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Bishkek, Kyrgyzstan

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In a Fortnight

IMPLICATIONS OF KYRGYZSTAN REVOLT ON CHINA'S XINJIANG POLICY

By L.C. Russell Hsiao

As the political crisis in Kyrgyzstan reaches a turning point, after opposition forces seized the capital Bishkek in a bloody clash and ousted the president and his allies, Chinese leaders from regions across China have reportedly descended upon Xinjiang en masse in a rare spectacle that carried with it a heavy political undertone. The sight of Chinese Communist Party (CCP) leaders at the top provincial party-secretary level arriving in droves in Xinjiang appears to highlight the importance that the Chinese leadership attaches to the future of this restive northwestern region in the People's Republic that still hangs uncertainly against the backdrop of the violent Urumqi uprising last July (*Ming Pao* [Hong Kong], April 13).

There is little doubt that the turmoil transpiring in the neighboring Central Asian republic is on the minds of the Chinese leadership. Following the quick succession of events that eventually forced former Kyrgyz President Kurmanbek Bakyiev to flee the capital, the Chinese Foreign Ministry immediately issued a statement expressing that it "is deeply concerned" about the situation and hopes the country will restore peace soon and maintain stability. "China hopes issues will be settled in a lawful way," Foreign Ministry spokeswoman Jiang Yu told a regular briefing. Additional reports indicate that China is suspending road and public transportation links with neighboring Kyrgyzstan (*China Daily*, April 8; *Ming Pao*, April 13; Radio Free Asia, April 13).

The implications of political turmoil in Kyrgyzstan for China are sharpened by the country's increasing strategic importance to Beijing's "go-out" strategy. Kyrgyzstan is a key component in China's overall approach to Central Asia and by extension Eurasia. China and Kyrgyzstan share a 1,100-km porous land border, with two

main border crossings at the Irkestan and Torugart passes through the Xinjiang Uyghur Autonomous Region (XUAR). Trade volume reportedly reached \$9.3 billion in 2008, compared to \$355 million in 1992, when Beijing and Bishkek established diplomatic ties (*China Daily*, April 9). Furthermore, XUAR exports to Kyrgyzstan were valued at around \$2.97 billion in 2009, and Kyrgyzstan replaced Kazakhstan for the first time as the number-one export market for the XUAR. Kyrgyzstan is also rich in natural resources: oil, natural gas and gold, and could serve as an ideal conduit for Chinese trade (*China Daily*, April 9).

Yet Chinese leaders fear that due to the large number of Uyghurs that live in Kyrgyzstan (estimates range from 50,000 to 250,000) instability in the republic may spill over into Xinjiang and instigate radical elements in the Uyghur community within its borders. It could also put at risk the vast network of expansive infrastructure (e.g. road, railway, pipeline), which is part of China's comprehensive economic development extending from Central Asia to Xinjiang.

China's extensive and significant strategic and energy interests in Central Asia are closely tied to stability in Xinjiang, which in turn is increasingly contingent upon the neighboring republics' internal developments. A Chinese observer on Phoenix Television, a popular Hong Kong-based television network that enjoys close ties to the central government, stated that if Kyrgyz authorities lose control, as a member of the Shanghai Cooperation Organization (SCO), China should consider ways to intervene to help the country maintain peace (Cq.people.com.cn, April 12; Radio Free Asia, April 7).

The latest clashes in Bishkek will clearly affect trade relations in the short-term, but according to some Chinese analysts, bilateral ties will not be affected in the long-term. Xu Xiaotian, an expert on Central Asian studies at the high-profile China Institute of Contemporary International Relations (CICIR), said, "no matter which party is in power, it will value China-Kyrgyzstan relations." "But it may temporarily affect some of China's projects in this region, such as large projects in power and mining" (*China Daily*, April 9). According to Dong Manyuan, an anti-terror expert at the China Institute of International Studies (CIIS), "Its geographically strategic location means Kyrgyzstan needs to strike a balance between great powers. It doesn't want to offend Russia or the US and it wants to maintain friendship with China" (*China Daily*, April 9).

While such macro-level analyses are reasonably valid, it overlooks the socio-political undercurrents that simmer beneath the current crisis. During the violent confrontation in Bishkek, a five-storey Chinese commercial center was

looted and burned down. The estimated losses are up to \$4 million. The rupture of violence in Bishkek has clearly unsettled the Chinese business community in the country, many of whom are concerned about reinvesting in the unstable country, particularly after suffering similar losses five years ago during the Tulip Revolution (*China Daily*, April 10).

In recent years, Kyrgyzstan's dilapidated economy has fueled growing xenophobic attitudes toward Chinese immigrants in Kyrgyzstan. According to Chinese official statistics, nearly 30,000 Chinese now live in Kyrgyzstan, making it the largest foreign community with a population of roughly 5.3 million (*China Daily*, April 9). Unofficial estimates, which include traders and laborers, put the range as high as 100,000. While it is not the catalyst of the current political crisis, the country's growing economic dependence on China was evidently a contributing factor that accentuated the ordinary Kyrgyz's sense of economic disenfranchisement under the former regime (Eurasianet, March 18, 2009).

In spite of no evident link, this outbreak of instability will also likely deepen suspicion held by Chinese officials who are increasingly wary of foreign influence on the Middle Kingdom's frontier regions. In an apparent attempt to strengthen its control over the restive region, the Chinese government has already taken steps to beef up regional security after the uprising last July. According to plans announced earlier this year, the provincial government plans to nearly double its public security spending to nearly 2.89 billion yuan (\$424.8 million) this year, up 88 percent from last year's budgeted 1.54 billion yuan, the *China Daily* said, citing a report from the annual legislative meeting (*Taipei Times*, January 17).

The Hu administration is understandably wary of the situation in the Central Asia republic, not only given what it portends for the stability of region, but also because of the potential impact it may have on the hold of CCP rule over Xinjiang. The recent incident underscores the volatility of the new regional environment and the limitations of Beijing's existing policies toward Xinjiang. Yet, the central government's efforts appear to follow the line of "more of the same." If this is the case, the Hu administration may find that its capability to maintain control will wane over Xinjiang not only because it fails to address the grievances of disaffected Uyghurs in Xinjiang proper, but also because its dogmatic pursuit of divorcing economics from politics may fuel greater political instability in the region.

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Syria in China's New Silk Road Strategy

By Christina Y. Lin

While the international community is fixated on Iran's nuclear program, China has been steadily expanding its political, economic and strategic ties with Syria. Since Syrian President Bashar al-Assad visited China in 2004 on the heels of the 2003 U.S. intervention in Iraq, there have been increased economic cooperation and more recently, a flurry of high-level exchanges on political and strategic issues. On April 5, while at the 7th Syrian International Oil and Gas Exhibition "SYROIL 2010" to attract local, Arab and foreign investors, Syrian Minister of Petroleum and Mineral Resources Sufian al-Allaw told the state-run Xinhua News Agency that he expects more contracts and cooperation with Chinese oil companies (*Xinhua News Agency*, April 5). This is in tandem with growing political and economic cooperation in the electricity, transport and telecommunications sectors dominated by Chinese enterprises such as CNPC, ZTE, Huawei and Haier (China's largest white goods manufacturer) (*Xinhua News Agency*, March 31, 2008; *The Syrian Report*, May 11, 2009).

