to build dams in Yunnan and neighboring provinces to exploit hydro-electric power. These massive projects have exacerbated deforestation and brought about changes in the microclimate of nearby areas. Ecology and conservancy expert Wang Weiluo argues that the more water that is stored in reservoirs dedicated mainly for hydropower purposes, the less water will be lodged under the fields of farmers. This is one reason why the water table in the southwestern regions has sunk to alarming levels. In different parts of Yunnan and Guizhou, well-diggers have to bore through more than 70 meters of parched subsoil before hitting water (Sina.com.cn, February 22; *Beijing Youth Daily*, March 26).

Secondly, Yunnan provincial authorities have, since the late 1990s, been urging farmers to cut down trees to make way for more lucrative rubber and eucalyptus plantations. Rubber, eucalyptus and associated crops, however, use much more water than rice or wheat. Writing in the official *New Beijing Post*, environmental activist Wang Yongchen describes rubber and eucalyptus plantations as super-efficient dehumidifiers and "water-sucking machines." These cash crops, together with rapid industrialization, have "upset man's relationship with nature in southwest China," Wang noted. A recent report in Shanghai's mass-circulation *Xinmin Evening Post* quoted officials in Yunnan's Water Conservancy Department as saying that "for a long period, no maintenance work has been done to small-scale reservoirs and water-storage facilities." Similar to counterparts in the rest of China, officials in the southwest regions often use funds earmarked for water projects to invest in manufacturing, real estate and even stocks and shares (China News Service, March 23; *Xinmin Evening Post*, March 22; *New Beijing Post*, March 23).

Drought conditions have exacerbated the scourge of desertification, which is claiming a million acres of land every year. One third of the entire country's land mass suffers from some degree of desertification, up from 27 percent in 2004. The sandstorm last week, which hit 16 provinces and made life difficult for 20 percent of China's population, has belied claims by officials that the rate of desertification slowed down markedly by the year 2000 (*Time*, Asia Edition, March 22; Al Jazeera News, November 6, 2009). According to Han Tonglin, a researcher in the Chinese Institute of Geological Sciences, the immediate cause of the sandstorm was gale-force wind whipping up sand and dust from several dried-up salt-water lakes in Inner Mongolia and neighboring areas. Han said the disaster had cast doubt about the efficacy of the 100 billion yuan ($14.64 billion) that the central government had spent over the past decade on schemes to impede the desert's progress. Apart from planting saplings, such efforts have included using cash incentives to persuade farmers and livestock rearers to switch to conserving grasslands and growing trees. Han and other scientists have also blamed poor coordination among the Ministries of Agriculture, Forestry, Water Conservancy and Environment Protection for dearth of national leadership in the Herculean struggle against sandstorms (*Ming Pao* [Hong Kong], March 25; Cable TV News [Hong Kong], March 28).

There are indications that in this fast-shrinking globe, China's ecological problems are straining its ties with neighbors. As water levels in the 4,350-kilometer Mekong fall to their lowest in 50 years, four riparian countries—Thailand, Laos, Vietnam and Cambodia—have called on Beijing to take immediate steps to save the "Mother River." Senior ministers from these four nations, all of which are members of the Mekong River Commission (MRC), are scheduled to meet on April 3 in the Thai coastal town of Hua Hin (Reuters, March 25; AFP, March 26). Ecologists in the MRC countries say the three mammoth hydropower dams in Yunnan have exacerbated the Mekong's woes. They have urged the Chinese government to release more water from the dams—and to halt up to eight new hydroelectric projects. While Beijing has agreed to send a delegation to the Hua Hin conference, it has insisted that its dams have nothing to do with the lowering of the Mekong's levels. Moreover, officials in Beijing and Yunnan have asserted that the Lancang (the Chinese name for the upper reaches of the Mekong) only contributes 13.5% to the Mekong's volume. In an apparent effort to absolve their country of responsibilities, Chinese authorities recently agreed to provide the MRC with daily hydrological data from monitoring stations at two major Lancang dams (*Al Jazeera News*, March 8; *Bangkok Post*, March 25).

The intensifying confrontation over the Mekong river has thrown into sharp relief other "water wars" that could erupt between China and its neighbors. Glaciers from the Tibetan highlands form the fountainhead of 10 rivers that flow into 11 countries. In the past two years, Beijing and New Delhi have been at loggerheads over plans by the Chinese government to siphon off water from the Yarlung Tsangpo River to feed into canals designed to irrigate China's central and Northern provinces. After crossing the China-India border, the 2,057-kilometer-long Yarlung Tsangpo becomes the Brahmaputra, the primary source of water for the North Indian states of Arunachal Pradesh and Assam as well as Bangladesh. The water diversion project, in addition to plans to build one of the world's largest dams over the Yarlung Tsangpo, could deplete the Brahmaputra. Given Sino-Indian disputes over border delineations in Arunachal Pradesh, which is called South Tibet in China, a mutually agreeable settlement to their water disputes seems unlikely at least in the near term. Indeed, under China's multi-billion dollar South-North Water Diversion Scheme, some 40 billion cubic meters of water will be redistributed annually from the Tibetan plateau to arid regions in northern China (Asiasentinel.com [Hong Kong], January 19; Assamtimes.org [India], November 5, 2009).

