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In a Fortnight

By Peter Mattis and Samantha Hoffman

CHINA’S EUROPEAN SATELLITE LAUNCH SETS NEW MILESTONES

On October 7, a Chinese Long March-3 rocket blasted off from Xichang Satellite Launch Center, Sichuan Province, delivering a French Eutelsat communications satellite into orbit. This marked the first Chinese launch of a Western communications satellite since the United States banned the sale of satellite-based communications to China in 1998 (Xinhua, October 7; China News Service, October 7). In addition to proving China’s long-term competitiveness in the launch market, a Western communications satellite launched legally by China demonstrates U.S. export controls on satellite technologies have been circumvented.

Great Wall Industry Corporation, China’s state-owned defense conglomerate that markets the Long March rockets, announced the Eutelsat launch set a new milestone as it was the heaviest load put into space by one of the Long March rockets. The French-made Thales Alenia Space communications satellite weighed 11,880 pounds, just over 200 pounds shy of the rocket’s estimated maximum payload. This variant carried an additional four liquid-fueled, strap-on boosters, making it the most powerful in the Long March rocket family (China News Service, October 7).

The Eutelsat launch also demonstrated China's capability to meet market demands for greater payload capacity, and its ability to play a substantial future role in the global launch market. Long Lehao of the China Aerospace Science and Technology Corporation (CASTC) said this launch showed Chinese rockets are internationally competitive and provided practical data on ways to expand payload capacity (China News Service, October 7). Knowledge already enhanced the week before by the successful launch of the more than nine-ton Tiangong-1 Space Station ("Tiangong-1 Launch Makes China's Space Station Plans a Reality," China Brief, October 14). An engineer at the China Academy of Launch Vehicle Technology, Jie Jiang, noted potential customers were looking for heavier rockets capable of putting larger payloads in to space, due to the decreasing availability of satellite orbital positions (China News Service, October 7).

The U.S. ban on exporting communications satellite technology stems from legislation passed in 1998, it was the result of a series of China-related scandals in the mid-to late-1990s. The legislation defined U.S.-created satellite communications components as exports controlled under the International Traffic in Arms Regulations (ITAR). Detailed in the so-called Cox Committee investigation, Hughes Space and Communications International and Space Systems/Loral faced allegations stemming from their activities. Both companies appeared to have shared sensitive details about rockets and satellites after several Chinese satellite launch attempts ended in failure and caused losses for the U.S. companies who had made significant investments in the projects. Close military connections to CALVT and CASTC, as well as Great Wall, made Hughes and Loral's disclosures appear to be in violation of the U.S. ban on arms sales to China following the June 1989 Tiananmen Massacre. The ubiquitous use of U.S.-manufactured, hence controlled, satellite components meant a widespread commercial blackout involving European companies who were closely linked with U.S. contractors, a relationship which had developed during the Cold War.

Since that time, China has attempted to circumvent the U.S. controls, whether through illicit acquisition or diplomatic pressure on Europe to break with the United States over arms embargo ("The Evolution of Espionage: Beijing's Red Spider Web," *China Brief*, July 17, 2008; "A Prisoner's

Dilemma: The EU's China Arms Embargo," *China Brief*, June 23, 2004). The latest satellite launch demonstrates European companies have developed new components not based upon U.S. export-controlled technologies and not governed by ITAR. Thales Alenia Space has already signed contracts with China agreeing to launch at least two more communications satellites in the coming years (China News Service, October 7).

SOUTH AFRICA INKS CHINA DEALS AMID CONTROVERSY OVER DALAI LAMA'S CANCELLED VISIT

On September 30th, President Hu Jintao met with South African Deputy President Kgalema Motlanthe in Beijing. The two sides highlighted the "Beijing Declaration" signed by Hu and South African President Jacob Zuma last August, and reiterated plans for improved relations by increased high-level exchanges, cooperation in international and regional affairs, expansion of bilateral trade, increased investment and promotion of cultural exchanges (Qiushi lilun wang, October 1). On the previous day, Motlanthe met with Xi Jinping and an agreement worth \$2.5 billion between the China Development Bank and the Development Bank of South Africa came for investment projects in South Africa was signed. Other cooperation documents were also signed, including a memorandum of understanding on "geology and mineral resources" (*People's Daily*, September 29; Reuters, September 29). Following the visit, the Dalai Lama cancelled a highly charged visit to South Africa to attend Archbishop Desmond Tutu's 80th birthday celebration (Reuters, October 4). The cancellation demonstrated, as South Africa's economic relations with China improve, Pretoria has been put in an increasingly difficult political position.