The Middle East was an important bridge between Asia and Europe along the ancient Silk Road and since 1991, China has been rebuilding the Silk Road through the construction of a network of highways, pipelines, and rail lines from China to re-link the countries of Central Asia and Europe along this historic corridor (*Georgian Daily*, January 27). Beijing's renewed interest in Damascus—the traditional terminus node of the ancient Silk Road—in spite of Syria's current status as an international pariah, indicates that China sees Syria as an important trading hub and partner for Chinese interests in Africa, Europe and the Middle East. Indeed, China dubs Damascus "*ning jiu li*," or "cohesive force," and Damascus is serving as a cohesive force as China's Silk Road strategy converges with Syria's "Look East" policy toward China (*The Syrian Report*, May 11, 2009; *Gulf News*, January 12).

CHINA'S PERCEPTION OF SYRIA AND THE MIDDLE EAST

Syria is part and parcel of China's broader Middle East strategy, which Jin Liangxiang, research fellow at Shanghai Institute for International Studies, argued is going through a new activism and that "the age of Chinese passivity in the Middle East is over" [1]. According to a 2004 interview with Ambassador Wu Jianmin [2], considered to be one of China's most outstanding diplomats one who witnessed and contributed to the development of Chinese diplomacy, Chinese foreign policy was transforming from "responsive diplomacy" (*Fanying shi waijiao*) to "proactive diplomacy"

(*Zhudong shi waijiao*) (*China Youth Daily*, Feb 18, 2004) [3].

Indeed, since the 2003 U.S. intervention in Iraq, China has become more active in prosecuting a "counter-encirclement strategy" against perceived U.S. hegemony in the Middle East [4]. Then Chinese Foreign Minister Qian Qichen blasted U.S. foreign policy in a *China Daily* article that the United States has "put forward its 'Big Middle East' reform program ... the U.S. case in Iraq has caused the Muslim world and Arab countries to believe that the super power already regards them as targets of its ambitious 'democratic reform program' (*China Daily*, November 1, 2004). Beijing fears that Washington's Middle East strategy entails advancing the encirclement of China and creating a norm of regime change against undemocratic states, which implicitly challenges the Chinese Communist Party's (CCP) legitimacy at home. To counter that, China has increased economic and diplomatic ties with countries in the region, worked to establish a China-GCC free trade zone (*Gulf News*, March 28), established Sino-Arab Cooperation Forum (*China Daily*, January 30, 2004), and overall increased its footprint in the region. Jin Liangxiang declared that "if U.S. strategic calculations in the Middle East do not take Chinese interests into account, then they will not reflect reality" [5].

SYRIA AS CHINA'S Foothold INTO THE MEDITERRANEAN UNION

Other than its geographic location as a terminus node on the ancient Silk Road, and hub for trade between the three continents of Africa, Asia and Europe, there are many reasons for China's interest in Syria. First, it can serve as China's gateway for European market access in the face of increasing protectionist pressures from larger countries such as France, Germany and Great Britain within the European Union (EU). As such, China has launched a strategy of investing in small countries and territories poised to join the EU in the Balkans or the Levant that forms the Mediterranean Union, which was initiated by the 1995 Barcelona Process to create a free trade zone between EU and countries in North Africa and the Middle East along the Mediterranean Coast. For example, Chinese Vice-President Xi Jinping in October 2009 called on larger Balkan countries that were already EU members, such as Hungary, Bulgaria and Romania, to serve as links to smaller Balkan countries that have yet to join the EU (See "Xi's European Tour: China's Central-Eastern European Strategy Reaches for New Heights," *China Brief*, October 7, 2009). Syria is close to the EU and Mediterranean, but has yet to sign an agreement with the Mediterranean Union [6].

China's strategy in Syria as a beachhead into the EU

market is similar to its strategy toward the Balkans. In recent years small countries in the Balkans such as Serbia, Bosnia, Slovenia, Macedonia, Moldova and so on have seen an increase in Chinese investment in infrastructure projects and generous loans (*World Security Network*, March 8). Some European analysts such as Dusan Reljic from the German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik, SWP) have described the Chinese arrival in the Balkans as an effort to get into Europe through its backdoor. Reljic says that a direct route to greater EU presence is more costly for China than investing in territories poised to join the EU within 10 to 15 years. "It's cheaper to buy assets there than within the European Union," he said (*Deutsche Welle*, March 4). Similarly, with Syria poised to sign the Association Agreement with the Mediterranean Union, China's investment in Syria would eventually gain a beachhead and foothold into the EU market via the Mediterranean Union (*Global Arab Network*, October 16, 2009) [7].

SYRIA AS A TRADING HUB FOR CHINA'S INTERESTS IN AFRICA, MIDDLE EAST AND EUROPE

Second, Syria's proximity to a large trading bloc of the EU and some of the fastest growing economies in the world in Africa, the Middle East and Asia would enhance its role as a trading hub via the "neighborhood effect," whereby factories will be placed in locations closer to both suppliers and consumers of products. Thus, Syria as a node on the Silk Road can be reborn as a regional outsourcing distribution center poised to take advantage of positive externalities of this neighborhood effect. Syria is already on track to slowly reforming its economy; it is self-sufficient in energy with a power grid linked to Jordan, Lebanon and Turkey; and it is taking steps to privatize the banking system and planning to set up a Damascus stock exchange. China thus is establishing first mover advantages to secure competitive pricing in a country that is methodically taking steps to reform its economy (*Forward Magazine*, January 26, 2009). Indeed, China is already using Damascus as a springboard to the region, with "China City" in Adra Free Zone industrial park located 25 km north east of Damascus on the Damascus-Baghdad highway, established by entrepreneurs from the wealthy Chinese coastal province of Zhejiang, to sell Chinese goods and as a major trans-shipment hub onto Iraq, Lebanon and the wider region (*Forbes*, May 21, 2009) [8]. China City is especially popular among visiting officials from Iraq, where China is currently the biggest oil and gas investor (*Middle East Information*, March 17; *Aswat al-Iraq*, April 1; *Business Insider*, February 2).

SYRIA AS A KEY NODE FOR CHINA'S IRON SILK ROAD

Third, China is interested in building a Eurasian railway network connecting Central Asia through the Middle East and onto Europe (*Railway Insider*, March 11; *The Transport Politic*, March 9). Under the auspices of the Shanghai Cooperation Organization (SCO), China is already negotiating to change Kyrgyzstan's soviet tracks of 1,520 mm to the international standard of 1,435 mm in order to connect with Turkish and Iranian railway systems (*Georgian Daily*, January 27). The network would eventually carry passengers from London to Beijing and then to Singapore and run to India and Pakistan, according to Wang Mengshu, a member of the Chinese Academy of Engineering and a senior consultant on China's domestic high-speed rail project (*Daily Telegraph*, March 8). There will be three main routes, with one connecting to Southeast Asia as far as Singapore, the second one from Urumqi in Xinjiang Province through Central Asian countries onto Germany, and the third from Heilongjiang in northern China with Eastern and South Eastern European countries via Russia (*Xinhua News Agency*, March 12). Wang said China is already negotiating with 17 countries over the rail lines, and is in the middle of a domestic expansion project to build nearly 19,000 miles of new railways in the next five years to connect major cities with high-speed lines [9].