At least superficially, the international impact of the sandstorm, which hit most of Taiwan, Japan and South Korea on March 21, has been less pronounced. This is despite the fact that tens of thousands of residents in cities including Seoul and Tokyo had to wear surgical masks against the sudden invasion of grit and dust. Six domestic flights in the eastern Japanese city of Kobe were delayed. While neither Tokyo nor Seoul has publicly raised the issue with Beijing, popular Japanese and Korean websites were replete with remarks attacking the Chinese government's mismanagement of its ecology. Critics have also fingered China-originated acid rain that has periodically fallen on the two neighboring countries (China News Service, March 22; Central News Agency [Taiwan] March 21; *Apple Daily* [Hong Kong] March 23). At a time when the CCP leadership under President Hu Jintao has pulled out all the stops to embellish China's image and to project Chinese soft power worldwide, the quasi-superpower's apparently irresponsible environmental policy could add a disturbing new dimension to the "China threat" theory.

Willy Wo-Lap Lam, Ph.D., is a Senior Fellow at The Jamestown Foundation. He has worked in senior editorial positions in international media including Asiaweek newsmagazine, South China Morning Post, and the Asia-Pacific Headquarters of CNN. He is the author of five books on China, including the recently published "Chinese Politics in the Hu Jintao Era: New Leaders, New Challenges." Lam is an Adjunct Professor of China studies at Akita International University, Japan, and at the Chinese University of Hong Kong.

NOTES

1. Author's interview with Ma Jun, March 25, 2010.

***

Rajin-Sonbong: A Strategic Choice for China in Its Relations with Pyongyang

By Scott Snyder

The Rajin-Sonbong region in North Korea (also known as Rason following a 2004 administrative reorganization by central authorities) is an underdeveloped backwater near the far northeastern tip of the Korean peninsula bordering Jilin province of China and Primorsky Krai of Russia. Although the area is far from the nerve center of the North Korean regime, Pyongyang, Rajin-Sonbong has strategic significance as the northern-most year-round ice free port in Northeast Asia and therefore is an attractive geostrategic transit point for the shipment of goods to landlocked Northeastern China and the Russian Far East. For this reason, recent reports of new Russian and Chinese investment deals following a rare personal visit by North Korea's supreme leader, Kim Jong Il, to Rajin-Sonbong in December of last year merit closer scrutiny.

Rajin-Sonbong has been the focal point of periodic efforts by Pyongyang to experiment with economic reforms since it named the area a free economic trade zone in late 1991. At that time, the Rajin port was an essential piece of a UN-sponsored regional development effort known as the Tumen River Area Development Project (TRADP)—which encompasses areas within China, Mongolia, Russia and South Korea—but the project never attracted sufficient international investment to take off. The spotlight returned to Rajin-Sonbong briefly in 1996 when North Korea sponsored an investor forum there in an attempt to stir up interest in a revamped set of investment laws for the region, but few investors came and North Korea's famine later that year diverted attention away from the effort.

Aside from the Hong Kong investor-backed Emperor Group's investment in a casino near Rajin that operated between 2000 and 2005, the designation of a large energy plant at Sonbong as a recipient of heavy fuel oil under the 1994 Geneva Agreed Framework, and a variety of other small-scale efforts designed to respond to North Korea's food crisis, the effort to establish the Rajin-Sonbong zone as a draw for international investors languished in the 1990s.

For its part, Chinese local and regional officials from Jilin province, which includes the Yanbian Korean Autonomous Prefecture, have coveted Rajin's port facilities since the 1990s, but progress in achieving that strategic objective has been halting. Rajin port was the delivery point for Japanese automobiles brought into North Korea and resold in Northeastern China in the 1990s, while a limited number of logging and container trucks delivered logs, wood chips, and other natural resources from China to Japan via Rajin Port. Rows of empty buildings constructed as part of a real estate boom in Hunchun—a county-level city in the Yanbian Korean Autonomous Prefecture—in the mid-1990s served as testimony to the failure of the UN-led TRADP to draw in international investment. At the time of Hu Jintao's visit to Pyongyang in late 2005, there were reports that the Hunchun district had made a deal to pave the 50-kilometer dirt road that connects the Quanhe-Wonjong border crossing to Rajin, but nothing came of it. The Chinese designation of Changchun, Jilin, and the Tumen River Area as a border development region in November of last year shows continued Chinese interest in developing external links to China's northeastern provinces (*People's Daily*, March 4).