PUTIN VISIT TO BEIJING MAKES PROGRESS ON ECONOMIC TENSIONS

Russian Prime Minister Vladimir Putin travelled to Beijing to meet with President Hu Jintao and other Chinese leaders on October 11-12. The leaders discussed bilateral relations and issues of international and regional concern. During the visit, the two countries reportedly came closer to resolving price disagreements over the long debated gas pipeline from Russia to China, which could see up to 68 billion cubic meters (bcm)/per year of

gas exported to China (Bloomberg, October 11; Reuters, October 9). In a joint-interview with Xinhua and CCTV, Putin said that “bilateral economic and trade cooperation has reached unprecedented levels,” he said that trade this year is expected to reach between \$70-80 billion, but by 2015 the figure should reach \$100 billion and by 2020, \$200 billion (Xinhua, October 12). However, these trade targets are ambitious, and the past has left such targets unmet (“Sino-Russian Relations: Renewal or Decay of a Strategic Partnership?” *China Brief*, September 30). The leaders also agreed to further strengthen areas of strategic cooperation including, energy, technology, aviation and aerospace (Xinhua, October 12). The visit however came just after Russia announced that for the previous year it had been holding a Chinese national on espionage charges related to Chinese attempts to illegally purchase documents related to a Russian S-300 anti-aircraft system (*Moscow Times*, October 6). This event suggests Sino-Russian ties continue to face difficulty despite the friendly rhetoric displayed during Putin’s visit and the proclaimed Sino-Russian “comprehensive strategic cooperation and partnership” (“Sino-Russian Relations: Renewal or Decay of a Strategic Partnership?” *China Brief*, September 30).

NEW SINO-KAZAKH PIPELINE DEAL SIGNED

On September 26th, the China National Petroleum Corporation (CNPC) announced that it had signed an agreement KazMunaiGas (Kazakhstan) to build the Kazakhstan-China section of a new “Line C” gas pipeline. At the beginning of September, the Chinese and Kazakh governments had reached an agreement on the construction of the pipeline (CNPC.com.cn, September 8). “Line C” will form part of the Central Asia Gas Pipeline which was completed and first started transporting natural gas to China in December 2009/January 2010. Earlier this year, CNPC signed similar agreements with Uzbekistan and Turkmenistan, where the pipeline also will run (*Silk Road Intelligencer*, September 9). Construction will begin in 2012 and the pipeline should be operational by January 2014. Line C will be approximately 1,150 miles and will transmit an additional 25 billion cubic meters (bcm) per years to China by 2015, meaning the Central Asian gas pipeline network will transport approximately 55-60bcm/year of natural gas to China by 2015 (*Silk Road Intelligencer*, September 9).

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“Strong Indignation,” but Limited Retribution: China’s Response to U.S. Arms Sales to Taiwan

By Michael S. Chase

On September 21, the Obama administration announced a long-awaited decision on arms sales to Taiwan. As was widely expected, Washington agreed to upgrade Taiwan’s existing F-16A/B fighter aircraft rather than provide it with new F-16C/D fighters. The Defense Security Cooperation Agency (DSCA) indicated the retrofitting of the 145 F-16A/B aircraft, including associated equipment such as Active Electronically Scanned Array (AESA) radars, electronic warfare systems and communications upgrades as well as training and logistical support, would cost about \$5.3 billion (DSCA News Release, Transmittal No. 11-39, September 21). Although Washington did not agree to sell the 66 new F-16C/D fighters Taipei had requested, administration officials seemed to leave open the possibility that they could offer new aircraft to Taiwan at some point in the future (*Washington Post*, September 16). The decision may have been a reasonable approach under the circumstances, but it drew harsh criticism from some quarters in Washington, disappointed many in Taipei and angered Beijing—though China’s reaction this time was weighted more toward rhetoric than retribution.

Explaining China’s Response

In anticipation of the arms sales decision, Chinese officials reiterated familiar warnings about the consequences for U.S.-China relations. In May, General Chen Bingde, Chief of the General Staff of the People’s Liberation Army (PLA), indicated any U.S. arms sales to Taiwan would inevitably damage U.S.-China relations in general and military-to-military relations in particular. At the same time, however, General Chen appeared to suggest the disruption might be limited if the package did not include the items of greatest concern to Beijing—new

F-16C/D fighters. “As to how bad the impact will be, it would depend on the nature of the weapons sold to Taiwan,” Chen said (BBC, May 18). In mid-September, a week before the U.S. announcement, a pseudonymous opinion piece in the *People’s Daily* declared the arms sales process “a political farce.” Further, the article warned “Any weapons deal with Taiwan will be rude interference in China’s internal affairs and will hurt the feelings of the Chinese nation and cause severe damage to China-U.S. relations” (*People’s Daily*, September 13).

Predictably, once Washington announced its decision, Beijing voiced its “strong indignation and resolute opposition” to the U.S. arms sales to Taiwan (*Xinhua*, September 22). China’s official news agency reported Chinese Vice Foreign Minister Zhang Zhijun summoned U.S. Ambassador to China, Gary Locke, to underscore China’s displeasure. Zhang said “The new round of U.S. arms sales to Taiwan, no matter in what excuses and reasons, can not hide the intention of interfering in China’s internal affairs and will send very wrong signals to the ‘Taiwan independence’ secessionist forces, and will severely disturb the momentum of peaceful development in cross-strait relations” (*Xinhua*, September 22). Chinese media also reported Ambassador Zhang Yesui lodged a “strong protest” in Washington. In addition, Foreign Ministry spokesperson Ma Zhaoxu warned, “The erroneous practice of the U.S. will inevitably cause damage to China-US relations and bilateral exchanges and cooperation in the military, security and other fields, and the responsibility completely rests with the US side” (Ministry of Foreign Affairs, September 21).