Syria in December 2009 began discussing railway cooperation with Italian State Railway (Italferr) in Damascus, in order to upgrade the Damascus-Aleppo line as part of a network connecting Turkey toward Europe, and Jordan toward Saudi Arabia and the Gulf, said Syrian Minister of Transport Yarob Bader (*European Business Centre (SEBC) Syria*, December 6, 2009). Syria also wants to build railways from the coastal city of Tartous to Umm Qasr port in southern Iraq, and use its Mediterranean port to build trade routes between Iraq and Europe (*The Wall Street Journal*, June 1, 2009). This bodes well for China's energy holdings in Iraq—where it is building a big presence—as China and Syria already held discussions on building a natural gas pipeline from Iraq's western Akhas fields to Syria, which could be an attractive transit point for gas-starved Arab and European markets (*The Wall Street Journal*, April 1).

SYRIA'S 'LOOK EAST' POLICY TOWARD CHINA

Similarly, China is of great strategic value to Syria during a time when the West is trying to isolate it. When the doors to Europe and the United States were closed to Damascus in 2005 following allegations of Syrian involvement in Lebanese Prime Minister Hariri's assassination, foreign policy chiefs decided to look East to replace the vacuum

of the West. Buthaina Shaaban, the current presidential adviser on media affairs, penned an article then outlining this approach: “Perhaps the time has come to bring the Arabs, from a state of complete submission to the hostile West, towards [sic] the East and countries that share with us values, interests and orientation.” She added, “What did we get from the West, to which the Arabs affiliated themselves for the entire past century, except for occupation, hatred and war?” (*Gulf News*, January 12).

CONCLUSION

Syria is proving to be an important *Ning Jiu Li* node on China’s Silk Road. With China’s new activism and its aspirations to eventually join the Middle East Quartet in shaping the Arab-Israeli peace process (Xinhua News Agency, December 16, 2006), Syria is emerging as a key partner in China’s broader Silk Road Strategy for “peaceful and harmonious development” in the Mediterranean region. Indeed, Henry Kissinger proclaimed that in the Middle East, there is “no war without Egypt, no peace without Syria.” As China becomes more engaged in the Middle East region and Syria is “looking east” to what it perceives may be a new Pax Sinica, the international community needs to pay heed to this burgeoning partnership and begin to factor in China as an important player in the greater Middle East and Mediterranean geopolitical landscape.

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NOTES

1. “Energy First: China and the Middle East” by Jin Liangxiang, Shanghai Institute for International Studies, *Middle East Quarterly*, Spring 2005, pp. 3-10.
2. Ambassador Wu Jianmin is currently professor at the China Foreign Affairs University (CFAU) and Chairman of the Shanghai Centre of International Studies (The Globalist, “Biography of Wu Jianmin, November 16, 2009). He is also Vice-Chairman of the prestigious Institute of Strategy and Management, and has a distinguished diplomatic career, having interpreted many times for Chairman Mao Zedong, Premier Zhou Enlai and other State leaders from 1959-1971 as a young diplomat. Chinese Radio International in 2009 dubbed him “one of China’s most outstanding diplomats...as one who witnessed and contributed to the development of China’s diplomacy.” (Chen Zhe, “Senior Diplomat Wu Jianmin,” (CRI English, February 18, 2009).
3. “Energy First: China and the Middle East” by Jin Liangxiang, Shanghai Institute for International Studies, *Middle East Quarterly*, Spring 2005, pp. 3-10.
4. Dan Blumenthal, “Providing Arms: China and the

Middle East,” *Middle East Quarterly*, Spring 2005, pp.11-19.

5. Jin Liangxiang, “Energy First: China and the Middle East”.
6. Anja Zorob, “Partnership with the European Union: Hopes, risks and challenges for the Syrian economy” in Fred H. Lawson ed., *Demystifying Syria* (London: London Middle East Institute, SOAS, 2009), p.153.
7. “Anja Zorob, “Partnership with the European Union: Hopes, risks and challenges for the Syrian economy” in Fred H. Lawson ed., *Demystifying Syria* (London: London Middle East Institute, SOAS, 2009).
8. *The New Silk Road: How a rising Arab world is turning away from the West and rediscovering China* (Palgrave Macmillan, 2009), p.81.
9. *Ibid.*

Karzai’s State Visit Highlights Beijing’s Afghan Priorities

By Richard Weitz

From March 23 to March 25, Afghan President Hamid Karzai conducted a state visit to China. The trip underscored the People’s Republic of China’s (PRC) support for the Karzai-led government, with the Afghan president telling his hosts that Sino-Afghanistan relations were better than at any time in history (Xinhua News Agency, March 25). This assessment is valid even as Chinese leaders strongly urged Karzai to adopt additional measures to stem regional narcotics trafficking and terrorism emanating from Afghanistan. Yet at the same time, the exchange made clear that the PRC’s priorities are to maintain a major diplomatic and especially economic presence in Afghanistan—but not a military one.

Karzai met with the PRC’s most important political elites, including President Hu Jintao, Prime Minister Wen Jiabao and Wu Bangguo, chairman of the Standing Committee of the National People’s Congress. In addition, the Afghan president held talks with Chinese business leaders and delivered a speech at Peking University on the Afghan government’s pursuit of democracy and development. Besides Karzai, the Afghan delegation included the cabinet ministers of foreign affairs, defense, and mines and investment as well as some 20 Afghan business executives (Xinhua News Agency, March 25; Radio Free Europe/Radio Liberty, March 25).

Although this was Karzai’s fourth trip to the PRC as Afghan president, the occasion marked the first time Karzai had traveled to Beijing since his last year’s fraud-tainted

reelection last summer. During this process, some Western governments had complained about election irregularities and had more or less openly sought Karzai's replacement (*Central Asia-Caucasus Institute Analyst*, Feb 11, 2009; *New York Times*, December 16, 2009). In contrast, the PRC government declined to comment on the elections, treating the process as Afghanistan's internal affair. In the joint statement issued at the end of Karzai's visit, the PRC reaffirmed its adherence to "the principle of non-interference into other countries' internal affairs, its respect for Afghanistan's independence, sovereignty and territorial integrity, [and] its respect for the Afghan people's choice of a development road suited to their national conditions" (Xinhua News Agency, March 25).

DEEPENING ECONOMIC TIES

Rather than focus on Afghan domestic politics, PRC officials emphasized their desire to expand China's commercial and other non-military presence in Afghanistan. During his March 24 meeting with Karzai in the Great Hall of the People, President Hu identified five priority areas for building a "comprehensive cooperative partnership of good-neighborliness, mutual trust and friendship for generations":

- 1 strengthen overall bilateral ties by engaging in more regular meetings and exchanges
- 2 promote further bilateral economic collaboration
- 3 "deepen cooperation in the humanities" in areas "such as personnel training, education, culture and public health"
- 4 enhance security and police collaboration by combating "cross-border organized crimes and the three evil forces of terrorism, extremism and separatism"
- 5 "coordinate with each other in multilateral affairs," with Hu praising PRC-Afghan regional cooperation within the framework of the Shanghai Cooperation Organization (SCO) and the South Asian Association for Regional Cooperation (Chinese Foreign Ministry's Website, March 24).

