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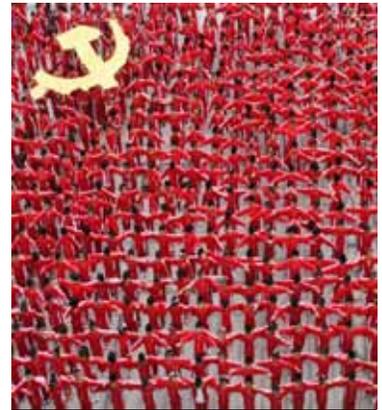
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**In a Fortnight**

**WHO WILL COMMAND CHINA'S AIRCRAFT CARRIERS?**

By L.C. Russell Hsiao

China has reportedly postponed the sea trial of its long-awaited aircraft carrier to an unspecified date in August. The Varyag, which was purchased from Ukraine and is under refurbishment at Dalian port, was widely believed to set sail on July 1 for a trial run. Ostensibly to demonstrate the Party's indispensable role in bringing about the "new China," the date of the sea trial for China's maiden carrier was apparently planned to coincide with the 90th birthday of the Chinese Communist Party (CCP). Yet, due to mechanical difficulties or, in part, Beijing's concerns about regional anxieties over growing tensions in the South China Sea, the sea trial was reportedly delayed (Focus Taiwan News, June 30).

The rollout of China's maiden carrier has been widely touted as a symbolic demonstration of the nation's growing strength and maritime aspirations. To be sure, a single carrier has limited capabilities and, for that matter, limited utility in near-term tactical missions, and its development required a significant investment of economic as well as political resources. Conventional wisdom on China's carrier plan suggests that the Chinese leadership did not put enough planning in personnel development, and therefore will face a lot of difficulties in operating a carrier group. A review of the training programs developed to cultivate the commanders for its aircraft carriers present an ambitious, meticulous and long-term strategy, however.

On March 31, 1987, Admiral Liu Huaqing, the People's Liberation Army (PLA) Navy commander (1982-1988), submitted an internal memo to the PLA Staff Headquarters and National Defense Technology and Industry Committee on developing the core strengths of the PLAN, which included developing aircraft carriers and nuclear submarines (China Review News, May 22,

2009). According to a *Jiefangjun Bao* (PLA Daily) article in 2008, the Central Military Commission in May 1987 initiated the first and only “Pilot Warship Captain Class” (*feixingyuan jianchang ban*) at the Guangzhou Warship Academy. The program selected the military’s most talented pilots to undergo surface warship vessels leadership training. In other words, the Chinese military has been training navy pilots as aircraft carrier ship captains since 1987 (Sina.com.cn, June 26). Ten naval aviation pilots were apparently selected to attend the pilot training program. Nine pilots went through three and half to four years of training in naval aviation command, and were stationed in different command units to serve as deputy captains and then became captains of their aviation wings (Sina.com.cn, June 26).

The aircraft carrier program was delayed and these pilots were retrained and reassigned for destroyer commands. Most of these destroyer commanders are qualified naval pilots. This training background establishes a link between the Chinese aircraft carrier and destroyer—many captains and their deputies of Chinese destroyers were former naval pilots and are thus ideal candidates to serve as captains of China’s aircraft carriers (Sina.com.cn, June 26). They have already gone through intensive training, and served on board naval vessels after graduating. Now most of them have close to 20 years of joint training experience, and serve essentially as the backbone of China’s surface warship fleet. For example, Bai Yaoping is widely speculated to become the Chinese carrier commander. As a member of the class of ‘87 at the Guangzhou Warship Academy, most of the students who attended this class are close to their 50s, and to varying degrees have set the Navy’s standard as potential commanders. They are at a prime age and experience; most of them hold military ranks that are above colonel or senior colonel (Sina.com.cn, June 26).

The time and preparation that the Chinese leadership invested in cultivating these personnel may be one indication of a robust carrier plan. The time required to train and develop experience and skills is arguably longer than the development of some military technologies. While there are many variables involved in ensuring the operational success and effectiveness of an aircraft carrier not the least a carrier group, it appears that the command aspect of these vessels may not be a major issue. To be sure, there remains a long period of training, development and joint exercises before the carrier becomes fully operational. Yet, the prestige and importance that the Chinese leadership attaches to the carrier program should not be understated. Given the political capital that the Chinese leadership has clearly invested in the program, its funding and development would not easily be shelved again. Furthermore, there are indications that China may already be cultivating the subsequent batch of captains and pilots for its next fleet of carriers (See “PLA Navy Expands Recruitment Drive to Enhance Operational Capability,” *China Brief*, May 20). Indeed, the pending sea trial for the Varyag will mark an important milestone as the first step in China’s effort toward becoming a global naval power.

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## Mixing Marxism and Capitalism: CCP Celebrates its 90th Birthday

By Willy Lam

As the Chinese Communist Party (CCP) marks its 90<sup>th</sup> birthday on July 1, on the surface the Party has reasons aplenty for indulging in some self-glorification. Having been in power continuously for 62 years, the CCP holds the world record for the longest term of uninterrupted political rule. With 80 million members, the Party is also the world’s largest, richest and most powerful political organization. As the state propaganda machinery has gone into overdrive with accolades trumpeting the party’s larger-than-life achievements, however, even senior cadres have admitted to defects in the party’s track record. For example, Executive Vice-Premier Li Keqiang conceded last week that “problems relating to unbalanced, uncoordinated and unsustainable [socio-economic] development are still outstanding.” “In particular, contradictions due to weak links in social development sorely need to be defused,” added Li, who is set to succeed Wen Jiabao as prime minister at the 18<sup>th</sup> CCP Congress in late 2012 (China News Service, June 25; *People’s Daily*, June 26). Even more problematic is the scourge of corruption, which is worsening even as the CCP tries to stay relevant through learning from different models and co-opting elements with disparate socio-economic backgrounds. Yet, given that these efforts have fallen short of real political reform, which involves sharing power and resources with the people, it is unlikely they will result in a makeover that will boost either the CCP’s popularity or its longevity.

The majority of mainstream-media coverage of the July 1-related festivities, has revolved around this hackneyed leitmotif: “Without the CCP, there won’t be a new China.” For example: Leng Rong, director of the Archives Research Office of the CCP Central Committee, rhapsodized over the fact that the CCP has sailed from triumph to triumph over nine decades because “it has unceasingly pushed forward the Sinicization of Marxism, and it has incessantly worked on its self-construction and strengthened its foundations” (Xinhua News Agency, June 9; Sina.com, June 9).