Notwithstanding China’s vehement rhetoric, Chinese security specialists predicted the administration’s decision to upgrade Taiwan’s F-16A/Bs would not result in a complete suspension of U.S.-China military exchanges, unlike when Beijing broke off military ties with the United States in January 2010 following the last major arms sales package (*New York Times*, September 22). “The arms sale will affect the bilateral relationship a little bit because China feels that they are not respected enough by the [United States],” said Chu Shulong, a professor at Tsinghua University’s Institute of International Studies. Chu added that “it will have a minor influence, and won’t have impact on the military ties, like last time. There won’t be any direct effect on the Sino-U.S. relationship because of the arms sale this time” (*Washington Post*, September

22).

These predictions thus far appear to be accurate. Beijing’s response reportedly has included postponement or cancellation of a few planned exchanges. Media reports indicate these include a U.S.-Chinese anti-piracy naval exercise, a visit to China by Admiral Robert Willard, Commander of US Pacific Command (PACOM) and a China trip by a military band (*Christian Science Monitor*, September 27). China’s reaction has been relatively restrained, especially compared to the roughly 10-month suspension of U.S.-China military relations following the last major round of U.S. arms sales to Taiwan in January 2010—a \$6.4 billion package that included Patriot PAC-3 missile interceptors, Osprey-class mine-hunting ships, UH-60 utility helicopters and communications equipment. Moreover, in response to the January 2010 arms sales, Beijing also threatened to impose sanctions against U.S. companies and warned of broader consequences for bilateral relations (Ministry of Foreign Affairs, January 30, 2010).

China’s reaction this time gives rise to a series of questions. First, why does Beijing react with such rhetorical vehemence to the arms sales? It seems it is not because of concerns that the arms sales will fundamentally change the military situation. Indeed, Chinese analysts suggest the latest arms sales will do little to alter a cross-strait military balance that clearly is shifting China’s way. Further, according to Li Xiaoning of Beijing University, the United States and Taiwan both know “it is impossible to rely on a few airplanes to change the balance of military strength across the Strait.” Thus, the major concern Chinese scholars have articulated is that the arms sales represent strong U.S. political-military backing for Taiwan. As Li puts it, “the political significance of Taiwan’s military procurement from the United States is much greater than the military significance, it is the hope of gaining U.S. support,” (*Liberation Daily*, September 23).

Some Chinese scholars also express concern that arms sales to Taiwan are a reflection of U.S. strategic intentions toward China. For example, Sun Zhe of Tsinghua University suggests continued U.S. arms sales are intended at least in part to “play the ‘arms sales card’ to contain China’s rise,” (*Liberation Daily*, September 23). Similarly, Tao Wenzhao of the Chinese Academy of Social Sciences (CASS) suggests the arms sales reveal the “two-

sided nature” of U.S. policy toward China and reflect Washington’s determination to “use Taiwan to check China,” (*Guangming Daily*, September 23) Furthermore, according to Tao, the arms sales indicate Washington is uneasy about the possible implications of the rapid development of the cross-Strait relationship. In addition, Chinese leaders feel the need to respond to domestic political pressure and nationalist sentiment. They presumably want to avoid the appearance of weakness on an issue as sensitive as U.S. arms sales to Taiwan.

Given that Chinese objections seem to focus more on the political symbolism of U.S. backing for Taiwan than anything else, what explains China’s apparently moderate substantive response to the latest arms sales? Chinese analysts suggested Beijing’s relatively restrained reaction was a function of several factors. These included the latest arms sales package, Beijing’s concerns about how a stronger reaction might impact domestic politics in Taiwan before its January 2012 presidential and legislative elections and how it might influence U.S.-China relations ahead of the upcoming leadership succession in China. First, that the package did not include the requested new F-16C/Ds probably made it easier for Beijing to take a more restrained tack than if the new fighters had been part of the deal, given the perceived symbolic importance of the potential sale of new fighters. Another motive seems to be minimizing the risk of upsetting cross-Strait relations in ways that could undermine President Ma Ying-jeou’s chances of reelection or bolster the opposition in Taiwan ahead of the island’s elections in January (*Liberation Daily*, September 23). Domestic politics in China and the need for a stable U.S.-China relationship also seem to have been relevant. Professor Shi Yinhong of Renmin University attributed the muted response to the Chinese leadership’s desire to avoid creating problems ahead of Vice President Xi Jinping’s expected visit to the United States in early 2012, especially with a leadership transition later next year in which Xi is expected to succeed Hu Jintao as China’s leader (*Christian Science Monitor*, September 27).

Back to the Future?