In elaborating on the second objective, Hu made evident China's ongoing interest in pursuing profitable business deals in Afghanistan: "China is ready to discuss new cooperation programs with Afghanistan based on the already-implemented cooperation projects, increase mutual investment, maintain steady trade growth and promote bilateral cooperation in the [*sic*] areas such as agriculture, water conservancy, mining and infrastructure construction so as to enhance the quality and level of the cooperation." To this end, and in support of the third objective: "China is ready to train more professional and technical personnel

for Afghanistan's peaceful reconstruction." In elaborating the fourth point, however, Hu cautioned that "China attached great importance to the security of its citizens and companies in Afghanistan, urging the country to take effective measures and improve security work to ensure a sound environment for bilateral cooperation" (Chinese Foreign Ministry's Website, March 24).

The two presidents then signed three agreements that expanded economic and technological cooperation, established bilateral training programs, and provided favorable tariffs for certain Afghan exports to China. In their main joint statement, the PRC and Afghan governments pledged to increase their mutual trade, investment and technology transfers in such areas as transportation, agriculture, irrigation, energy, mining and infrastructure construction. They also stated their Joint Economic and Trade Committee would begin meeting (Xinhua News Agency, March 25).

These measures aim to expand Sino-Afghan commerce. According to Chinese statistics, two-way trade between Afghanistan and the PRC amounted to \$155 million in 2008 (The Associated Press, March 25). President Karzai estimated that the level of bilateral Sino-Afghan trade has now reached approximately \$200 million annually (Office of the President, Islamic Republic of Afghanistan, March 24). The week before Karzai's arrival, sources in the PRC Foreign Ministry reaffirmed China's support for building schools, constructing hospitals, and supporting additional reconstruction projects (AsiaNews.it, March 25). Since 2002, when Afghanistan's new post-Taliban government was formed, the PRC has provided more than 900 million yuan (about \$130 million) in reconstruction assistance to the country. In addition, the Chinese government has already pledged an additional \$75 million over the next five years (Xinhua News Agency, March 25). Starting in July 2006, moreover, the PRC has allowed hundreds of Afghan products to enter China without tariffs (Xinhua News Agency, March 25). Despite this measure, two-way trade consists primarily of Afghans purchasing PRC consumer goods while exporting Afghan raw materials.

The focus of recent PRC economic activity in Afghanistan has been on extending China's investment in Afghanistan's natural resources. While in Beijing, Afghan Foreign Minister Zalmai Rassoul echoed Karzai's message by telling state-run *China Daily* that Afghanistan would welcome additional PRC investments in its natural gas and iron ore sectors, and would take steps to ensure better protection of Chinese nationals and firms in his country (*China Daily*, March 25). Afghan officials see foreign trade and investment as perhaps their best means for reducing their dependence on international assistance, which currently covers 90 percent

of the Afghan government's budgetary expenditures and could well rise further as the size of the Afghan National Army and Afghan National Police continue to expand to counter the Taliban insurgency. The state-owned Metallurgical Corporation of China, which unexpectedly won the 2007 tender to develop one of the world's largest unexploited copper reserves at Aynak in the province of Logar, south of Kabul, is thought to have a good chance of also winning this year's tender for the rights to develop the iron ore deposits at Hajigak, located west of Kabul in the central Afghan province of Bamiyan (The Associated Press, March 25). The Afghan Ministry of Mines hopes the winning bid will exceed \$5 billion (Reuters, March 22). PRC and Afghan officials are discussing constructing a railroad directly connecting their countries, which could increase the flow of goods even further (Office of the President, Islamic Republic of Afghanistan, March 24).

Energy security considerations also influence PRC policy toward Afghanistan. The country is believed to have substantial natural energy resources, and the Afghan government is seeking foreign investment to exploit these assets. For example, the Afghan Ministry of Mines is looking for international partners to develop 11 natural-gas sites in the northwestern Afghan provinces of Jowzjan and Maimana (Radio Free Europe/Radio Liberty, March 25). In addition, the PRC has been expanding its access to energy assets in the surrounding countries of Central Asia. The security of these resources, and the land-based transportation routes linking them to China, depends in part on the situation in Afghanistan. In December 2009, China opened a major energy pipeline that transports natural gas from Turkmenistan through Uzbekistan and Kazakhstan through areas sufficiently close to Afghanistan that the pipeline could be attacked by guerrillas operating from Afghan territory.

DEFENSE, DIPLOMACY AND DEVELOPMENT

In his meeting with the visiting Afghan Defense Minister, Rahim Wardak, PRC Defense Minister Liang Guanglie offered Afghanistan limited military assistance. Liang made clear that the aid would be for additional defense supplies and military training rather than direct combat support such as that provided by most of the 44 countries in NATO's International Security Assistance Force (ISAF). The PLA "will continue assistance to the Afghan National Army to improve their capacity of safeguarding national sovereignty, territorial integrity and domestic stability" (AFP, March 25). For example, at the end of last year, the PRC trained 19 Afghan soldiers to defuse mines in Nanjing (*China Daily*, March 25).

Afghan officials and their foreign allies have sought to

encourage the PRC leadership to use its strong ties with Islamabad to pressure Pakistani security services to reduce their assistance to the Afghan Taliban and persuade its leaders to enter into peace negotiations with the Karzai government (Reuters, March 22). Pakistan's intelligence services helped create the Taliban in the late 1990s and are still seen as the movement's close allies. When in Beijing, Karzai proposed creating a trilateral cooperation mechanism between Afghanistan-Pakistan-China. According to Afghan sources, Hu welcomed the proposal (Office of the President, Islamic Republic of Afghanistan, March 24). Nonetheless, while PRC representatives have pressed Pakistani officials to end their support for radical Islamist groups seeking to challenge Beijing's control of Xinjiang, no clear evidence exists that they have made much effort to decrease Pakistani support for Islamists fighting the governments of Afghanistan or India.

Chinese officials clearly prefer to engage Afghanistan economically, but they try to depict a harmonious relationship in which the PRC's pursuit of its commercial goals helps promote peace and prosperity in Afghanistan. During Karzai's visit, the PRC media quoted several Afghan experts as emphasizing how Chinese economic assistance and investment in Afghanistan would help promote their country's security as well as prosperity. For example, a professor at Al-Bironi University, Abdul Qahar Sarwari, reportedly said that, by investing in Afghan development projects, the PRC would reduce unemployment and poverty, which he termed the "mother of all evils including insurgency and insecurity." Arguing that unemployed young people join the Taliban and other guerrilla forces simply to provide food for their families, Sarwari reportedly said that, "Providing jobs and regular income to citizens would alleviate poverty and eventually slim the ongoing insurgency in the country" (Xinhua News Agency, March 23). The PRC media similarly quoted Qasim Akhgar, described as a human rights activist and editor-in-chief of an influential newspaper, as saying that Chinese investment would improve Afghanistan's security situation by raising living standards (Xinhua, March 23). In terms of third country nationals, *China Daily* cited NATO Secretary-General Anders Fogh Rasmussen as recognizing China's "key role in civilian development in Afghanistan" which, more than military operations, would ensure Afghanistan's "long-term peace and stability" (*China Daily*, March 25).