Kim Jong Il's December 2009 visit to Rajin suggests renewed interest by the central government in attracting investment to the region, apparently driven by the North Korean leadership's hunger for new sources of cash flow to finance the faltering regime. South Korean trade and humanitarian assistance to the North has shrunk under the Lee Myung-bak administration, although the Kaesong Industrial Zone continues to generate revenues based on a gradually increasing number of North Korean workers in the zone. In March of 2009, the North refused international humanitarian assistance contributed by the United States via the UN World Food Programme over the North's unwillingness to comply with enhanced monitoring requirements that were a condition of those deliveries. Implementation of UN Security Council Resolution 1874 since June 2009 has resulted in a half-dozen seizures of weapons shipments from the North at various locations around the world, and these interdictions may have hurt Pyongyang's reputation as a reliable supplier. Given North Korea's currency revaluation and other efforts to curb the development of market activity internally, attempts to attract foreign investment do not appear to be driven by a new commitment to economic opening, but rather an attempt to improve the leadership's balance sheet through development of new cash flows. The North Korean won has reportedly depreciated significantly against the Chinese yuan, in which case there could be a substantial rise in exports to China in informal trade and a decline in imports from China (*Korea Times*, January 8). Yet North Korea's heavy-handed threats to abandon agreements with Hyundai Asan to develop Mount Keumgang also serve as a warning to potential investors regarding the dangers of investing in North Korea.

Although China has been a part of efforts to implement UN Security Council Resolution 1874 and approved an unprecedentedly strong resolution in June 2009, China's interpretation of the scope of the resolution is narrow in both intent and scope. Shortly after the passage of UN Security Council Resolution 1874, the Chinese foreign ministry spokesman took pains to note that the resolution "is not all about sanctions" and that diplomatic means is "the only way" to resolve Korean Peninsula issues [1]. During Wen Jiabao's visit to Pyongyang in October 2009 marking the 60th anniversary of the establishment of Sino-DPRK relations, he brought a high-powered delegation that offered a wide range of opportunities for heightened levels of economic engagement with North Korea [2]. In recent months, Chinese visitors to Washington have quietly explored the feasibility of North Korea's request that UN sanctions enforcement be dropped as a precondition for their return to multilateral talks [3].

Given the strategic value of access to Rajin-Sonbong port facilities for China's booming northeastern provinces, it would be natural for China to seek maritime access to the East Sea/Sea of Japan regardless of the UN resolution—or perhaps as part of a package of inducements designed to bring North Korea back to the Six Party Talks. South Korean experts indicate that about half of North Korea's total foreign trade in 2008 was with China, of which about

76 percent was with the three northeast provinces (*Korea Times*, November 25, 2009). According to Jilin provincial leaders, North Korea was Jilin's fourth biggest trade partner in 2008, when the Jilin-North Korea trade volume of $770 million accounted for 28 percent of China-DPRK trade (*South China Morning Post*, November 17, 2009). Official statistics show that Jilin's GDP grew an annual 13 percent to 720.3 billion RMB in 2009 despite the crisis, with a 16 percent increase in foreign investment and growth in foreign trade to $11.75 billion (*China Daily*, February 12). China now has its own capital to invest in the port, in contrast to the situation in the 1990s. North Korea's financial distress provides an opportunity for China to gain strategic access at bargain prices. North Korea has once again tried to involve Russia in a competition with China for access to the port by pursuing deals with both sides simultaneously. In addition, North Korea's offer of such a prize, if successful, provides an opportunity to evade the negative effects of the UN Security Council resolution on the North Korean economy. UN sanctions constitute a potential new obstacle to North Korea's trade in specific illicit items, and the half-dozen interdictions that have occurred under the resolution have diminished the reliability of North Korean supply for potential buyers of such exports from North Korea.

Kim Jong Il's visit and a recent confirmation of a deal with North Korea by Jilin provincial authorities suggests that trade and investment in Rajin-Sonbong is a priority of the central government in Pyongyang. The emergence of the North Korean Taepung Investment Group (with apparent state backing but posing as a private entity) would be a natural interlocutor with Chinese state-owned enterprises, and the establishment of a North Korean State Development Bank, further suggest that Rajin's opening to trade and investment is being driven by DPRK central government authorities who naturally would seek involvement with central-level counterparts in China (*Chosun Ilbo* [South Korea], March 3). Initially established in Hong Kong in 2006, Taepung was reportedly involved in joint deals in 2007 with China's state-owned Tangshan Iron and Steel and Datang Power, which is directly managed by the CPC Central Committee, to build plants in North Korea's Kimchaek Industrial District (NK Brief No. 10-01-22-1, January 22). The Chuangli Company is reported as the Chinese company that has contracted to develop Rajin's port number one, reportedly for a period of only ten years, while Russian investors have been offered a fifty-year deal to develop the second of Rajin's five berths. In the future, the Rajin port can become a logistics hub for northeastern China through which initial plans are to export Chinese coal to Southeast Asia and Japan (Global Times Online, March 10).