Notwithstanding China’s relatively restrained response to the latest arms sales decision, Washington must consider several larger questions about the future of arms sales to Taiwan in the context of warming cross-Strait ties and

a changing U.S.-China relationship: What weapons does Taiwan really need to deter Chinese coercion, or to defend itself against a Chinese attack if deterrence fails? What is the appropriate U.S. role in helping Taiwan militarily deter China and approach its evolving relationship with China from a position of strength? Finally, how is China likely to respond to future U.S. arms sales to Taiwan?

As for the first question, what type of weapons Taiwan really needs, the latest arms sales decision is unlikely to make much of a difference in terms of a military balance that the U.S. Department of Defense assesses “continues to shift in Beijing’s favor” [1]. According to a recent RAND report, China’s conventional ballistic missiles pose an overwhelming threat to Taiwan’s air bases [2]. To many observers, this suggests upgrading Taiwan’s F-16A/Bs—or even selling it new F-16C/Ds—will not enable Taiwan to regain the position of superiority it once enjoyed in terms of the cross-Strait air balance. Indeed, as Admiral Willard recently said about the cross-Strait balance, “there’s a pretty large delta there that I don’t think these kind of defense articles that are being provided in accordance with the Taiwan Relations Act is going to overcome,” (*Taipei Times*, September 25).

Big-ticket items still dominate some discussions and some analysts continue to offer a variety of reasons for selling new fighter aircraft to Taiwan, including the need for Taiwan to update its aging air force, the political symbolism of major arms sales and the economic benefits of new F-16C/D sales [3]. Given that Chinese missile strikes could seriously damage Taiwan’s airfields early in a cross-Strait conflict, short take off and vertical landing (STOVL) aircraft would seem better suited to meeting Taiwan’s defense needs. Indeed, Taiwanese officials have suggested they might soon begin asking for the STOVL version of the F-35 Joint Strike Fighter (JSF), but such requests could prove controversial for a number of reasons. Beyond the issue of which aircraft, if any, Taiwan will acquire from the United States, lies the broader question of Taiwan’s overall defense strategy. U.S. officials and defense analysts have suggested Taiwan should focus on developing or acquiring “innovative” and “asymmetric” defense capabilities. Senior defense officials in Taiwan state that such approaches constitute an important part of the island’s “Hard ROC” defense policy [4]. In addition, official documents like Taiwan’s *National Defense Report 2011* emphasize the need for

“innovative” and “asymmetric” responses to Chinese military threats.

Helping Taiwan make the transition to a defense strategy that focuses more heavily on “innovative” and “asymmetric” capabilities would still involve strong support from the United States, which means arms sales to Taiwan almost certainly will continue to be a major irritant in U.S.-China relations. Indeed, China can be expected not only to continue lobbying against arms sales, but also to keep targeting U.S. political support for Taiwan more generally. Even if further arms sales cannot tip the cross-strait military balance back in Taiwan’s favor, Beijing can be expected to continue to object vociferously whenever Washington sells weapons to Taiwan. Chinese concerns focus at least as much on the symbolism as they do on the substance of any particular systems. Additionally, China’s relatively restrained reaction to the latest Taiwan arms sales decision may not be indicative of how Beijing would be likely to respond the next time around, especially if future U.S. arms sales involve items that China sees as symbols of U.S. political-military backing or if there are domestic political or atmospheric changes in the U.S.-China-Taiwan strategic triangle.

Some Chinese analysts have suggested arms sales may stop eventually. For example, Tao Wenzhao writes, “along with the development of U.S.-China relations and cross-strait relations, more and more Americans will realize that the strategic losses of arms sales to Taiwan outweigh the gains, and the ‘Taiwan Relations Act’ undoubtedly will die of old age. The United States should stop selling arms to Taiwan immediately,” (*Guangming Daily*, September 23). Others appear to recognize this is a very unlikely outcome. Indeed, in addition to using Taiwan as a means of checking China, Chinese observers cite other factors—such as economic interests and U.S. and Taiwanese domestic political considerations—as motives for continued arms sales (*Study Times*, October 3). Nonetheless, Chinese commentators argue Washington harms its own interests by selling arms to Taiwan, because China sees arms sales as infringing on its core interests and could retaliate by limiting military exchanges and cooperation on security issues. Warning that U.S. arms sales to Taiwan are a “wrongful course toward doom” may be more rhetorical flourish than anything else, but, at a more substantive level, such messages also suggest undermining Washington’s willingness to bear the

consequences of future arms sales to Taiwan remains an important Chinese objective (*Xinhua*, September 22).

At a more strategic level, Chinese analysts seemingly calculate that driving a wedge between Washington and Taipei could isolate Taiwan and give China greater bargaining leverage in future cross-strait political and military negotiations. Indeed, some Chinese analysts have expressed similar, if more strident, views about the U.S. political connection to Taiwan as the vital link that China must sever to promote unification on its terms. For example, following the latest arms sales announcement, one Chinese observer urged a stronger response to U.S. arms sales as a means of pressuring Washington to change its policy, thus depriving Taiwan of U.S. political backing and making people in Taiwan more willing to accept unification with China (*Global Times* [China], September 29). Beijing, however, could easily overplay its hand—especially if it fails to consider the possible unintended consequences of such an approach. Indeed, trying to isolate Taiwan is probably less likely to increase Taipei’s willingness to negotiate on China’s terms than it is to leave it feeling too insecure to discuss sensitive cross-strait issues. Beijing may not believe it, but U.S. support for Taiwan is a prerequisite for, not an obstacle to, the further development of a more stable and constructive cross-strait relationship.