In representing the Chinese option, the PRC media cited Chinese sources who expressed reluctance to associate the PRC too closely with NATO and U.S. military stabilization efforts in Afghanistan. An anonymous "People's Liberation Army officer and researcher at a top military think tank" commented that NATO could hardly expect the PRC to provide direct support for its military operations when the

alliance “did not seek China’s opinion when it deployed its forces in Afghanistan in the first place.” Although he welcomed the development of some ties with NATO, the unnamed officer warned, “China should be cautious not to be taken advantage of” (*China Daily*, March 25). Chinese diplomats have stressed the leading role of the UN rather than NATO in coordinating the Afghan reconstruction process (*China Daily*, March 20). Another PRC publication explained why Chinese experts opposed allowing the U.S. military to transport supplies through the Wakhan Corridor linking the PRC and Afghanistan. According to these analysts, the U.S. military might exploit the opportunity to contest Beijing’s control of Xinjiang as well as encircle the PRC with pro-Washington regimes to contain China. The paper cited these analysts as also arguing that providing direct support for Western military operations could prompt the Taliban to see the PRC as an open enemy and support further terrorist attacks against China. In addition, they allegedly worry that joining the U.S. war effort could antagonize local Afghans and therefore endanger China’s economic interests in Afghanistan following a U.S. military withdrawal (People’s Daily Online, March 26). Some Chinese analysts are uneasy even about the PRC’s growing economic role in Afghanistan, fearing that the United States is unwilling to share influence with other countries in Afghanistan. “Instead, what the US is willing to share with countries like China is the burden of economic reconstruction.” (*China Daily*, March 24).

A few days after Karzai’s return to Kabul, U.S. President Barack Obama conducted a surprise visit to the Afghan capital. In contrast to the economic focus of the Hu-Karzai exchange, Obama apparently concentrated on security issues in his discussions with Karzai, especially on how his government was implementing its political-military reform program and assuming greater leadership of the war, which U.S. strategists consider essential for defeating the Taliban insurgency. There is no evidence that China’s role was even discussed during Obama’s six-hour stopover, though Karzai’s subsequent anti-American outbursts about U.S. political interference in Afghanistan suggest Karzai prefers the Chinese practice of not criticizing his domestic practices to the sharp rebukes he apparently received from Obama’s senior advisers if not the American president himself.

CONCLUSION

China has important national interests at stake in Afghanistan, including containing its rampant narcoterrorism and protecting the PRC’s important growing commercial presence in that country. Chinese officials are employing a variety of unilateral, bilateral and multilateral means to pursue their objectives, with the focus on dealing directly with the Karzai government. The PRC’s priorities

are to sustain a leading economic presence in Afghanistan but avoid assuming a major military role that could visibly align Beijing with the anti-Taliban coalition. Ideally, China’s contribution to Afghanistan’s economic recovery will over time strengthen the Afghan government, especially in terms of increasing its revenue, as well as reduce support for the insurgency by removing a source of popular discontent. By failing to provide more direct assistance to the coalition’s military efforts, however, the Chinese government denies itself any important influence on NATO’s military strategy and increases the risks of the Karzai government’s defeat. In addition, while the PRC government might be able to work out a deal with a Taliban-dominated Afghanistan that would protect China’s growing economic stake in the country, the Islamists might again transform Afghanistan into a terrorist-exporting state, forcing Beijing to confront a major threat to its core economic and strategic interests without the option of free riding on the Western military.

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Taiwan’s Navy: Able to Deny Command of the Sea?

By James R. Holmes and Toshi Yoshihara

The first installment of this series on the Republic of China Navy (ROCN), or Taiwan Navy, presented a skeptical assessment of the ROCN’s ability to fulfill the expansive requirements set forth in its “ROC Navy Vision” (*Xin shiji haijun*), which in essence directs the navy to network its operations, extend its reach and amplify its combat punch in order to take control of offshore waters [1]. Yet the Taiwan Navy submarine fleet barely rates the name, the surface fleet is ill-suited for sea control, and even according to a recent Taiwanese Defense Ministry assessment, the tactical air power on which its surface operations depend is also in serious decline (*Defense News*, March 8).

That does not mean, however, that the Taiwan Navy is without options for defending Taiwanese shores. Reconfiguring the fleet and devising inventive tactics could let the ROCN take advantage of the island’s geography. As a result, Taiwan’s chances of withstanding a Chinese invasion, as well as the air and missile blitzkrieg that would likely precede it, would increase commensurately. Denying the People’s Liberation Army Navy (PLAN) use of the waters around Taiwan would be nearly as effective from the standpoint of homeland defense as fighting for outright sea control.

A navy prosecuting a sea-denial strategy has little need to control the seas itself; it merely wants to keep a superior foe from using critical expanses. Observes Admiral Stansfield Turner, putting a Maoist spin on the concept, sea denial is “essentially guerrilla warfare at sea.” It is a mode of combat in which a lesser navy—measured by numbers, capability, or both—“hits and runs” at a time of its own choosing, wearing down a stronger foe [2]. This way of thinking has a long pedigree in China, which until the 1980s developed the PLAN as a force for waging “people’s war at sea,” largely because of its operational focus on inshore waters, its lack of oceangoing warships, and the dominance of leaders with an Army background [3]. In spite of China’s growing naval prowess, the PLAN still invests heavily in near-seas platforms (e.g. fast patrol boats) [4]. These vessels, operating in conjunction with the submarine fleet, combat jets, land-based antiship missiles and minelayers, can convert offshore waters into a virtual no-go zone for a potential adversary like the U.S. Pacific Fleet or the Japan Maritime Self-Defense Force—despite those navies’ overall superiority to the PLAN.

TAIWAN’S CURRENT SEA-DENIAL CAPABILITY

Across the strait, by contrast, the ROCN exhibits a peculiar disregard for naval tactics of the disadvantaged. The Taiwan Navy sea-denial fleet consists largely of antiquated *Hai Ou* (Seagull) class boats that carry only two first-generation antiship missiles apiece and, at only 47 tons, have little sea keeping ability in heavy weather. This affords larger Chinese warships like destroyers or amphibious landing ships a significant advantage, namely the ability to attack when the seas are too rough for the *Hai Ous* to leave port to oppose them. The successors to the *Hai Ous*, the 154-ton *Kuang Hua VI* (Glorious Chinese) boats, look promising on paper. Currently under construction, the boats feature stealthy superstructures that reduce their radar cross-section, helping them evade detection. Moreover, these vessels punch above their weight, carrying four Hsiung Feng-II antiship missiles each [5].

Thirty *Kuang Huas* are scheduled to be in service by 2015 [6]. Yet the *Kuang Hua* program has been troubled since its inception in 1996. Poor design, slipshod construction and political controversies over the bidding process delayed serial production for years. It was not until 2007, four years after the prototype entered service, that batches of *Kuang Hua* boats started being delivered—albeit slowly—to the ROCN. In 2008, the prototype lost power during a typhoon and ran aground, giving rise to doubts about its seaworthiness in choppy Taiwan Strait waters.

Recent disclosures that Taiwan plans to fund a 1,000-ton missile corvette seem to confirm that the naval leadership

is losing confidence in the *Kuang Hua* as an implement of sea denial (*United Daily News* [Taiwan], September 7, 2009). Reports about the new corvette remain sketchy. Indeed, the top-secret vessel’s existence was only disclosed by accident when its funding line mistakenly appeared in unclassified legislation. It will reportedly be equipped with the indigenously built Hsiung Feng III antiship cruise missile, a bird intended to counter the Russian-built SS-N-22 Sunburn missiles carried by PLAN *Sovremennyy*-class destroyers. With its 300-km range, the Hsiung Feng III could be lethal in combat against PLAN carrier task forces, the mission for which it was designed [7].