Amongst less euphoric analyses of the CCP’s longevity, the assessment of CCP Central Party School expert Xie Chuntao merits closer examination. Xie, a professor of Party History, has attributed the party’s staying power to four strong points. They are: an ability to draw lessons from past mistakes; a knack for learning from different models, including market mechanisms as well as social-welfare and civil-service systems from the West; a capacity for absorbing “advanced members” of society into the party and

maintaining cohesiveness among various socio-economic sectors; and strong organizational skills so as to ensure the CCP's "absolute leadership" authority. Liu Zhongmin, a Middle East expert at the Shanghai Foreign Languages University, cited similar reasons to explain why China would not succumb to the series of color revolutions that have swept the Middle East and North Africa since early 2011. "The CCP has unflinchingly kept up with the times by bolstering its ruling-party legitimacy," he wrote early this month. "It has consolidated and expanded the foundations of its rule" (China News Service, June 23; *Global Times*, June 23).

Two factors, then, seem critical to the CCP's "long reign and perennial stability": its capacity to learn and adapt to new realities; and its ability to expand its power base by absorbing well-qualified new blood. It is significant that for the past few years, the leadership has played up the CCP as a *xuexixing zhengdang* or "a learning-oriented political party." While confirming the CCP's status as a *xuexixing zhengdang* at its plenary session in September 2009, the ruling Central Committee urged cadres and members to "learn from our history; learn from the masses and the new experience that they have created; and learn from the beneficial fruits of human civilization that has been created by various countries in the world" (CCP News Net, June 16; Sina.com, May 3).

The on-going campaign to re-evaluate the era of Chairman Mao Zedong—as well as Maoist ideals and institutions—is a good gauge of the CCP's ability to learn from its past. Liberal intellectuals such as economist Mao Yushi have argued that Mao "should be put on trial" for atrocious blunders that directly led to the deaths of tens of millions of Chinese (NPR.org, June 23; *Ming Pao* [Hong Kong], June 16). The official media has since last year also run articles confirming that Mao made serious miscalculations when he launched political campaigns such as the Great Leap Forward in the mid-1950s (*People's Daily*, November 4, 2010; *Global Times*, November 4, 2010). By and large, however, the *changhong*—"sing the praises of redness"—crusade, first initiated by Politburo member and Chongqing Party Secretary Bo Xilai in 2008, has consisted of a no-holds-barred glorification of the Great Helmsman's God-like exploits. Also resuscitated nationwide have been Maoist values such as unquestioned loyalty to the party—and nationalism. The leadership under President Hu Jintao has revived Maoism, as well, so as to stir up patriotic sentiments, which are seen as critical to boosting national cohesiveness (*Apple Daily* [Hong Kong], June 23; *Financial Times*, May 24).

As for learning from the West, the CCP has paradoxically cleft to the formula first coined by half-hearted modernizers in the last decades of the Qing Dynasty (1644-1911): "Chinese learning for the essence, Western learning for the applications." This axiom means that Beijing is only interested in "practical things" in the Western tradition that range from weapons manufacturing to financial engineering. Yet, for Mao and his disciples, just as much as for Qing Dynasty ministers, Western ideas about culture, freedom and democracy have remained taboo (*Apple Daily*, May 24, China-

Review.com, June 9). Among the top leadership, Premier Wen Jiabao has remained a minority of one in advocating that China should be receptive to "universal values" such as "democracy, a [fair] legal system, freedom, human rights [and] egalitarianism" (See "Premier Wen's 'Southern Tour': Ideological Rifts in the CCP?" *China Brief*, September 10, 2010).

While visiting Hungary last week, Wen again underscored the imperative of China remaining "open and tolerant" in the course of interacting with other countries (China News Service, June 25; *Ming Pao*, June 26). The great majority of Politburo members and senior cadres, however, seem to second the conservative views of President Hu and National People's Congress Chairman Wu Bangguo. Hu and Wu have reiterated that the party should "never go down the deviant path" of adopting Western ideas and institutions such as the "tripartite division of powers" or universal-suffrage elections (BBC News, March 10; *Asia Times*, September 30, 2010).

Perhaps more critical to the CCP's obsession with staying "evergreen" forever is the leadership's willingness to revise and modernize Marxist ideology so as to widen the party's talent base. In a speech marking the CCP's 80th birthday in 2001, then President and party General Secretary Jiang Zemin announced that the party was rolling out the red carpet for well-trained talents including private entrepreneurs and "returnees," a reference to Chinese who had earned advanced degrees from Western universities. Jiang's rationale was that these well-educated and business-savvy personnel would enable the party to better represent "the most advanced productivity" and the "most advanced culture." Convinced that recruiting capitalists into the party ran against the edicts of Karl Marx, however, tens of thousands of conservative CCP members opposed Jiang's major systemic innovation (Xinhua News Agency, July 1, 2001; *The Telegraph* [London], July 2, 2001; China News Service, June 23).

Latest statistics released by the CCP Organization Department indicate that 18.41 million—or 22.94 percent—of the party's 80.27 million members are "enterprise managers and professionals," including the bosses and executives of private as well as state-controlled firms. A dozen-odd representatives of this business elite have also been inducted into the CCP Central Committee as full or alternate members (*Ming Pao*, June 25; *Global Times*, June 25). These "red entrepreneurs" are unanimous in belief that their business expertise has helped the party meet the new challenges of the international marketplace. For example, Zhao Min, the CEO of the Beijing-based Adfaith Management Consulting, noted that the profusion of party members with business backgrounds had "enabled the CCP to resolve many theoretical and practical problems of operating in the climate of the market economy." Li Shufu, Chairman of the private Geely Motors, which garnered global attention last year by taking over Sweden's Volvo, added that the political loyalty of the "red bosses" should never be in doubt. "Enterprises always listen to the words of the party," Li said earlier this year. "Whatever the party tells us, we shall try our

utmost to do” (*Global Times*, June 23; 21<sup>st</sup> Century Economic Herald [Guangzhou], March 8). It is significant that 75 non-state enterprises in Shanghai recently set up a private party school to coach businessmen-party members how they can best make contributions to the party while expanding their business empires (*People’s Daily*, June 21; China National Radio, June 20).