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Notes:

1. Office of the Secretary of Defense, *Annual Report to Congress, Military and Security Developments Involving the People’s Republic of China, 2011*, Washington, DC, 2011, p. 7.
2. David A. Shlapak, David T. Orletsky, Toy I. Reid, Murray Scot Tanner, Barry Wilson, *A Question of Balance: Political Context and Military Aspects of the China-Taiwan Dispute*, Santa Monica, CA: RAND, 2009.
3. Another rationale that is sometimes offered for selling F-16C/Ds to Taiwan is the need to replace the ROC Air Force’s obsolete F-5s. Taiwan has

lost numerous F-5s in a series of crashes over the years and these accidents have claimed the lives of a number of pilots. Sadly, the week before the administration announced its arms sales decision, two more Taiwan F-5s crashed during a training exercise, killing three Taiwan air force officers (*Taipei Times*, September 27).

4. See, for example, Andrew Yang, “U.S.-ROC Cooperation to Secure Peace and Stability in the Taiwan Strait,” Keynote Speech at the 2011 US-Taiwan Defense Industry Conference, Richmond, Virginia, September 19, 2011, http://www.us-taiwan.org/reports/2011_september19_andrew_yang_conference_keynote.pdf.

Beijing Battles Brewing Crisis in Financial Sector

By Willy Lam

Given that China is expected to contribute 24 percent of world growth this year, the fast-rising quasi-superpower is generally deemed a bastion of stability in the financial maelstrom that is hitting Europe and the United States. While Beijing, which is the largest holder of U.S. debt, has yet to make substantial purchases of the European bonds, it has expressed a theoretical willingness to help embattled EU countries. One of the goals of an upcoming session of the Chinese Communist Party’s (CCP) Central Committee is to project Chinese soft power by playing up the viability of the “China model.” Confidence in Beijing’s ability to manage China’s finances however has been shaken by a series of bad news about the nation’s private enterprises and its labyrinthine underground banking system.

Since early summer, thousands of once vibrant small and medium-sized enterprises (SMEs)—which account for more than half of China’s GDP and which create 80 percent of its jobs—have gone under. In Wenzhou, Zhejiang Province, the world-famous quasi-capitalist showcase, dozens of “red bosses” simply vanished last month without paying either their creditors or their employees. Wenzhou officials have increased visits to

factories that appear to be in trouble with a view to forestalling mass layoffs should these firms fail. In the first seven months of the year, Wenzhou enterprises recorded losses of 640 million yuan (\$100 million), or 220 million yuan (\$34.5 million) more than 2010. While China’s private bosses are known for being savvy and resilient, many have turned from manufacturing—where labor and material costs are rising dramatically—to the much more lucrative business of speculating in the real estate market. The downturn in property and related sectors however means some of the most successful SMEs have gone bust. The so-called Wenzhou phenomenon is being duplicated elsewhere, including several cities in prosperous Guangdong Province (*Wall Street Journal*, October 1; Xinhua News Service, October 10; China News Service, August 26).

The financial disruptions hitting private firms is linked closely with the country’s gargantuan “underground banks.” These unlicensed lenders range from local-based businessmen’s cooperatives and brokers to credit and trust companies that are offshoots of official banks, insurance companies and other financial institutions. While illegal on paper, underground banks have been tolerated by the authorities for more than a decade. Even though China has given so-called “national treatment” to quite a number of foreign enterprises and joint-ventures, non-state firms routinely face discrimination from creditors. Most government-controlled banks, including the “Big Four”—Industrial and Commercial Bank of China, China Construction Bank, Bank of China and Agriculture Bank of China—prefer to do business with large state-owned enterprises (SOEs). Non-state companies, particularly SMEs, have for the past decade or so been forced to borrow from underground financial institutions. This is despite the fact that interest rates have been between 30 percent to 100 percent during the past year (Bloomberg, September 27; *Global Times*, September 30). Since Beijing tightened the official banks’ credit to the real estate sector early this year, underground banks have also become the prime financier to property developers. The shadow bankers have lent 208 billion yuan (\$32.6 billion) to real estate companies so far this year, or nearly as much as the 211 billion yuan (\$33.1 billion) worth of loans that official banks have extended to the sector. Estimates of the total size of China’s underground lending range from 4 trillion yuan to 8 trillion yuan (\$627 billion to \$1.3 trillion, respectively), or respectively around 8 percent

to 16 percent of the official credit market (Reuters, September 23; *Financial Times*, October 6). It is obvious that a sudden downturn in the economy—such as a bursting of the housing bubble and domino-style defaults by borrowers—could wreak havoc on this shady banking industry.