The island’s spotty track record at fielding major weaponry, however, is cause for skepticism about the missile’s prospects. Nor is it clear that the Taiwan Navy could use the Hsiung Feng III to full effect, even if the launch platform performs as advertised. Employing long-range weaponry depends on the capacity to detect, identify, acquire and target enemy platforms at long range. Absent that capacity, naval forces find themselves compelled to hold their fire, to close the range, or to fire blind in hopes of hitting an enemy vessel. A weapon’s *effective* firing range, then, can be much shorter than its design range. A ship that cuts loose beyond its effective range risks missing its target entirely or hitting commercial shipping—with all the diplomatic blowback such a blunder would entail. Indeed, US Navy warships stopped using the antiship variant of the Tomahawk cruise missile years ago for that very reason, realizing that the fleet’s reach exceeded its grasp. While the new ROCN corvette seemingly holds considerable promise, consequently, a wait-and-see attitude is most proper for the time being [8].

These embarrassments have not gone unnoticed in China, where analysts have unearthed several major flaws in the *Kuang Hua*. Observers opine that the tall superstructure from which antiship missile canisters protrude will reflect radar, as will the small-caliber guns and other items cluttering the deck. This exposes the craft to detection and targeting, defeating the purpose of its stealthy design (*Xiandai Jianchuan* 11, November 2007; *Xiandai Jianchuan* 4, April 2004). Some mainland analysts consider the *Kuang Hua*’s stealth features both costly and entirely superfluous. They point out that its radar cross-section is virtually indistinguishable from that of Taiwan’s many fishing vessels, letting the boat hide amid traffic in the strait while awaiting its chance to strike (*Dangdai Haijun* 2, February 2004). Worse, this needless attention to concealment degrades combat performance. The stealth superstructure renders the craft top-heavy, detracting from stability and hindering maneuverability at high speeds—particularly in bad weather (*Jianchuan Zhishi* 292, January 2004). Still other Chinese analysts point out that the *Kuang Hua* lacks

an on-board command-and-control suite. If PLA missile salvos incapacitated shore-based ROCN sensors and fire-control systems, the sea-denial fleet would find itself instantly blinded, unable to find let alone target enemy ships (*Dangdai Haijun* 1, January 2005).

Such critical assessments from mainland analysts are troubling. Yet, the amounts of attention Chinese analysts devote to the *Kuang Hua* shows how seriously they take the littoral threat. Indeed, they track foreign sea-denial strategies closely, particularly those of Scandinavian navies. This is unsurprising in light of China's history of people's war at sea. Nordic fleets pioneered swarming tactics. Missile-armed fast patrol boats exploit the complex maritime geography of the Baltic and North Atlantic seacoasts through speed, stealth and deceptive measures. Handled deftly, small craft can strike a heavy blow against a superior navy closing in on Scandinavian shores—a tactical setting not that different from the Taiwan Strait.

While they deprecate the ROCN, Chinese experts single out the Royal Swedish Navy as a model of sea-denial prowess. Captain Li Jie, a well-known researcher at the Beijing Naval Research Center, lavishes praise on the *Visby* corvette, depicting this small combatant as a product of Swedish strategic insight and technical virtuosity (*Bingqi Zhishi* 3, March 2002) [9]. Such in-depth discussions indicate that Beijing genuinely appreciates the value of a capable coastal fleet—and they show how seriously PLAN strategists take the danger should the ROCN turn such a fleet against them. Nor is this mere hype. Chinese threat perceptions offer a good benchmark for future Taiwanese fleet tactics.

HOW WOULD ROCN SEA DENIAL WORK?

Despite the Taiwan Navy's general neglect of its lower-end capabilities, imaginative tactics and operational concepts—some of which enjoy support from Taiwanese strategists—could offset the material shortcomings detailed above. For example, the ROCN could disperse its sea-denial fleet around the island's maritime perimeter, positioning vessels and support infrastructure in concealed locations like caves or hardened manmade shelters along the seacoast. From there a dispersed fleet could strike at Chinese assets from the near and far sides of the island, remaining mobile and unpredictable. Wolfpacks of fast attack boats prowling along Taiwan's east coast would enjoy protective cover from the central mountain range, severely complicating PLA detection, tracking, and targeting efforts. Or, flotillas could operate behind the Penghu Islands, using landmasses to screen their movements while awaiting the right moment to launch surprise swarm attacks.

Some Taiwanese strategists are already thinking in such terms. Retired Lieutenant General Li Kui-fa of the ROC Air Force urges the navy to hide its small craft in civilian harbors, letting them blend in with the large Taiwanese fishing fleet (*Chien-tuan Ko-chi*, April 2009). Even more ambitiously, Captain Li Li-te of the ROCN advocates the combined use of warships and armed fishing vessels to launch saturation missile attacks against Chinese surface vessels (*Hai-chun Hsueh-shu Shuang-yueh-kan*, October 1, 2008). Such irregular-warfare tactics pose precisely the types of challenges that so impress Chinese analysts about the Nordic navies.

More importantly, deliberately mingling civil and military shipping would force China to make an unpalatable choice. If the PLA chose to strike at the ROCN fleet preemptively, regardless of the fleet's location, it would have to target nonmilitary sites. Such a move would undoubtedly inflict casualties among Taiwanese fishermen and other noncombatants. This would paint China as the aggressor—hardening the Taiwanese will to fight, increasing the likelihood of U.S. intervention, and bringing international opprobrium down on Beijing. Yet if the PLA refrained from horizontally expanding the war to harbors where ROCN units were stationed, it would concede the Taiwan Navy a sea-denial option. Either way, Taipei would obtain a sorely needed advantage in a deteriorating strategic environment.

MORE OF THE SAME IS MOST LIKELY

This all sounds simple, but as military theorist Carl von Clausewitz observes, “the simplest thing is difficult” in strategic affairs. This is especially true when remaking military services for new realities. In his study of the U.S. military in Vietnam, former counterinsurgency chief Robert Komer recounts how commanders applied a rigid “bureaucratic repertoire” premised on conventional warfare to counterinsurgent warfare—regardless of whether conventional operations fit the circumstances in Indochina [10]. The U.S. Army sought to fit the surroundings to its operational preferences.

Strong, relentless pressure from political or military leaders can result in peacetime reform, but this is the exception. It often takes wartime defeat to clear the mind. Absent some shock to the system, services naturally tend to keep doing what worked before—or have not been proved *not* to work. Scholar William Murray met stiff yet predictable Taiwanese resistance to a 2008 *Naval War College Review* article in which he implored Taipei to rethink its military strategy, shifting from an offensive to a defensive stance [11]. Conceding military superiority to the PLA evidently represents a bridge too far for many Taiwanese officials.

Any challenge to ROCN strategy and forces is apt to encounter similar pushback. If anything, navies are more prone to cultural myopia than most institutions. Henry Stimson, Franklin Roosevelt's secretary of war, joked that a "peculiar psychology" pervaded the U.S. Navy establishment. In this quasi-religious outlook, "Neptune was God," the navy "the only true Church" [12]. Dogma worked against innovation. Oftentimes smaller allies mimic their patrons' strategic and operational preferences. U.S. Navy influence may have contributed to ROCN mariners' lingering fascination with capital ships.

Reorienting the ROCN toward sea denial would mean playing down its tradition of fleet-on-fleet engagements and letting go of prized assets. Ships comprise much of a navy's institutional identity. Naval leaders can seldom resist the temptation to argue on behalf of particular ships, aircraft or armaments as a substitute for formulating strategy and operational concepts. They also favor big platforms with multiple missions—meaning that basing ROCN strategy on fast attack boats with one mission, and engaging enemy surface forces, is a toxic thought for many officers. Abandoning missions may be as unbearable for the Taiwan Navy as parting with major combatants or dispersing forces.