It is significant that Vice-President Xi Jinping, who is due to take over the party’s helm at the 18<sup>th</sup> CCP Congress, has been an ardent advocate of private businessmen playing a bigger role in the party. While serving as governor and then party secretary of Zhejiang Province—which is well-known as a bastion of private enterprise in the country—from 2002 to 2007, Xi offered much-needed support to thousands of promising small- to medium-scale non-state enterprises. Xi has reportedly invited senior entrepreneurs such as Geely’s Li to join party- and government think tanks (*Ming Pao*, June 24; *New York Times*, January 23, *Financial Times*, March 26, 2010).

While giving business-oriented party members a bigger voice may help the CCP stay relevant in the new century, what critics call the “unholy alliance” between the party elite and big business groups could alienate the CCP from the great majority of Chinese (See “China’s New Aristocracy: Red Cadres and Red-Hat Businessmen,” *China Brief*, June 24, 2010). While the CCP has always been known as the “vanguard of the working class,” the number of workers who are CCP members has declined to a mere 7 million (Ifeng.com [Beijing], June 24; News.21cn.com [Beijing], June 24).

Much more disturbing is the fact that mixing Marxism with capitalism has spawned massive corruption among party cadres. The Central Commission on Disciplinary Inspection, the CCP’s top anti-corruption watchdog, announced earlier this month that some 146,500 party members had been disciplined last year mainly for graft-related offenses. Professor Qiao Xinsheng, an expert on clean governance at the Zhongnan University of Economics and Law, has fingered the dangerous new trend of the “systemization and collectivization” of corruption. The government adviser noted that certain groups and individuals had been able to convert “state benefits or public benefits into [their] personal benefits.” After all, leaders from ex-president Jiang and President Hu have warned that the single biggest threat to the CCP’s integrity—and longevity—is endemic corruption among cadres (*Beijing Morning Post*, June 23; *Global Times*, June 25). It is a testimony to the party leadership’s refusal to consider new ways of doing things, however, that Beijing has closed down several private anti-graft websites that have proven popular with whistle blowers (BBC, June 22; CNN News, June 27).

In a mid-June commentary on why “China can always crush through obstacles [while negotiating] turning points,” the mass-circulation *Global Times* claimed that the party-and-state apparatus “has accumulated substantial ability to defuse [socio-political] crises.” The CCP mouthpiece noted that the party-state apparatus’ “resources devoted to countering crises are ceaselessly increasing.”

“Provided that China does not make strategic errors, this country’s ability to withstand crises is so formidable that it is beyond the estimation of the world,” it added. “And the [successful] process of rendering Chinese decision-making democratic and scientific has greatly limited the possibility of China making strategic errors” (*Global Times*, June 16; Xinhuanet.com, June 16). The trouble is, however, that cronyism and corruption, which has mushroomed in tandem with the collusion of politics and business, has become a prime cause of discontent among the masses. Disgruntled citizens who take part in the estimated 180,000 cases of protests, riots and disturbances that hit China every year, do not seem to share the birthday mood that has been concocted by state propaganda. After all, the underclasses have hardly been taken into consideration as cadres do their level best to burnish the party’s credentials and prolong its proverbial mandate of heaven. Moreover, the CCP leadership’s decision to turn its back on “Western-style” political reform may have crippled its capacity for picking up new skills for tackling political crises that are on the horizon.

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## Taiwan Espionage Cases Highlight Changes in Chinese Intelligence Operations

By Peter Mattis

On June 13<sup>th</sup>, Taiwanese authorities detained businessman Lai Kun-chieh on charges that he spied for Beijing, attempting to steal military secrets for a still unidentified Chinese intelligence agency (*Lianhe Xinwen*, June 14). The case follows the standard plotline of most Chinese intelligence operations against Taiwan that has emerged since 1949. That is, Chinese intelligence recruiting Taiwanese businessmen or retired officials living in China to “run against” the Taiwanese government and military.

The allegations against Lai should draw attention back to the anomalous case of General Lo Hsien-chi, who was detained at the end of January. Lo’s case drew widespread attention because Lo was the highest ranking Taiwanese official since a vice defense minister in the 1960s to face espionage charges (BBC, May 20). More importantly, however, the case should have drawn more attention for its departure from China’s normal operations against Taiwan (and arguably any other country). Beijing handled this case entirely

outside of China, demonstrating greater willingness to accept operational risks and suggesting the normal pattern of Chinese intelligence operations may be changing.

#### DETAILS OF THE LAI ALLEGATIONS

According to Taiwanese authorities, Lai was working for Lenovo in Beijing when Chinese intelligence approached him last year through an intelligence officer under cover with the Beijing municipal government. Through Lai's work, he came in contact with "Li Xu," who ostensibly worked as the deputy director of the Beijing Office of Taiwan Affairs. Lai claimed Li told him that if he failed to cooperate in collecting intelligence Beijing would not allow him to remain in China, but it is unclear whether any coercion was applied (*Epoch Times*, June 14; *Lianhe Xinwen*, June 14).

Chinese intelligence tasked Lai to acquire Taiwanese military secrets, even though he lacked any known military connections and was not a retired military serviceman. Specifically, Li tasked Lai for information on U.S.-supplied Patriot Missiles and the annual *Han Kuang* exercises (*Lianhe Xinwen*, June 14).

One of the Taiwanese military officers approached by Lai alerted investigators to Lai's efforts to gain access to military secrets, prompting an immediate investigation. This element adds credence to the denials of Taiwanese defense officials that an additional investigation has started to identify potential accomplices from whom Lai gained access to information on the Patriot Missile and *Han Kuang* exercises (The Associated Press, June 13).

Given Lai's telecommunications background with Motorola, an interesting omission in the Chinese intelligence tasks—at least according to the information currently available—was the Taiwanese military's architecture for command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR). Taiwan's C4ISR program, *Po Sheng*, developed with the support of the United States, has been the target of Chinese intelligence, including in the cases of General Lo and US Defense Security Cooperation Agency official Gregg Bergersen (*China Times* [Taiwan], February 9) [1]. How and why intelligence services determine what their agents should collect is difficult to understand, and so is the reported absence of *Po Sheng* from Lai's tasking. The absence of *Po Sheng* could indicate China already has collected sufficient information about the program and the technology to meet their needs, contravening the superficial damage suggested by Taiwanese and US authorities commenting on these past cases.