During Kim's December visit to the Rason Daeheung Trade Company, he reportedly stressed the importance of export growth. The Korean Central News Agency reported Kim as saying that "it is very important to abide by the principle of the credit-first policy in foreign trade" and that Kim urged workers to observe, "export discipline and improve the quality of goods" (Yonhap News Agency [South Korea], December 24, 2009). Early this year, the Presidium of the Supreme People's Assembly designated Rason as a "special city," reaffirming the central government's direct interest in Rajin-Sonbong's economic potential (The Daily NK [South Korea], January 6). Rajin's provincial leadership has been replaced by a team led by former Minister for Foreign Trade Rim Kyung-man, signaling the central government's interest in successful management of the port (*Chosun Ilbo*; March 9). No doubt, the appointment also reflects high expectations regarding the level of capital that can be extracted by opening the port to foreign investment.

How the PRC central government handles Rajin-Sonbong may provide additional needed leverage to drive a financially hurting regime back to the negotiating table, or it may provide the North Koreans with a lifeline that sustains the leadership and provides it with the capacity to avoid necessary reforms. Given that many Chinese private firms recognize the risks of investing in North Korea under the current regime, a central government decision to invest in the Rajin-Sonbong is likely to be aimed more at perpetuating the status quo than at achieving the regime transformation necessary to promote North Korea's economic integration into the region.

Scott Snyder is director of the Center for U.S.-Korea Policy and senior associate of Washington programs in the International Relations program of The Asia Foundation.

Notes

1. Qin Gang on UNSC resolution 1874 on DPRK nuclear test June 13, http://www.fmprc.gov.cn/eng/xwfw/s2510/2535/t567565.htm.
2. See Scott Snyder and See-Won Byun, "China's Nuclear North Korea Fever," Comparative Connections, Vol. 11, No. 3 (October 2009). http://csis.org/files/publication/0903qchina_korea.pdf.
3. Private conversations with Chinese visitors, Washington, DC, February 2010.

***

Google and China's Changing Economic Paradigm

By Gordon G. Chang

Following two months of tussling with the Chinese government—much of it under the glare of intense media coverage—Google Inc. (GOOG) abandoned its core business in the world's most populous nation. Specifically, on March 22, the Mountain View-based company announced it had stopped censoring search results in the world's most populous state. Users, the company posted on its official blog, were being redirected to one of its Chinese-language sites in the Hong Kong SAR (Googleblogspot, March 22).

Analysts wondered whether other foreign businesses would follow Google's affront to Beijing's heavy-handed tactics and pull out of China. On March 24, Go Daddy, the world's largest internet domain name registration company, announced that it would no longer register web addresses in China due to tough new personal-identification requirements (Al Jazeera, March 25). Network Solutions—Go Daddy's competitor—had stopped accepting China's business in December 2009 for the same reason.

These incidents beg the question: has Beijing pushed foreign business too far? Google provides a fascinating case study by itself: 'World's biggest search engine forced out of country with most internet users'. Yet there are broader forces at play. While Beijing is developing a new model for economic development, foreign businesses are reassessing the planet's most enticing consumer market and rethinking China's potential.

The results of late Chinese-patriarch Deng Xiaoping's economic policies, encapsulated in the official-mantra *gaige kaifang* (reform and opening up), were extraordinary. Mao's successor began by first dismantling the Maoist command economy and then opening China's markets to foreign competitors. During the period known as the "reform era"—generally considered to have begun in December 1978 and continuing through today—gross domestic product increased at an average annual rate of 9.9 percent according to official statistics, which may understate the extent of the expansion due to undercounting of the most vibrant part of the economy, the private sector.

Yet the name given to this period can be misleading. The Party did not so much as reform China as ratify changes already implemented by hundreds of millions of peasants, factory workers and entrepreneurs who, disillusioned by Mao's great experiments, had abandoned Maoist notions and were determined to do things their own way. Deng, when it came to domestic matters, deserves credit for the good sense to step aside and let the Chinese people transform their own society. Similarly, Deng knew that China needed foreign capital, technology and expertise, and paved the way for their entry by authorizing a tentative opening. Once the first foreigners were in, however, he gradually—and wisely—allowed barriers to fall as tens of thousands of managers and executives pushed to relax rules constraining them.

The same dynamic of change existed during the tenure of Deng's successor, Jiang Zemin, and Jiang's tough-minded premier, Zhu Rongji. Yet "reform" began to stagnate and then went into reverse during the years of the Fourth Generation leadership, led by Hu Jintao and Wen Jiabao. The pair has, since their elevation in November 2002, pursued two broad initiatives that have turned back the hand on Deng's reform and opening-up.

First, they have sought to renationalize the economy. In the second half of this decade, Beijing began to use national-level instrumentalities—such as the National Social Security Fund and China Investment Corporation (sovereign wealth fund)— to buy shares of partially privatized state enterprises and banks. The effect of this maneuver was to increase the percentage of state ownership.

Renationalization gained momentum after the announcement of the State Council's $586 billion stimulus plan in November 2008. In 2009, the first full year of the plan, Beijing poured, either directly or indirectly through state banks, about $1.1 trillion into the economy according to the author's calculations.