Having lobbied tirelessly for *Kidd*-class destroyers and other big-ticket items, the ROCN command would find it next to impossible to abandon the sunk costs of this weaponry, truly embracing guerrilla warfare at sea. Nor would reinventing the ROCN as a sea-denial force stop with hardware. The navy would have to develop new doctrine to put its fast attack craft to good use; the officer corps would have to steep itself in small-unit tactics predicated on isolating and annihilating individual PLAN units or small formations remote from mutual support.

A sea-denial culture, then, would place a premium on small-unit cohesion and individual initiative. This would involve a radical shift away from centralized command-and-control, both to enhance tactical effectiveness and to reduce the navy's vulnerability to preemptive PLA strikes against command-and-control nodes on the island. In institutional, equipment, and personnel terms, sea denial would spell fundamental change to how the ROCN conducts operations. Whether there exist any constituencies in Taipei that are strong, determined and knowledgeable enough to impose change on a Taiwan Navy obsessed with sea control appears doubtful. In all likelihood, the navy will keep trying to do everything at once, comporting itself like a U.S. Navy in miniature. If so, it will keep underperforming in both sea control and sea denial.

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Chinese Defense Expenditures: Implications for Naval Modernization

By Andrew S. Erickson

The extent and nature of Chinese defense spending can serve as the parameters for the future course of China's military power and China's intentions as it continues

military modernization. Recent scholarship on China's defense spending concludes that its military budgets have been understated in official sources, although there is enormous controversy concerning how much and why [1]. Even more controversial have been Western interpretations of China's defense budget. Some believe there is now firm evidence that Beijing fully intends to challenge Washington for regional leadership in the Asian littoral and may even reach further to conduct extensive operations. Others have concluded from recent budgets that China is pursuing military power commensurate with its economic strength and sufficient to allow military actions to achieve reunification with Taiwan. Studying PLA funding can offer insights into the trajectory and dimensions of the People's Liberation Army Navy (PLAN)'s modernization.

CURRENT SPENDING

The People's Liberation Army (PLA)'s official 2010 defense budget is \$78 billion [2], ahead of Russia and Japan, and second only to that of the United States at \$685 billion. Since 1990, the budget has enjoyed double-digit growth, with the exception of 2003 (in which growth was 9.6 percent) and 2010 (7.5 percent). From 1998-2007, China's annual increase in defense expenditures averaged 15.9 percent, outpacing growth in GDP at 12.5 percent, but not government expenditure, at 18.4 percent. This episode followed a period of slightly slower defense budget increases averaging 14.5 percent from 1988-97, which nearly matched increases in state financial expenditure at 15.1 percent, but amid GDP growth of 20.7 percent and significant inflation. That period in turn represented a major transition from the 1978-87 era, when prioritization of economic development held defense expenditure growth at 3.5 percent and government budgets at 10.4 percent while focusing on GDP growth of 14.1 percent [3].

Much has been made of the 2010 reduction in growth, with American scholars citing internal politics, domestic priorities in the 12th Five Year Plan, low inflation, corruption crackdowns and PLA achievements of mid-range goals [4]. Senior PLA scholars, including Major General Luo Yuan, cite the need for economic spending during the financial crisis [5]. General Luo also states that defense budgets should not be based on international opinion, perhaps implying that he believes this consideration may have influenced the PLA's 2010 budget [6].

The bottom line is that no other major power is approaching even this level of defense spending growth. Expenditures in both the overall budget and on equipment (which includes procurement, and, to some extent, research and development) have increased several fold during this period. China's defense industry, while is still uneven in

efficiency and quality of output, is improving steadily. Together, these factors enable consistent increases in overall PLA capabilities, with particularly rapid progress in niche areas.

The PLA's budget remains veiled and apparently does not include at least some major items found in many Western defense budgets. These include foreign weapons purchases; defense industry subsidies for research and development; certain retiree benefits; and extra-budgetary revenues and resources from a limited number of surviving military commercial enterprises (e.g. hotels and military hospitals) and unit-level production. Also excluded are paramilitary forces, such as the 660,000-strong People's Armed Police (PAP), and substantial military contributions from regional and local governments. China has never released budgetary breakdowns for individual PLA services. The closest equivalent is Beijing's annual submission to the UN via the Simplified Reporting Form, which only enumerates respective active forces, reserve forces and militia spending on personnel, training and maintenance, and equipment.

At the same time, the PLA budget may contain costs not included in those of its Western counterparts. It contributes to national economic and infrastructure development, social welfare, crisis management and disaster relief in ways often covered by non-military organizations in the U.S. and other Western countries.

Much remains uncertain: the precise extent to which the PLA, as opposed to local governments, should fund such areas, including reserve forces and militia training and organization, is apparently under debate. For example, it has sought to transfer its retirement homes to local communities for the past decade, with no resolution in sight.

COMPARING CHINA

Foreign analysts offer a variety of estimates—all higher—for China's actual defense spending; these vary substantially with assumptions concerning exchange rate, purchasing power parity (PPP) indices and inflation. At the lower end of the spectrum, the Stockholm International Peace Research Institute (SIPRI) estimates the PLA's 2008 budget at 1.4 times the official figure. At the higher end, the U.S. Department of Defense estimated in 2009 that the PLA's 2008 budget could be roughly 1.8-2.6 times higher in practice than official figures state [7].

China's government and analysts are clearly worried about foreign perceptions. Chinese attempts to justify increased PLA expenditure are driven in part by concerns that foreign countries will cooperate to contain a so-called

“China Threat.” Official statements regarding China’s defense budget seek to justify its recent rise, citing as the major drivers (1) personnel costs (e.g. education, training and salaries), (2) compensation for rising prices of oil and other inputs, and (3) furthering China’s Revolution in Military Affairs, including implementing informatization and increasing equipment and supporting facilities. Other factors cited include logistics and infrastructure development and international cooperation [8]. Such costs likewise comprise a significant percentage of the defense budget of the U.S. or any other modern military. The PLA is just now trying to get personnel pay in line with societal trends requiring large increases for many people, whereas the U.S. and other countries made those large increases long ago and are now keeping up with inflation.

Chinese sources use a variety of statistical comparisons to explain and minimize Chinese military spending. China’s 2008 Defense White Paper emphasizes “both the total amount and per-service-person share of China’s defense expenditure remain lower than those of some major powers” [9]. Much is made of the idea that China’s official defense budget does not correspond to ‘Western standards,’ and therefore can not be readily compared.

China’s defense economy *is* substantially different from that of Western nations, and perhaps more prepared to assume a war footing in certain respects. According to China’s 2006 Defense White Paper, “In building ... infrastructures, China pays close attention to the requirements of national defense, and ensures that peacetime needs and wartime needs are properly balanced” [10]. Of course, to the extent that the U.S. engages in equivalent spending, it would come from the budgets of other organizations (e.g. the Department of Homeland Security).