#### STRUCTURAL DYNAMICS OF THE CHINA-TAIWAN INTELLIGENCE CONTEST

The Chinese intelligence services have attempted to collect intelligence from Taiwan since the end of the Chinese Civil War in 1949. Until 2008, the basic structure of the intelligence contest

remained the same with only a few variations at the beginning of the Reform Era in 1979. Prior to China's opening, both sides' intelligence services rarely could directly access each other's territory, forcing much of the intelligence contest onto more neutral ground. Known as the "Vienna of the East," Hong Kong was a hotbed of intelligence activities against China, because few Chinese citizens could travel further afield than the British colony and foreigners rarely could enter China. Taiwan did not welcome Chinese citizens except as defectors [2]. Hong Kong thus became the focal point for the China-Taiwan intelligence contest with intelligence services from both sides recruiting non-government individuals to act as principal agents inside China and Taiwan.

China's opening in 1979 marked the first change to this competition, allowing more foreign access. Taiwanese intelligence exploited this opening to start recruiting and running human agents with intelligence officers based inside China. The new dynamics would become a significant driver for the creation of the Ministry of State Security to unify Chinese counterespionage in 1983 (Xinhua News Agency, June 20, 1983).

With more Taiwanese citizens living and working in China, Hong Kong became less significant to both sides. Taiwanese intelligence officers could find and exploit sources in China; Chinese intelligence could more easily draw from a larger pool of Taiwanese without risk of monitoring by the Special Branch of the Royal Hong Kong Police Force. Yet, Chinese intelligence still had to rely on a principal agent with indirect or secondhand access to Taiwanese government and military secrets.

As a consequence of this constraint, Chinese intelligence operations against Taiwan developed a basic operational pattern. Chinese intelligence would monitor and approach a Taiwanese businessman, first in Hong Kong and later in China, who regularly traveled back to Taiwan. Although the record in Hong Kong is less clear, Chinese intelligence within China would threaten, implicitly or explicitly, the Taiwanese businessman's livelihood and offer spying as a way out (BBC News, August 16, 2010). Chinese incentives ranged from cash payments to observable benefits, like reduced business fees and customs charges. The recruited businessman, if cooperative, would then attempt to recruit or elicit intelligence from contacts or friends in the Taiwanese government or military, usually with financial support from the Chinese intelligence services. This explains why the Taiwanese Ministry of Justice's Investigation Bureau arrests two or more individuals in almost every Chinese espionage case.

This pattern of Chinese espionage suggests that the intelligence services rely heavily on their powers of investigation to identify potential agents. The State Security Law, for example, mandates citizens to cooperate with Chinese security officials, giving them ready access to hotels and residences. The intelligence services also can exploit a person-of-interest's computer, cell phone, and any other personal electronic devices, harvesting that person's contacts and correspondence for background information (State Security

The table below summarizes several recent Taiwanese espionage cases and how Chinese intelligence approached the operation, illustrating the pattern described above.

Select Chinese Espionage Cases Against Taiwan (2004-11)				
Name	Case Officer and Recruitment Location	Incentives Used	Agent's Access to Information	Type of Intelligence Collected
Chen Chih-kau	Inside China	Cash & Coercion	Retired	Counterintelligence (CI)
"Ho Ping"	Inside China	Cash	Second-Hand	Military
Tseng Chao-wen	Inside China	Cash	Retired	CI & Military
Huang Cheng-an	Inside China	Cash	Natural / Direct	Military Science
Hsu Hsi-cheh	Inside China	Cash	Retired	Military Science
Lo Hsien-che	Third Country	Cash & Coercion	Natural / Direct	Military
Chen Pin-jen	Inside China	Cash	Second-Hand	Political
Ho Chi-chiang	Inside China	Cash & Coercion	Second-Hand	CI & Military
Liao Hsien-ping	Inside China	Cash	Retired	Stability & Politics

Sources: *China Post*, *Taiwanese Central News Agency*, *China Times* [Taiwan], *South China Morning Post*, *BBC*, and *Taipei Times*.

Law of the People's Republic of China, available on china.org.cn).

#### THE EXCEPTIONAL CASE OF GENERAL LO

The Chinese recruitment and handling of General Lo Hsien-chi, director of Army telecommunications and electronic information, represented a departure from the pattern outlined above. While Chinese recruitment incentives were typical—cash and coercion—the investment, setup and execution of the operation looked like a traditional Western or Russian recruitment case.

The basic methods of the Chinese recruitment were similar to the typical mix of both coercion and incentive used to recruit Taiwanese spies. To engineer the recruitment, the Chinese intelligence officer set up a sexual encounter to generate blackmail material. Once coercion was possible, the officer then reportedly approached Lo, highlighting Lo's potential problem and offering him up to hundreds of thousands of dollars to spy (*Taipei Times*, February 10).

In contrast to the pattern, a Chinese intelligence officer posted overseas recruited Lo, while he was stationed in Bangkok, Thailand as a military attaché between 2002 and 2005. Additionally, the blackmail attempt suggests China also established a larger operational infrastructure in Thailand than the presence of a commercially-covered intelligence officer might indicate. The legitimate Australian papers possessed by the Chinese intelligence officer indicate China is willing to devote substantial time and resources to developing the cover of its intelligence officers. Acquiring the papers also makes it easier for the officer to move around, opening operational opportunities in countries like the United States, Singapore, United Kingdom, Japan and others that

allow Australian citizens to enter freely for short time periods (*China Times* [Taiwan], February 9; *Taipei Times*, February 10).

More interestingly, the Lo case is one of three publicly-known Chinese operations to unfold entirely outside of China—all of which have come to light in the last three years [3]. The other two involved Chinese intelligence officers covered as diplomats or journalists posted in Germany and Sweden, pursuing dissident targets (*The Local* [Sweden], December 15, 2009; *Epoch Times*, June 13).

#### CONCLUSIONS

The traditional U.S. interpretation of cases like Lai Kun-chieh's is to see Chinese intelligence as amateurish and undirected [4]. Yet, as the table above showed, Chinese intelligence has successfully made use of such amateur agents to collect valuable intelligence. U.S. observers have confused them for poorly-trained case officers, fumbling to collect intelligence. This is largely because Lai and others like him perform a role usually reserved for professional intelligence officers. Apart from this obvious limitation, this kind of relationship allows Chinese intelligence officers to remain in the background and shields the intelligence relationship behind the agent's normal travel to China.