Inevitably, Beijing's fiscal stimulus program resulted in a bigger state economy and a smaller private one; about 95 percent of recent growth has been attributable to investment, almost all of it from state sources (Xinhua News Agency, November 5, 2009). Moreover, state investment went into the state sector, of course. The state's stimulus plan favored large state enterprises over small and medium-sized private firms, and state financial institutions diverted credit to state-sponsored infrastructure. As they say, "the Party is now the economy." Stimulus, which appears to be reduced this year, is continuing to build up the already-dominant state sector (*South China Morning Post*, March 5).

This ongoing transformation not only undermines domestic private enterprises, but also prejudices foreign businesses, shrinking opportunities. Yet renationalization is by no means the major obstacle for non-Chinese competitors. The second initiative of Hu and Wen is to use the rule book to shut them out of the domestic market. Since the middle of 2006, Beijing, by issuing a flurry of decrees and orders, adopted a decidedly hostile posture toward foreign multinationals. Of special relevance are regulations, released August of that year, permitting the Chinese Ministry of Commerce to block foreign takeovers [1]. Beijing, worried about the "loss of economic sovereignty," which in its view included the loss of control of large enterprises, was not hesitant to challenge takeovers by multinationals. At the end of 2007, for instance, Microsoft was not permitted to buy a stake in Sichuan Changhong Electric, a television manufacturer, ostensibly because of concerns in Beijing that the sales price was too low.

Two Goldman Sachs deals in 2007 were also blocked by central authorities. The investment concern was thought to have negotiated too good a deal to buy stakes in Midea Electric Appliances and Fuyao Group (*South China Morning Post*, November 6, 2007).

Carlyle, the American investment group, originally agreed to buy 85 percent of state-owned Xugong Construction Machinery. The proposed stake was then reduced to 50 percent and then 45. The deal, originally signed in 2005, was eventually killed by the Ministry of Commerce through, among other tactics, inaction and delay (*China Daily*, July 24, 2008). Carlyle gave up in 2008.

Most worrisome, Beijing used its Anti-Monopoly Law, effective August 2008, for the first time when it rejected Coca-Cola's proposed acquisition of China's leading fruit juice company. The Ministry of Commerce, in March 2009, said the proposed $2.4 billion merger with Huiyuan Juice Group might end up increasing prices and squeezing out smaller producers. The government's action, hailed as a "landmark," proved a questionable decision (Wall Street Journal Online, March 18, 2009). Hong Kong-listed Huiyuan controlled only a little more than a tenth of China's $2 billion juice market and Coke had a 9.7 percent share. In any event, the Ministry of Commerce provided almost nothing in the way of explanation or rationale. Yet, the irony is that Beijing saved Coke from overpaying for Huiyuan. The fact that Chinese officials stopped a takeover of a run-of-the-mill enterprise in a non-sensitive industry by a foreign business despite its willingness to pay a vastly inflated price is also a sign that there has been a fundamental shift of attitude.

The Chinese government, of course, denies there has been any such change in its policy. Yet it is undeniable that, for the past three decades, Beijing had committed itself to attracting foreign capital, and now it appears to be backtracking. The perception underlining this new attitude is that foreigners have captured "excessive" market shares and own too much technology. There is also a fear of an overreliance on foreign direct investment. Moreover, Chinese ambitions are much bigger these days. Beijing is attempting to build "national champions" and wants 50 of the world's 500 largest companies to be Chinese within the next decade (Forbes.com, June 2 8, 2006). The Chinese, in short, want to keep their expanding market for themselves.

That, among other factors, is motivating Hu Jintao's "indigenous innovation product accreditation" program, which, to obtain accreditation to sell to governments in China, requires the ownership of foreign technology and trademarks by local enterprises. This attempt to obtain intellectual property has naturally sparked controversy and almost universal opposition from foreign businesses and governments (*China Daily*, December 16, 2009). In this climate, it is no wonder the latest survey from the American Chamber of Commerce in China shows a growing percentage of businesses—now 38 percent—which feel unwelcome in the country (Voice of America, March 22).

Google certainly felt unwelcome. It was undoubtedly perceived as too big, too foreign and too successful, and therefore the central authorities felt compelled to undermine its operations. In a January 12 entry on the company's official blog (Googleblogspot, January 12), it announced it was no longer willing to filter Chinese searches. Yet the dispute, however framed, was more than just a struggle over government censorship. In the statement, the search engine stated that in mid-December it had detected "a highly sophisticated and targeted attack on our [Google] corporate infrastructure originating from China that resulted in the theft of intellectual property from Google." According to the statement, at least 20 other large companies had been hacked. In Google's case, the attacks targeted the Gmail accounts of human rights activists in China, the United States and Europe and the company's source code.

With Google's source code, cyberintruders could penetrate the search engine with ease. Due to "the Great Firewall," another name for Beijing's tight internet controls, no independent group of hackers could have carried out coordinated attacks without either official support or implied consent. Moreover, no organization in China outside the central government, the Communist Party and the military has the resources to maintain large-scale and concerted efforts.