Complicating the problem is the fact that many of the shadow financial institutions are so-called trust companies that are either directly or indirectly connected with either official banks or government-controlled business conglomerates. They have lured depositors by promising interest rates at least a few times higher than the meager 3.5 percent or so offered by official banks. Depositors have included SOEs as well as ordinary citizens, who have been transferring money from their saving accounts in official banks to underground ones. This partly explained the fact that deposits in the Big Four banks suddenly shrank by 420 billion yuan (\$65.8 billion) in the first half of September. The extent of ordinary folks' participation in the shadow banking sector is evidenced by the fact that 90 percent of Wenzhou residents have parked their money into these institutions. These underground lenders also are proving popular with depositors in neighboring Guangdong Province (*Global Times*, October 8; Reuters, September 22; *Hong Kong Economic Journal*, September 23; *Asia Times*, August 26).

Apart from giving loans to parties that have problem securing credit from government banks, trust companies and other underground financial institutions have repackaged and “securitized” their loans into asset-based securities and other wealth management products (WMP) that are similar to those dubious bonds and financial products that flooded the United States in the run-up to the sub-prime mortgage crisis in late 2008. The Chinese media have reported that commercial lenders issued 8.51 trillion yuan (\$1.3 trillion) worth of WMPs in the first six months of this year, compared to about 7.05 trillion yuan (\$1.1 trillion) for the whole of 2010 (South China Morning Post, September 26; *Ming Pao* [Hong Kong], September 27). The value of WMPs could shrink drastically at a time of economic fluctuations, leaving their investors with little compensation.

Meanwhile, the problem of bad loans being piled up by the nation's close to 10,000 local-government financial vehicles (LGFV) remains unresolved. These semi-

governmental institutions were set up by municipal- and grassroots-level administrations in 2008 and 2009 mainly to raise money for property and infrastructure development. The National Auditing Office estimated the LGFVs had amassed 10.7 trillion yuan (\$1.7 trillion) of debt by the end of 2010. Yet independent estimates put the figure around 14 trillion yuan (\$2.2 trillion) (“Local Debt Problems Highlight Weak Links in China's Economic Model,” *China Brief*, July 15). While the government anticipates that 2.5 trillion yuan to 3 trillion yuan (\$392 billion to \$470 billion) of these debts will turn sour, the U.S. rating agency Standard and Chartered reckons that as much as 8 trillion yuan to 9 trillion yuan (\$1.3 trillion to \$1.4 trillion) will not be repaid. A recent edition of the official *Liaoning Daily* said close to 85 percent of LGFV-related loans in northeast Liaoning Province missed debt service payments in 2010. Economist Cheng Siwei, who is a former vice chairman of the National People's Congress, recently expressed worries about a mammoth debt crisis. “Our version of the U.S. sub-prime crisis is the lending to local governments, which is causing defaults,” Cheng said at the World Economic Forum in Dalian last summer (*China Daily*, September 17; Sina.com, September 17; *Forbes*, September 5).

Owing to the unmitigated spate of bad news on the finance front, it is not surprising that the stock prices of even the “Big Four” banks have tumbled by more than 30 percent since the summer. It is however premature to conclude the country is about to be plunged into a recession. While independent analysts estimate China's total public debt is about 80 percent of GDP, central authorities still have a huge war chest. Central revenue was 8.3 trillion yuan (\$1.3 trillion) last year. The country also holds more than \$3.2 trillion in foreign-exchange reserves (Reuters, October 10; *Ming Pao*, September 29).

The central government's apparent failure to take timely and efficacious action to combat the series of abuses however is a grave cause for concern. For example, despite repeated pledges by Premier Wen and Executive Vice Premier Li Keqiang about “rectifying dislocations” in the economy, very little has been done to curb the excesses of the underground banks or the LGFVs. Liu Mingkang, Chairman of the China Banking Regulatory Commission (CBRC)—which is the top watchdog of the banking industry—recently told the *People's Daily* banks must “step up their prevention of risks associated with

shadow banking.” “The CBRC will strictly examine all financing products promoted by commercial banks to ensure that risk from these products will not extend into the banking system,” Liu said. He also expressed confidence that debts incurred by LGFVs would not get out of hand. At a CBRC meeting earlier this year, Liu told bankers to “boost their investigation and research of the question of shadow banks, and to do well the task of following up [cases] and analysis” (Xinhua, August 17; China News Service, May 9). No decisive action however has yet been taken by either the CBRC or other government department to close down underground banks, trust companies or LGFVs.

After news of the massive defaults of Wenzhou enterprises hit the newsstands earlier this month, Premier Wen rushed to the city to give at least rhetorical support to the country’s struggling private sector. “Small enterprises should be a priority of bank credit support and they should enjoy more tax preferences from the government,” said Wen. “Banks should increase their tolerance of the non-performing loan ratio of small enterprises, set targets for the expansion of loans to small companies and reduce the small businesses’ cost of securing credit” (CCTV, October 6; Xinhua, October 6). Given that it is a stated central-government policy to restrict lending—and to allow major commercial banks to give preference to SOEs in their credit policy—it is, however, unlikely Wen’s promises will materialize.