The exceptional case of General Lo and the other two overseas cases in Germany and Sweden add weight to the suggestion that Chinese intelligence may be evolving to pursue foreign targets outside China. By posting officers abroad, the Chinese intelligence services potentially gain access to information that would be unavailable otherwise. The normal pattern of Chinese operations, at least against Taiwan, limits Chinese sources to those who already have a connection to China. Yet, such sources also are unlikely going to be able to comment authoritatively on issues not directly related to China, e.g. U.S. policy in the Middle East or Taiwanese policy in Latin America. These cases serve as another potential data point along with Geng Huichang's appointment as MSS Chief in 2007,

which suggest that the intelligence services are becoming more involved in Chinese foreign affairs. (For a more thorough analysis, see “Assessing the Foreign Policy Influence of the Ministry of State Security,” *China Brief*, Vol. 11, No. 1, January 14, 2011)

In the final analysis, the Lai case indicates that counterintelligence services will need to respect China’s continuing efforts to exploit foreign nationals living or doing business there for intelligence purposes. The spate of Chinese espionage cases in the United States also followed similar lines to the pattern of operations against Taiwan, including the most recent case of Glenn Duffie Shriver (“Espionage Case Highlights Traditional Chinese Espionage,” *China Brief*, Vol. 10, No. 22, November 5, 2010). Whatever changes may be underway in the intelligence services’ role in foreign affairs, monitoring foreigners inside China will continue to create opportunities for Chinese intelligence. Most MSS personnel work in provincial and municipal-level bureaus to support local counterintelligence and investigations [5]. Any change would require dramatic reform, indicating that domestically-based operations will continue to play an important role in the overall mix of Chinese intelligence operations for years to come, even if cases like General Lo’s become more common.

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#### NOTES:

[1] *United States v. Tai Shen Kuo, Gregg William Bergersen, and Yu Xin Kang*, Affidavit before the US District Court for the Eastern District of Virginia (2008).

[2] Steve Tsang, “Zhou Enlai: The ‘Kashmir Princess’ Incident of 1955,” *The China Quarterly* 139 (Sept. 1994), 782; James Lilley with Jeffrey Lilley, *China Hands: Nine Decades of Adventure, Espionage, and Diplomacy in Asia* (New York: Public Affairs, 2004), 84–85, 136–137.

[3] Sharp observers could point to the efforts of Chinese defense attaché Hou Desheng to acquire U.S. cryptological secrets in 1987 as a fourth case; however, the nature of the case suggests opportunism rather than a deliberate effort to acquire intelligence abroad clandestinely. US counterintelligence set up Hou in a sting operation, offering to sell “secrets” to see if Hou would bite (*Los Angeles Times*, December 31, 1987).

[4] David Wise, *Tiger Trap: America’s Secret Spy War With China* (New York: Houghton Mifflin Harcourt Publishing Company, 2011), 5–19.

[5] This judgment is based on the expansion of the MSS from a central ministry with few provincial elements to a nation-wide ministry with elements in every province and many local-level state security departments and bureaus. For a brief history of this expansion under Minister Jia Chunwang, see “Assessing the Foreign Policy Influence of the Ministry of State Security,” *China Brief*, Vol. 11, No. 1, January 14, 2011.

## Chinese Perceptions of U.S. Engagement in the South China Sea

By Nong Hong and Wenran Jiang

In November 2002, China and the 10-member Association of Southeast Asian Nations (ASEAN) adopted a Declaration on the Conduct of Parties (DOC) in the South China Sea (SCS), laying a political foundation for the discussion of commercial cooperation between China and ASEAN countries as well as the long-term peace and stability in the region. Though the DOC has been criticized for a number of weaknesses (e.g. neither a binding treaty, nor a formal code of conduct), the signing of this document had helped keep the SCS relatively quiet for several years, at least prior to 2009. Yet, tensions have been on the rise in the past two years. In addition to the competing territorial claims from different parties, the United States is now also playing a role that Beijing sees as an effort to re-assert Washington into the regional strategic mix. The race to control the disputed islands by relevant parties is fuelled by the concern of China’s rise, yet Beijing perceives that Washington is tightening the rope to contain its traditional claims in the region.

#### TROUBLED WATERS IN THE SOUTH CHINA SEA

Since 2009, several major developments have stirred controversy in the SCS, and highlighted the difficulties of maintaining stability in the region. In mid-February 2009, the Philippines Congress passed a territorial Sea Baseline Bill, laying claim to Scarborough Shoal (sovereignty claimed by China) and a number of islands in the SCS. Another event was the clash on March 8, 2009 between Chinese vessels and the U.S. ocean surveillance ship “Impeccable” along the Exclusive Economic Zone (EEZ) claimed by China [1]. On May 6, 2009, Malaysia and Vietnam lodged a joint submission with the United Nations Commission on the Limits of the continental Shelf (CLCS). Vietnam also lodged a separate submission in relation to the northwestern part of the central SCS. These extended continental shelf submissions underscore existing disputes that have added an extra dimension to the claims.

2010 witnessed further escalation of tensions in the SCS, with the United States increasing its presence in the region, and with a series of U.S.-Sino spats over the SCS dispute. In March, as first reported by the Japanese and followed by U.S. media outlets, Chinese officials told two visiting senior Obama administration officials that China would not tolerate any interference in the SCS, now part of China’s “core interest” of sovereignty. In July, US Secretary of State Hillary Clinton made a statement at the 10th ASEAN regional forum (ARF) that the disputes over the highly sensitive SCS were a “leading diplomatic priority” and “pivotal to regional security.” This backdrop contributed to increasing concerns in Beijing, which saw Clinton’s statement as a signal that the United States had changed its neutral position on the SCS dispute and is now backing other claimant states, particularly Vietnam.

The tension in the SCS has continued to escalate this year with a series of events. Vietnam in May accused China of cutting the exploration cables of an oil survey ship. In a similar incident in June, it claimed a Chinese fishing boat had “intentionally rammed” the exploration cables of another of its boats. Yet, China insisted that its fishing boats were chased away by armed Vietnamese ships in the incident. According to China’s Foreign Affairs spokesman, the fishing net of one of the Chinese boats became tangled with the cables of a Vietnamese oil exploring vessel, which was operating in the waters claimed by China, and was dragged for more than an hour before it was cut free. China accused Vietnam of “gravely violating” its sovereignty and warned it to stop “all invasive activities.” In June, Vietnam held live-fire exercises in the SCS amid high tensions with China over disputed waters. Chinese state-media denounced the exercises as a military show of force to defy Beijing. Representatives of China and Vietnam met in Beijing on June 25, and agreed to resolve their maritime territorial disputes “peacefully.”