Therefore, the inescapable conclusion is that, if the attacks on Google's network originated in China, the Chinese one-party state had to be behind them. "The fact is that everyone in the U.S. government who looks at these cyberattacks admits privately that they have the evidence: "the attacks are from the Chinese government, and not rouge *hei-ke*," says John Tkacik, retired State Department intelligence specialist on China and author of "Trojan Dragons," a 2008 survey of Chinese cyber spying published by the Heritage Foundation [2]. In fact, VeriSign's iDefense Labs, an American internet security firm, traced the attacks on Google back to the Chinese government "or its proxies" (*Guardian* [London], January 14).

The U.S. government has begun to discuss China's cyberwarfare campaign in public only because Google forced its hand. Beijing was responsible for a "DNS poisoning" attack that caused Google to crash worldwide last June, and the company was perpetually harassed by Chinese hackers since its arrival in the country in 2006. That is one of the reasons why Google's business never took off in China. Its market share in that country was only 36 percent before its withdrawal, far behind local competitor Baidu's 58 percent at that time. Google may have made missteps entering the Chinese market, but Baidu got to where it is largely because of crucial help from central government authorities.

Google thinks it can salvage its business there. Beijing, predictably, began to block searches that had been routed to Hong Kong. More ominously, Chinese officials are already pressuring the big state-owned cell phone companies—China Mobile and Unicom (*New York Times*, March 23), the two largest operators—to break off relations with Google, which wants to launch its Android phone. And the American company has been the object of Cultural Revolution-style attacks in state media that can't help but talk about America's "information imperialism," Google's "deliberate plot," and the link between the company and the Opium Wars (*China Daily*, March 22). "Google is not God and Google is not a 'value virgin,'" wrote *People's Daily*, the Communist Party's flagship publication, just after the company announced it was shutting down its China search engine (*People's Daily*, March 24).

So far, we are seeing a spiteful response from an angry government. And a government that will go to great lengths to make sure the Chinese market is reserved for Chinese competitors. Google's recent troubles show us that Beijing has a new economic paradigm, and it is not a good one.

Gordon G. Chang is a Forbes.com columnist and author of The Coming Collapse of China.

Notes

1. *See* Regulations on Acquisition of Domestic Enterprises by Foreign Investors, promulgated on August 8, 2006 and effective September 8, 2006 (issued by the Ministry of Commerce and five other agencies).
2. John Tkacik, e-mail message to author, March 27, 2010.

***

Will *China's Dream* turn into America's Nightmare?

By Phillip C. Saunders

China's Dream: Major Power Thinking and Strategic Posture in a Post-American Era has attracted considerable attention from both Chinese and Western media. [1] The author, Senior Colonel Liu Mingfu, calls for China to replace the United States as the dominant military power. Liu is a professor at People's Liberation Army (PLA) National Defense University and former director of the university's Army Building Research Institute, which researches and teaches about modernization and force development issues. He enlisted in 1969 and spent the first 20 years working in political affairs in the Jinan military region before moving to NDU. (A PLA colleague noted that Liu is a political officer, not a strategic researcher, and that he has never visited the United States). Liu's recent writings focus on promoting Hu Jintao's "New Historic Missions" (*xin de lishi shiming*) for the PLA, which include helping ensure China's sovereignty, territorial integrity and domestic security in order to continue national development and safeguarding China's expanding national interests. References to the "New Historic Missions" can be viewed as arguments for expanding PLA capabilities and budgets for missions beyond Taiwan. *China's Dream* is written for a popular audience and published by a commercial press rather than by the military. It does not represent the official views of the Chinese government or the PLA, but should be read as one voice (and a fairly extreme voice) in an ongoing debate about China's strategic and military posture.

Senior Colonel Liu's argument can be summarized based on the book, the author's comments in interviews, and the author's related articles. He emphasizes the competitive nature of international relations and cites numerous foreign estimates that China's economy will eventually surpass that of the United States, describing this as "not a matter of if, but when." He argues that Chinese cultural and racial superiority will allow it to outpace the United States economically. In an interview, he envisioned China's rise relative to the United States in three phases over a 90 year period: 30 years to catch up to U.S. total gross domestic product, thirty years to catch up to U.S. military capabilities, and thirty years to catch up to the United States in per capita income (ABC News International, March 2).

Liu argues that the hegemonic nature of the United States will not permit it to accept China's rise. He devotes two chapters to what he describes as "merciless" U.S. efforts to contain the rise of Japan and the Soviet Union. Liu argues that the United States will inevitably "fight a third battle to retain its title" by seeking to contain China's rise. This will produce a "marathon contest" for global leadership that will be the "duel of the century" (*Global Times*, February 5). U.S. determination to maintain its superiority and to keep China down will force China to contend for global dominance if its economic rise is to continue.

Economic power is insufficient for China to prevail in this competition; a strong military is also necessary. "GDP does not equal comprehensive national power, productivity does not equal combat capabilities, national wealth does not equal national capabilities…development ultimately relies on hard military power." Liu argues that, "if you want peace, you must prepare for war" and "if you want security, then you must become powerful." Even as China pursues a "peaceful rise," it must prepare for the possibility of a "conflictual rise."