The central government is facing a tough dilemma. On the one hand, Beijing is unlikely to change its year-long policy of reining in credit so as to curb inflation—as well as excessive exuberance in the housing and other sectors. Last August, the consumer price index was 6.2 percent, slightly down from the three-year high rate of 6.5 percent recorded for July. Both officials and economists however have warned upward price spirals will continue for a relatively long period (BBC news, September 9; Reuters, September 24). On the other hand, the massive closure of SMEs means unemployment—and social unrest. Equally importantly, Beijing must do more to curtail reckless lending as well as the sale of WMPs in the shadow banking market. A massive failing of underground banks could lead to potentially violent protests by its tens of millions of depositors. China already suffers from more than 100,000 mass disturbances each year. Given that the 18th CCP Congress, which will witness a wholesale

changing of the leadership, is just a year away, the current administration faces mounting pressure to clean up the country’s financial mess sooner rather than later.

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Tiangong-1 Launch Makes China’s Space Station Plans a Reality

By Kevin Pollpeter

China’s successful launch of a space station on September 29 marks an important new phase in China’s human spaceflight program as it takes steps to establish a long-term manned presence in space. Tiangong-1—which means Heavenly Palace in Chinese—is China’s first space station that is intended to serve as a test bed for the eventual orbiting of a much larger space station. Tiangong-1 will be used to conduct docking experiments and to accumulate experience in the operation of space stations. Beyond scientific and technical value, the Tiangong-1 mission, if successful, also will demonstrate China’s ability to reach its goal of becoming a first-rate space power.

Basics of the Tiangong Program

Tiangong-1 is described as a simplified space station with a service life of two years. It weighs 8.5 metric tons, is 10.4 meters long, has a maximum diameter of 3.35 meters and can house up to three astronauts (China Manned Space Engineering Office (CMSE), Press Release, September 2011). By way of comparison, the International Space Station (ISS) weighs 450 metric tons, is 51 meters long, can support a crew of six and will continue in operation until 2020 when it will have been in service for 21 years.

Even Skylab, the United States' first space station launched in 1973, weighed 77 metric tons and was 26.3 meters in length, but like Tiangong-1, housed three astronauts and only operated for two years. Nevertheless, Chinese sources describe developing Tiangong-1 as a challenging endeavor, which took six years and involved overcoming 234 critical technology challenges (*PLA Daily*, September 30).

The launch of Tiangong-1 from the Jiuquan Satellite Launch Center will be followed by the launch of the unmanned Shenzhou-8 space capsule in November to conduct docking experiments. Within two days after launch, Shenzhou-8 will dock with Tiangong-1 and will stay docked for approximately 12 days after which they will separate and dock again. After this second docking, Shenzhou-8 will separate from Tiangong-1 and return to earth (*PLA Daily*, September 30). Two more follow-on docking missions are planned for 2012. Shenzhou-9 will dock with Tiangong-1 and, depending on the results of the Shenzhou-8 docking experiments, may be manned. The manned Shenzhou-10 mission will follow. Each manned mission will carry two or three astronauts to the space station for short periods of habitation. During these missions, astronauts will conduct space science and medical experiments and learn how to live in space for extended periods of time.

The primary mission of Tiangong-1 is to practice using the technologies and techniques for rendezvous and docking. To align with Tiangong-1 properly, Shenzhou-8 will have to conduct five orbital adjustments. When it is within 52 kilometers of Tiangong-1, ground controllers using microwave radar, laser radar and optical imagers on Shenzhou-8 will guide it into position. During this approach, the spacecraft cannot exceed 0.2 meters per second and cannot veer more than 18 centimeters laterally from Tiangong-1. To conduct docking procedures, ground controllers will use two data relay satellites, domestic ground systems and two international ground systems in France and Brazil to control the space station (*PLA Daily*, September 30).

The Contours of the China's Space Station Program

The launch of Tiangong-1 brings China closer to the ultimate goal of China's human spaceflight program, which is to establish a long-term human presence in space with the launch of a 60-metric ton space station.

The genesis of this program lies in the strategic situation of the 1980s. During the mid-1980s the Soviet Union had launched the Mir space station while the United States was planning for the development of Space Station Freedom, the precursor to the International Space Station. At that time, Chinese scientists believed major powers had space stations and to be a major power a country must have a space station. They justified such a large and expensive endeavor on the political, economic, scientific and military benefits it would provide. After a tortuous six-year process of feasibility analysis, the program was finally approved on September 21, 1992 and dubbed the 921 Project after the month and the day of its establishment. In its approval, China's top leadership mandated a "three step" strategy for China's human spaceflight program.

Tiangong-1 represents the second step of this strategy. The first step began with the launch of unmanned space capsules and ended with the completion of the second manned mission, Shenzhou 6, in 2005. The second step is composed of two phases. The first phase, completed with the Shenzhou 7 mission, involved a multi-day mission with multiple astronauts and a space walk. The second, current phase involves the testing and operation of small space stations. The third step involves the launch of a larger space station designed for long-term habitation ("Human Space Flight Development Strategy," Cmse.gov.cn).