Standoffs have also taken place this year between Chinese and Philippine vessels. In March, two Chinese maritime surveillance ships reportedly ordered a Philippine survey ship away from an area called Reed Bank. The Philippines later sent in military aircraft. President of the Philippines Benigno Aquino’s office said on June 13 that it was renaming the South China Sea as the “West Philippine Sea,” as tensions with Beijing mount over the disputed area. Starting from May, the Philippine Navy has removed foreign marker posts that were placed on reefs and banks, part of the much-disputed Spratly group of islands. U.S. Secretary of State Hillary Clinton said the United States would honour its mutual defence pact with Manila and offer the Philippines affordable weapons. While Washington is calling Beijing to lower the temperature, the United States and the Philippines are preparing to conduct joint military exercises.

#### CHINA’S “CORE INTEREST” VS. U.S.’S “NATIONAL INTEREST”

The concern of the international community is that the Chinese, for the first time, labeled the SCS a “core interest,” on par with its interests in Taiwan and Tibet. Chinese scholars argue that China never publicly declared a “South China Sea = core interest” policy, it came first from Japanese media and was followed by U.S. journalists, serving as the subtext for the “U.S.-defends-freedom-of-navigation-in-the-South-China-Sea” story. Zhu Feng, a Chinese political scientist, clarified that the Chinese officials did use the term “core interest,” but the original text is that “the peaceful resolution of the South China Sea is the *core interest* of Chinese government,” which was misinterpreted by the media [2].

The Chinese interpretation of Secretary Clinton’s statement, that “United States has a national interest in resolving the claims,” is that the Obama Administration has changed its position on the SCS from being a neutral actor to being actively engaged. Indeed, at a Sino-U.S. workshop on the SCS in Hawaii in 2010, some scholars from think tanks like RAND, Asia-Pacific Center for Security

Studies and Center for Naval Analysis argued that Clinton’s remarks may be in response to what many U.S. media report on China’s recent statement in March when Beijing defined the SCS as one of its “core interests.”

#### PERCEPTION GAPS ON THE “FREEDOM OF NAVIGATION” AND CONFLICT RESOLUTION MECHANISMS

Many Chinese military officers and scholars have challenged Clinton’s calling “freedom of navigation in the sea” a U.S. “national interest.” A high-ranking Chinese military officer argued that freedom of navigation was never a problem in that region. Liu Jiangyong, an Asia-Pacific studies specialist at Beijing’s Tsinghua University, said he did not see any sense in people worrying about or interfering in matters that did not concern them. Wang Hanling, a specialist in maritime law at the Chinese Academy of Social Sciences, said that China has never interfered in the normal activities of any ship crossing the SCS or any aircraft flying over it, especially those for commercial use “What the U.S. calls ‘national interest’ is not freedom of navigation but rather its presence in the Western Pacific, or military superiority and political influence, to be more specific,” Wang elaborated [3]. His comment stands for that of the majority of Chinese scholars.

The U.S. and Chinese contesting views on ‘freedom of navigation’ have resulted in several incidents in the EEZs of the Asia-Pacific region. The disagreements between US and China, and between coastal states and user states in general, on the interpretations of the 1982 UNCLOS provisions generally relate to the exact presumed meaning of the terms in the convention, as well as the meaning of specific articles. For example, there are specific differences with regard to the meaning of ‘freedom’ of navigation and overflight in and above the EEZ, i.e., whether such freedoms can be limited by certain regulations—national, regional or international—or whether such freedoms are absolute.

China expressed concern over the United States’ increasing engagement in the SCS, adding that it opposes the internationalization of the maritime issue. China holds that the SCS issue is a dispute over sovereignty about territory and maritime rights between the relevant countries, and not an issue between China and the ASEAN, nor a regional or international issue. Some US scholars argue that China’s opposition to the “internationalization” of the SCS issue is tantamount to an attempt to de-internationalize an international sea [4]. Once the South China Sea has been de-internationalized, China will be able to bring its strength to bear on the Southeast Asian countries and impose its own rules, rather than internationally accepted ones from international law on these waters.

In a workshop on U.S.-China relations on SCS issues in September 2010, some Chinese scholars tried to clarify the interpretation of “bilateral approach,” which China always insists on in solving conflict with relevant states [5]. In the context of SCS issues, China

clearly prefers to solve islands sovereignty and maritime delimitation through direct negotiation with the countries involved. On non-traditional security issues, such as safety and security of sea lanes, anti-piracy, marine environmental protection, China is more open to multilateral approaches of cooperation. One best example is the DOC signed in 2002 and other regional agreements with ASEAN.

#### WHEN WILL CHINA CLARIFY ITS CLAIM?

Among all these mentioned debates on “core interest,” “freedom of navigation” and “internationalization,” the “U-shape line” remains the most controversial and ambiguous issue between China and other claimant states. The original line, drawn by Chinese authorities in 1947, was composed of 11 dashes. Later the PRC left out two dashes in the Tonkin Gulf [6]. Beijing has not had any official declaration about the international and national legal values of the discontinuous dotted line. Before the Chinese government defined the U-shape line’s legal status, Chinese scholars had different or even contradictory explanations about the dotted line’s legal value at many international conferences. When China clarifies its claim is of great concern for not only other claimant states but for the whole international community. Indeed, it has become a nagging problem for Chinese foreign policy makers.

#### TURBULENT WAVES AHEAD

With the latest escalation, both China and the United States blame each other for changing their positions on the SCS by referring to the SCS as a “core interest” and a “national interest,” respectively. “Freedom of navigation” helps the United States justify its increasing engagement in the SCS, while China reiterates that “freedom of navigation” was never infringed on in the SCS, and China shares the same concern with the United States over the safety and security of navigation through this region.

Though Washington proposes to mediate among the claimant states for the resolution of the SCS dispute, Beijing opposes the internalization of the SCS dispute, and insists on a bilateral approach to sovereignty and maritime delimitation. China remains open to a multilateral approach in some areas such as non-traditional security, however. The approach of ASEAN as a collective unit to negotiate with China does not apparently enjoy consensus within the ASEAN itself, given that, apart from the four member states with overlapping claims with China, other ASEAN members may not want to risk ruining their relations with China. Above all, the most important and urgent agenda in this increasingly messy picture is when and how China will clarify its claim over the SCS.