Liu views competition between the United States and China as inevitable, but argues that military competition will not produce a major war. The imperative of avoiding mutual ruin (*tonggui yujin*) will require that the two sides develop mechanisms to guarantee mutual survival. However, China must develop its military power in order to avoid war. "The point of a military rise is not to attack the United States, but to avoid being attacked by the United States."

Liu frames China's options in terms of a stark choice between competing for global leadership or collapsing. He argues that China can dispel foreign concerns about a "China threat" by focusing on building a "powerful deterrent capability." At the same time, China cannot be satisfied with the military capabilities of a third world country or accept any limits on its power or on the development of its military. Liu dismisses concerns about the costs of military spending by arguing that a strong military can help create a prosperous nation and that China can accelerate the pace of its military modernization without producing an arms race.

Liu's views about the nature of international rivalry inform his prescription that China must be prepared to engage in a "competition to be the leading country, a conflict over who rises and falls to dominate the world." He argues that China's task of prevailing in this global competition will be eased by widespread resentment of U.S. hegemony and by China's uniquely virtuous historical tradition, which can produce a harmonious world where other countries accept China's benevolent leadership. He concludes: "to save itself, to save the world, China must prepare to become the [world's] helmsman."

Context

China's Dream is the latest example of a sensationalist book aimed at tapping into a profitable mass market in China. It was published by the China Friendship Publishing Company and distributed by China Media Time. The manuscript was the subject of a bidding war from dozens of Chinese commercial publishers because it was viewed as having significant commercial potential. Senior Colonel Liu has given a series of interviews to Chinese and Western reporters and written several spin-off articles in official publications to publicize the book.

Over the past 15 years, parts of the Chinese media have become more commercialized and eager to publish a range of content designed to generate profit rather than promote political orthodoxy. This has led some publishers to focus on publishing sensationalist and nationalistic views that can attract a mass audience. This new market has stimulated a number of academics and PLA officers to write books advocating controversial positions in order to make money. (A Chinese "punditocracy" has also emerged that regularly makes paid appearances on Chinese television.) A number of PLA officers now supplement their salaries by making media appearances and writing essays and books aimed at a commercial market. The most prominent example is *Unrestricted Warfare* (published by two PLA Colonels in 1999); the books *China Can Say No* (published by six academics in 1996) and its sequel *Unhappy China* (published in 2009) are other examples of works that profited by catering to a growing cohort of nationalist audiences.

There is a big difference in the authoritativeness of books written by military authors that are published by the Academy of Military Sciences or PLA NDU Press (which go through a formal review/approval process) and those published in commercial presses (which do not undergo strict scrutiny and should not be treated as authoritative statements of PLA institutional views). As a commercial book, *China's Dream* is not an official statement of policy, but the views the author expresses are within the bounds of acceptable discourse and probably reflect the views of a significant number of PLA officers.

The fact that the foreword to *China's Dream* was written by Lieutenant General Liu Yazhou, son-in-law of Li Xinnian (a key Communist leader and former President of the PRC) and the newly appointed political commissar of PLA NDU suggests that at least one politically connected senior officer is willing to associate himself with the author's views. (The book's advertising materials emphasize this point by trumpeting Lieutenant General Liu's recommendation of the book and listing his name in a much larger font size than the author's). Yet, the foreword does not include any explicit references to Senior Colonel Liu Mingfu or clearly endorse any of the author's prescriptions. (He does, however, quote U.S. China specialist David M. Lampton). Lieutenant General Liu's brief foreword discusses the prospect of future Sino-U.S. competition, but does not envision a future war or support Liu Mingfu's call for China to strive for military dominance. He concludes: "China's dream need not be America's nightmare." (A PLA officer stated privately that LTG Liu did not read the book before penning the foreword).

Significance

China's Dream has elicited a wide range of reactions among China media and observers, some favorable, some dismissive, and some simply descriptive (Sina.com, December 28, 2009; *China Daily*, March 3; Xinhua News Agency, January 12; People's Daily, March 2). Some prominent PLA military commentators such as Major General Luo Yuan have questioned Liu Mingfu's analysis, highlighting the contradiction between Liu's vision of a dominant Chinese military and the present reality (*China Daily*, March 3). In contrast, Western media have presented the book as a stark challenge to the United States, emphasizing the author's prescription that China should "sprint" to become the world's "number one" or "dominant power" (Reuters, March 1; ABC News International, March 2). One newspaper article quoted a U.S. analyst's argument that Liu's book "reflects a consensus mindset in the Chinese military and civilian leadership" (*Washington Times*, March 5). In interviews with foreign and domestic media, Liu has maintained that the views in the book are his own and do not represent official policy. He responded to foreign concerns by telling ABC News, "there is no need for the American public to be afraid of China," downplaying potentially destabilizing effects of "strategic competition," and describing it as both "impossible and unnecessary for China's military to surpass the United States" (ABC News International, March 2).