Chinese economists offer mixed data when attempting to compare China’s military spending with that of other nations. There is significant, if very limited, disagreement concerning China’s actual level of defense expenditures, however, even inside China. One Chinese scholar not only maintains that direct comparison is possible, but also contends that DoD significantly *understates* China’s annual defense spending, which may be equivalent to over \$150 billion in U.S. spending in his view. He further contends that China’s defense budget should not only be calculated using PPP in general, but should also be further adjusted based on China’s relative degree of self-reliance. For instance, defense spending from non-military organizations (e.g., State Council “special budgets,” weapons sales, and previous military business activities) should be estimated and added to China’s official defense budget, which does not include these categories. Based on current exchange rates, personnel costs should be multiplied by seven.

Foreign weapons purchases should be multiplied by one. Indigenous weapons development and production should be multiplied by a factor somewhere between seven and one, depending on actual degree of indigenization [11]. Regardless of the accuracy of this scholar’s claims, it is useful to examine the methods suggested for calculating China’s defense budget. China’s secretive bureaucracy and low material and labor costs must be considered when attempting to estimate its true military spending.

ONGOING REFORMS

China’s defense development remains hampered by an unwieldy defense economy and budgeting process. While China’s complex and sometimes poorly-coordinated bureaucracy inhibits outsiders’ ability to determine its total military spending, perhaps China itself still has difficulty calculating its own total defense spending. As DoD assesses, “What little public information China releases about defense spending is further clouded by a multitude of funding sources, subsidies, and cutouts at all levels of government and in multiple ministries. Real spending on the military, therefore, is so disaggregated that even the Chinese leadership may not know the actual top line” [12].

This may gradually be changing, however. Since the mid-to-late 1990s, comprehensive reforms have increased PLA financial standardization: (1) divestiture of commercial assets, (2) regularization of accounting and auditing, (3) marketization of defense procurement, and (4) zero-based budgeting to bring budgetary and extra-budgetary funds under centralized management. Rising defense budgets place more and more defense-related expenditures ‘on the books’ [13]. A complex network of often corrupt commercial transactions that proliferated after Deng Xiaoping encouraged military entities to engage in private business in order to supplement reduced defense budgets has been gradually replaced by increased official spending following Jiang Zemin’s ordering of the PLA to extricate itself from most commercial businesses in the late 1990s and instead “eat imperial grain” (i.e. enjoy increased state funding).

ECONOMIC FOUNDATION

At 1.4 percent of GDP (6.4 percent of total fiscal expenditure) officially, China’s 2010 defense spending is clearly sustainable, and could be increased proportionally should Beijing deem it necessary. China’s national debt is equal to only 18 percent of GDP. By contrast, U.S. national debt approaches 100 percent of GDP; defense spending represents 4.7 percent of GDP and 19 percent of total fiscal expenditure. The rising tide of Chinese economic growth

is likely to steadily lift the PLA's boat, at least for the next few years. Liu Yingqiu, dean of the Graduate School at the Chinese Academy of Social Sciences, recently predicted that China's GDP, growing at 9 percent per year, combined with changes in the exchange rate, could overtake that of the United States in 2020 (Global Times, March 9).

COMPETING FACTORS

Nevertheless, in the longer term, a variety of factors may limit PLA budget growth, at least to some extent. Various structural and demographic dynamics could greatly restrict China's ability to sustain rapid military spending growth, regardless of its leaders' intentions. They are likely to face tradeoffs unprecedented since the post-1978 reforms as Chinese society ages, expects higher standards of living and perhaps includes more individuals who are disaffected.

Additionally, even if the PLA budget continues to grow steadily, factors internal to the PLA will likely limit its overall force structure and capabilities. The PLA is already wrestling with increased personnel costs, which will likely consume an increasing percentage of its overall budget. As NCOs increase, for example, they will be paid more than the conscripts they often replace. Combined with more capable and thus more expensive weapon systems and the higher operations and maintenance costs that come with missions such as the anti-piracy patrols in the Gulf of Aden, predicting the future force of the PLA is far more complex than simple straight projections that claim an expansive PLA twenty years from now.

Leading indicators of changes in the parameters of China's defense spending include the Chinese economy's growth, the central government's ability to collect revenues and propensity to spend them on non-military programs (e.g. a future national pension system and other welfare benefits for China's increasingly socially stratified and rapidly aging population), personnel salaries (e.g. competitive pay to attract a dwindling population of draft-eligible individuals amid increasingly attractive private sector alternatives), national spending on research and development, and weapons imports. Of course, even at a lower level of defense spending, China could still increase its power and influence substantially in East Asia and even challenge U.S. and allied interests there.

NAVAL IMPLICATIONS

Regardless of exact figures, China is clearly developing and procuring the weapons and nurturing the manpower to modernize its military significantly. As Richard Bitzinger concludes, "One does not need to count *all* the beans to know that China is an emerging military (as well as

economic and political) power in the Asia-Pacific to be reckoned with" [14]. Increasingly capable Chinese submarines, ships, aircraft, satellites, missiles, and other platforms emerge constantly, underscoring Bitzinger's point.

China's navy thus far has been focused largely on developing a variant of regional anti-access to prevent Taiwan from declaring independence, in part by achieving credible capabilities to thwart U.S. forces should Washington elect to intervene in a cross-Strait crisis. To assess related scenarios, one must compare the actual assets that relevant militaries could deploy; overall comparison of Chinese and American defense budgets is misleading unless one envisions an all-out conflict between the two, which fortunately is not a realistic possibility. The PLAN's current order of battle is still clearly sized and shaped primarily for defending claims on China's disputed maritime periphery as opposed to conducting extra-regional blue water sea control operations.

Yet while concerns about Taiwan's status have played a large role in driving Chinese defense spending since at least the mid-1990s, the PLA's defense interests are now necessarily greater. Taiwan President Ma Ying-jeou's March 2008 landslide election has greatly reduced the risk of conflict. Now, with cross-Strait relations stabilizing and China continuing to grow as a global stakeholder, China's navy is likely to supplement its Taiwan and South China Sea-centric access denial strategy that its current naval platforms and weaponry largely support with "new but limited requirements for protection of the sea lanes beyond China's own waters, humanitarian assistance/disaster relief, and expanded naval diplomacy" [15].

CONCLUSION

Regardless of its exact size, which remains uncertain to outsiders, China's defense budget is on track to continue funding an increasingly capable military/navy that is gradually increasing focus on areas beyond mainland China. This is part of a two-level process, however, with nearby priorities still at the core. Preparing to defend China's territorial and maritime claims by asymmetric means is likely to remain the PLAN's focus for the foreseeable future, even as it pursues secondarily lower intensity missions further afield. Developing robust long-range combat capabilities would require new platforms, force structures, training and operations to such a degree as to require significant increases in the PLAN's budget. As the most naturally internationally-oriented of the services, the PLAN may stand to benefit most the PLA's increasingly "externalized" orientation. It is possible that it might win a larger portion of a growing PLA budget, but there would

likely be resistance to such changes, including from China's other services, which are likely to press their own claims. China's ground forces, though no longer dominating the PLA to the same degree as they have previously, are still vital to the all-important objectives of domestic stability and border security. China's Second Artillery's conventional missiles are critical to holding regional land and, increasingly, sea-based assets at risk. China's Air Force appears to be laying claim to military space missions, and a space force may be developed in the future. Even the most basic data on service budgets remain unavailable to foreign researchers, however, so for now this must remain speculation. China's capabilities are clearly growing, but its naval intentions—at least beyond asserting control over its claimed territorial waters, to include Taiwan—are somewhat unclear.

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