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#### NOTES:

- [1] Since the United States is not an UNCLOS member, it treats other states’ EEZ as high sea.
- [2] Zhu Feng, presentation at the Asia-Pacific Security and Defence Policies, The Second in a Series of International Workshops: Taking up IISS Shangri-La Dialogue Themes, November, 18, 2010.
- [3] Li Xiaokun, “Navigation in South China Sea ‘not a problem’”, China Daily, October 23, 2010.
- [4] Some research faculty of Rand and APCSS raised this concern at the round-table discussions on the South China Sea with the Chinese Delegation in September 2010.
- [5] Shicun WU, Nong HONG, presentation and discussion at round-table discussions on the South China Sea with CNA, Rand, East and West Center, APCSS of United States in September 2010.
- [6] Li Jinming, Li Dexia, “The Dotted Line on the Chinese Map of the South China Sea: A Note”, *Ocean Development & International Law*, 34:287–295, 2003.

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## Balancer-in-Chief: China Assumes SCO Chair

By Richard Weitz

At the June 15 leadership summit of the Shanghai Cooperation Organization (SCO), the rotating chairmanship of the institution was transferred to the People’s Republic of China (PRC). China has been the driving force behind the SCO’s creation and modest success. PRC officials have pushed the organization to concentrate on countering regional terrorist threats since its creation in mid-2001. Since then, the Chinese have found the SCO a convenient instrument with which to expand their political and commercial influence in Central Asia without alarming Russia, the previously dominant power in the region. Although Moscow and Beijing have differed on which possible new members to admit into the SCO, as well as how much the organization should develop a potential military function, these divergences have been outweighed by their shared interests in promoting regional stability and limiting Western influence in Eurasia. Beijing now has an opportunity to use its one-year chairmanship to impart renewed momentum to the SCO as it enters its second decade.

#### AN INSTITUTION BORN WITH CHINESE CHARACTERISTICS

Beijing has been partial to the SCO since its creation. For Chinese leaders, the country has a real sense of stakeholderhood in the SCO. Unlike with the G8, the IMF and other longstanding international organizations, which the PRC had little role in creating and had to join on a take-it-or-leave-it basis, Chinese officials have been able to shape the design and evolution of the SCO more than any other country. With the SCO, Beijing has been a “rule-shaper” rather

than merely a “rule-taker”—allowing the Chinese to construct the SCO as an institution that reflects their preferred values.

Indeed, Chinese officials rhapsodically describe the “Shanghai Spirit” (*Shanghai jingshen*) that guides the organization’s work. According to Foreign Minister Yang Jiechi, these tenets include “mutual trust, mutual benefit, equality, consultation, respect for diversified civilizations and pursuit of common development” (Xinhua News Agency, June 11). Other stated principles underpinning the SCO include “the democratization of international relations ... a multipolar world and multilateralism, peaceful resolution of disputes of all countries and regions through dialogue and [opposition to] the use of force or threat of using force and terrorism” (Xinhua News Agency, June 11).

The declaration issued at the June 15 SCO summit in Astana—like previous SCO summit communiqués—called for a multipolar world order (i.e., not dominated by the United States) in which the United Nations (rather than NATO) made all important international security decisions. In stark contrast to the West’s insistence that all NATO and EU members uphold liberal democratic values, the Astana Declaration—like previous collective SCO statements—called on all governments to respect the sovereignty and independence of countries as well as the diversity of their domestic political and social systems [1].

#### CHINA-RUSSIA DIFFERENCES

A major constraint acting on the SCO’s growth is its consensus-driven decision-making procedures, which has led Beijing and Moscow to block one another’s proposals to extend the organization’s size or activities. For example, Russian government resistance has delayed Chinese proposals to establish an SCO-wide free trade zone until 2020, since the removal of trade barriers would likely result in less expensive Chinese products displacing Russian exports. PRC businesses have also begun to challenge Russia’s longstanding control over Central Asian energy resources, making gains in Kazakhstan and Turkmenistan through the recent construction of oil and gas pipelines.

Perhaps the most interesting issue is whether, under Beijing’s chairmanship, the SCO will finally expand its membership. For the sixth year in a row, the organization has not admitted new full members or formal observers. The current roster of full SCO members includes only those six states that joined the organization at its founding in 2001: China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The four observer states (i.e., India, Iran, Mongolia, and Pakistan) have remained constant since 2004. Instead, the organization has resorted to proliferating new categories of external association, producing a confusing mixture of members, observers, “guests,” and “dialogue partners.”

Russian leaders have appeared most eager among the original members to expand the SCO’s geographic scope. For example,

Moscow supported India’s recent decision to apply to elevate its observer status to that of a full member. Yet, the PRC blocked this move earlier this year, probably for the same reasons Chinese officials have resisted allowing India to become a permanent member of the United Nations Security Council. The Chinese have backed Pakistan’s longer-standing application for full membership, but Russian officials have conditioned Pakistan’s elevation to India’s receiving the same promotion. It appears that whatever friendly feelings Chinese leaders feel toward Pakistan are outweighed by their hostility toward India [2].

The PRC appears to have also blocked Afghanistan’s application, which was supported by the Russian government, to become a formal SCO observer country (China Daily, June 2). Although Afghan President Hamid Karzai regularly attends the annual SCO summits as a guest of the rotating chair, he has been eager to increase SCO engagement in Afghanistan to balance the dominant role of NATO, whose members have been critical of Karzai’s leadership. The Russian government has expanded its own ties with Karzai now that NATO has announced its intention to reduce its presence in the country. Yet, PRC leaders have been more reluctant to become identified with his government’s fight against the Taliban [3]. Chinese businesses have deepened their investments in Afghanistan, but, unlike Russia’s strongly anti-Islamic leaders, China’s flexible diplomacy in Sudan and Libya suggests that PRC political leaders might try to work out a deal with the Taliban should it return to power.

#### INSTITUTIONAL REASSURANCE

On balance, however, the SCO generally benefits from these Russia-China tensions because the institution reassures the other members about their interests and activities in Central Asia. The organization provides an institutional arena in which Beijing and Moscow can manage their differences within a structured framework. Even more often, it helps them cooperate to pursue common interests in promoting regional stability, suppressing Islamic extremism, constraining Western influences and reassuring local allies.