Liu's book comes at a time when PRC scholars and experts are debating whether fundamental changes in the global balance of power have occurred that strengthen China's position relative to the United States, and considering how China should adapt its policies in response to shifts in relative power. The perception that China has weathered the global financial crisis much more successfully than the United States and other powers contributes to a public mood that China no longer needs to be so deferential to foreign opinion or the interests of the United States, especially on issues that touch on China's "core interests" – most pointedly, its national sovereignty. This mood partly accounts for China's louder complaints about the recent U.S. arms sales to Taiwan and President Obama's meeting with the Dalai Lama.

In recent months, some hardliners, including several senior PLA academics, have argued that China has greater leverage over the United States and should aggressively push Washington to respond to its concerns over Taiwan and other issues. Some advocate using economic means to punish the United States for arms sales to Taiwan. There has been a sharper tone to official Chinese rhetoric on these issues, but Chinese actions have not changed significantly. There are indications, including from recent discussions with retired PLA officers, which some PLA scholars are being told to tone down their public comments. Other Chinese officers and scholars are more optimistic about prospects for U.S.-China cooperation.

This debate has important implications for China's strategic and military posture (one immediate focus is on appropriate levels of military spending; in early March, China announced a 2010 defense budget increase of 7.5 percent, down from 14.9 percent in 2009 and a reduction from the double-digit increases over the last decade) (*Washington Post*, March 5). Liu's book should be interpreted as part of this debate, and as staking out an extreme position within it. His book and newspaper articles drawn from the book reflect a deep-seated suspicion among PLA officers that the United States seeks to contain China and stifle its economic rise. Where the United States sees a policy of engaging China and seeking to encourage a constructive Chinese role within the international system, many PLA officers see a policy aimed at containing and weakening China in order to westernize and split it up. These views are especially prevalent within the PLA political department (which is responsible for enforcing ideology).

It should not really be surprising that PLA officers refuse to accept U.S. dominance of key strategic domains or a permanent position of Chinese military inferiority. Discussions and dialogues with Chinese officers and experts make clear that China will compete in these arenas. This highlights the inherent difficulty of any potential efforts to dissuade China from developing advanced naval, nuclear, space and cyber capabilities. There will be strategic competition in these arenas, and the United States needs to think carefully about how to compete effectively while managing the downsides of this competition [2].

It is important to remember that the PLA is an influential policy voice, but is not the ultimate decider on these issues. China's civilian leaders are attempting to balance domestic and international goals, and have consistently given a higher priority to domestic concerns. The need for PLA officers (including Liu) to constantly reiterate that "China will not engage in arms races" even as they advocate larger budgets, more advanced weapons, and tougher policies shows their need to make the case to civilian leaders that the policies they advocate will not be destabilizing or prove so threatening to others that China winds up creating enemies and driving other countries into a containment posture. Chinese leaders are acutely conscious that over-spending on defense was a key factor that brought down the Soviet Union, and are determined not to repeat that mistake.

Despite calls by some military voices, a fundamental change in China's strategy is unlikely in the near-to-medium term. Even as China's relative power position has improved, widening the range of potential choices, Chinese civilian leaders are acutely conscious of a wide range of domestic challenges that demand their focused attention and which require a stable international environment conducive to continued economic growth. A more aggressive international stance will complicate, and potentially impede, their efforts to deal with these pressing problems. This could happen directly (by diverting resources away from economic development into military modernization) or indirectly (by stimulating hostile responses from the United States or China's neighbors that reduce opportunities for economic growth).

The decisions civilian leaders make on these issues will be the key factor determining China's strategic and military direction. Hardline views such as those of Senior Colonel Liu Mingfu will be a voice in that debate, but are not likely to be dominant; a series of popular nationalistic tracts published over the last 15 years have had very little influence on Chinese policy. Extreme views should neither be ignored nor exaggerated. Yet, analysts assessing the potential impact of these nationalist ideas on Chinese policy need to ground their conclusions in a better understanding of Chinese civil-military relations and the Chinese decision-making process.

Phillip C. Saunders, Ph.D., is a Distinguished Research Fellow and Acting Research Director at the National Defense University's Institute for National Strategic Studies. The views expressed are his own and do not reflect the official policy or position of the National Defense University, the Department of Defense, or the U.S. government.

[INSS Contract Researcher Isaac Kardon provided research assistance, and INSS China Security Fellow Michael Glosny provided helpful comments.]

NOTES

1. Liu Mingfu, *Zhongguo Meng: Hou Meiguo Shidai de DaGuo Siwei yu Zhanlüe Dingwei* [China's Dream: Major Power Thinking and Strategic Posture in a Post-American Era], (Beijing: *Zhongguo Youyi Chuban Gongsi* [China Friendship Publishing Company], 2010) The foreword and 3700 character table of contents are available at http://www.amazon.cn/mn/detailmore?showtype=3700&ref=DT&prodid=bkbke00779.
2. For an elaboration of this argument, see Phillip C. Saunders, "Managing Strategic Competition with China," INSS Strategic Forum No. 242, July 2009, http://www.ndu.edu/inss/Strforum/SF242/SF242.pdf.

***