A recent area of cooperation has been how Beijing and Moscow have sought to use Iran’s interest in becoming a full SCO member to induce Tehran to be more cooperative about its nuclear activities. At Astana, both Presidents Hu and Medvedev pressed Iranian President Mahmoud Ahmadinejad to resume talks with the international community about constraining his country’s controversial nuclear program, which many governments suspect has covert military objectives (VOA News, June 15). Beijing and Moscow previously colluded to impose a rule that no country can become a full SCO member if it is subject to UN sanctions. China and Russia have joined the other UN Security Council members in imposing four rounds of sanctions on Iran for its refusal to obey earlier UNSC resolutions calling on Iran to cease enriching uranium or engaging in other sensitive nuclear activities until it satisfies international suspicions that some of its nuclear projects have included weapons-

related research.

While pursuing these objectives, PRC policy makers have been careful not to antagonize Russia's leadership, particularly by giving the impression that China is eager to displace Moscow's predominance in Central Asia, a region strategically vital to Russia. By characterizing its activities as SCO rather than PRC projects, Beijing manages to reduce fears of PRC domination. For example, by giving loans through the SCO rather than directly, China dampens Russian concerns about the PRC's growing economic activities there. In any case, Russia and China both benefit from having the SCO as a form of reassurance to Beijing as well. Moscow's support for the SCO demonstrates to Chinese policy makers that Moscow recognizes Beijing's legitimate security role in Central Asia despite Russian efforts to expand the CSTO's military activities in Eurasia.

The Central Asian governments also like how the SCO includes both China and Russia and is therefore not dominated by a single great power—a condition that gives them more room to maneuver. Despite the possible emergence of a Sino-Russian condominium, China's balancing presence presumably reduces fears of external subordination and gives them more room to maneuver. Conversely, another reason for the SCO's popularity among Central Asian governments is that the organization allows them to multilaterally manage Beijing's growing presence in their region, backstopped by Russia, rather than deal with the China colossus directly on a bilateral basis. Most Central Asian leaders considered the PRC less an alternative great power patron to Russia than a supplementary partner that could assist them in moderating Moscow's predominance in the region as well as furthering their economic development.

#### BEIJING'S SCO CHALLENGES

The PRC's chairmanship is unlikely to do anything to weaken this reassurance function. In his main speech at the Astana summit, President Hu Jintao advocated four priorities for the SCO's development (Xinhua News Agency, June 15). The first was to expand general consultation, cooperation, and trust among members on the basis of consensus, which reserves the veto power of China and other SCO governments over the organization's major decisions. This principle is widely supported among SCO leaders.

Hu's second priority is to improve SCO security cooperation and capabilities against the "three evil forces" of terrorism, separatism and religious extremism, as well as narcotics trafficking and other transnational crime. Yet security cooperation is already the SCO's strong suit and it is questionable whether Beijing would achieve any major improvements over current arrangements. Human rights groups already complain that SCO governments have eagerly adopted Beijing's excessively broad definition of terrorism, treating peaceful advocates of political change, religious freedom, or regional autonomy as potential terrorists under the PRC-exported "three evil forces" concept [4]. The SCO Regional Antiterrorism Structure

(RATS) in Tashkent is already the organization's most important standing body (contrasted with the episodic summit meetings and military exercises as well as the only other permanent institution, the SCO Secretariat, which has primarily administrative functions) [5]. The RATS' activities, such as the exchange of counterterrorist intelligence and personnel among SCO members, have reportedly contributed to disrupting hundreds of terrorist plots (Global Times, June 16). Where China might have some impact is shaping the SCO's newly adopted 2011-2016 Anti-Drug Action Program, though counternarcotics has traditionally been of most concern to Russia.

President Hu described the SCO's third priority as expanding trade, investment, and other economic cooperation by, among other means, promoting regional integration and developing the region's energy, transportation, and telecommunications infrastructure. China's economic ties with other SCO members have expanded enormously in the past decade, but this growth would likely have occurred even if the SCO had not existed. China's trade with SCO members has risen from \$12 billion in 2001 to \$90 billion in 2011. The PRC is the largest trading partner of Kazakhstan and Russia, and the second largest of Kyrgyzstan, Uzbekistan and Tajikistan (Xinhua News Agency, June 14).

Hu's fourth priority—enhancing cultural, educational, and other "people-to-people exchanges"—would definitely overcome a long-standing SCO weakness. From its origins, the SCO has been primarily a top-down driven project with little popular support (or opposition). Strengthening such ties would also help China compensate for its major weaknesses in the SCO space: its limited soft power assets. Russian language and culture dominate the other SCO countries, which all had been part of the Soviet Union. Promoting Chinese culture has also become a major general goal of the PRC's foreign policy in recent years.

Beijing's greatest challenge will be to consider how the SCO's role may need to change as NATO withdraws from Afghanistan. The Astana summit called for a "neutral" Afghanistan and stressed the necessity of promoting the country's economic development, but the summit did not announce new initiatives to promote those goals. Despite their unease at having Western troops in Central Asia, Chinese analysts note that the impending NATO military withdrawal increases the terrorist threat to Central Asian countries that are already challenged by the potential spread of the chaos in the Arab world to their own societies (People's Daily Online, June 17). Some PRC analysts believe these developments could also affect their own country's security and stability, China's regional energy and economic interests, and "enhance the likelihood of terrorist acts in southwestern China" (Xinhua News Agency, June 7). Chinese policymakers will need to consider the risks of constraining the SCO's support for the Afghan government against the Taliban when it is not evident that the other regional players—including Pakistan, Iran, and even Russia—have the will and capacity to fill the security vacuum that could ensure stability following the

Western troop withdrawal.

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NOTES:

[1] “Astana Declaration of the 10th Anniversary of the Shanghai Cooperation Organisation,” SCO website, June 15, 2011, <http://www.sectsc.org/EN/show.asp?id=294>.

[2] The material for this paragraph came from an interview with a senior official in a SCO member government responsible for its policy toward the SCO.

[3] Richard Weitz, “The Limits of Partnership: China, NATO, and the Afghan War,” *China Security*, No. 16 (2010).

[4] “Implementation of the International Covenant on Civil and Political Rights in Kazakhstan: A Parallel NGO Submission by Human Rights in China,” June 3, 2011, [http://www2.ohchr.org/english/bodies/hrc/docs/ngos/HRIC\\_parallel\\_report\\_Kazakhstan\\_Annex1HRC102.pdf](http://www2.ohchr.org/english/bodies/hrc/docs/ngos/HRIC_parallel_report_Kazakhstan_Annex1HRC102.pdf).

[5] “SCO Secretariat in Brief,” SCO website, 2011, <http://www.sectsc.org/EN/secretariat.asp>.

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