In keeping with this three-step strategy, Tiangong-1 will be followed by two more small space stations. Tiangong-2 will be launched in 2013 and will be able to support a crew of three for 20 days. It will concentrate on earth remote sensing, space and earth system science, new space application technologies, space technologies and space medicine. Tiangong-3 will be launched in 2015 and will be able to support three astronauts for 40 days. The Tiangong-3 mission will focus on regenerative life support, living in space, the transportation of supplies to the space station and limited space science and space medicine experiments. The three Tiangong space stations will pave the way for a much larger 60-metric ton space station with a planned service life of 10 years that will be launched in the 2020 timeframe (*PLA Daily*, September 30; *People's Daily*, September 27, 2001).

China has developed or is developing a number of systems to support a long-term manned presence in space. . For

example, Tiangong-1 was launched on the Long March-2FT1, a variant of the Long March-2F used to launch Shenzhou space capsules. . The Long March-2FT1 has more than 170 modifications and is described as nearly a completely new rocket (*China Space News*, September 28). These modifications include a larger payload fairing and reshaped boosters to allow for greater fuel capacity (“Mission Introduction by Tiangong/Shenzhou VIII Rendezvous and Docking Mission Headquarters,” Cmse.gov.cn, September 28, 2011). China also is developing the Long March-5, a heavy lift rocket that will be able to launch a 25-ton payload into low earth orbit. This rocket is designed, in part, to transport the long-term, 60-metric ton space station into orbit. Due to the difference in the maximum payload capacity of the Long March-5 and the mass of the space station, the space station will be constructed in pieces, with a core module being launched first, followed by separate launches for two laboratory units (*Nanjing Morning News*, September 30). In addition, China is developing a cargo vessel to resupply their space station (*PLA Daily*, September 30).

Leadership Attendance Highlights Significance to China's Image

Although Tiangong-1 is described as a simplified space station, nearly all of China's top civilian and military leaders observed the launch of Tiangong-1 . The presence of the top leadership not only demonstrates top level support for China's human spaceflight program, but also for China's space program overall. Their presence also directly links the Chinese Communist Party with China's rise as a modern, high technology state and serves to buttress the Party's reputation after high profile accidents, such as the crash of a high speed rail train, called into question the soundness of massive government projects. While Premier Wen Jiabao and Central Commission for Discipline Inspection Secretary He Guoqiang were on hand at the Jiuquan Satellite Launch Center in Gansu Province; President Hu Jintao and the other four Politburo Standing Committee members witnessed the launch from the Beijing Aerospace Control Center. In addition, all military members of the Central Military Commission with the exception of Air Force commander Xu Qiliang witnessed the launch at the Jiuquan launch site or in Beijing (*PLA Daily*, September 30). The reason for Xu's absence is unknown and is peculiar considering that China's astronauts are Air Force pilots and the Air

Force has expressed interest in taking over the space program [1]. Xu's controversial remarks in a November 2009 interview that were widely interpreted as advocating for space warfare, raises the possibility that the Chinese leadership feared that his presence could put the launch in an unfavorable light (*PLA Daily*, November 1, 2009).

The presence of nearly all of China's top military leadership to witness the launch is a reminder that China's space program, including its human spaceflight program, is managed by the military through the General Armament Department (GAD). Indeed, GAD head General Chang Wanquan is the commander of China's human spaceflight program. The Chinese Ministry of National Defense defends the military's involvement in China's human spaceflight program as both a necessity brought about by the size and complexity of the space program and as a common trait of all countries with space programs (*Xinhua*, September 30). The program's military leadership, however, raises questions about whether China's space stations will have military utility. For example, the technology and techniques used to rendezvous and dock with Tiangong-1 could be applied to the use of co-orbital satellites in a counter-space role. Chinese writings refer to parasitic satellites that can attach themselves to an adversary's satellites during peacetime and then are activated to interfere with, damage or destroy the host satellites during wartime. Other satellites conducting legitimate peacetime activities can be deployed during wartime to attack an adversary's satellite through self-detonation or through the use of kinetic, directed energy or chemical spray weapons [2].

An optical sensor on Tiangong-1 and the plan to equip Tiangong-2 with remote sensing technology also raises the possibility that Chinese space stations will conduct intelligence, surveillance, and reconnaissance (ISR) missions (*Xinhua*, September 29, 2001). Indeed, Chinese writings on space warfare discuss the use of manned spacecraft, including space stations, and some describe manned platforms as more responsive than unmanned platforms [3]. Chinese researchers also state space stations could serve as a command and control base, a communications node, a surveillance and reconnaissance platform, a logistics and maintenance hub and a platform for weapon systems that can be used against space and terrestrial targets [4].

Opportunity or Challenge?

China's space station plan presents both opportunities and challenges for the United States. For example, the launch of Tiangong-1 could present increased opportunities for international cooperation. Although Chinese space officials told NASA Administrator Charles Bolden during a 2010 visit to China "We don't need the United States and you don't need us," China is open to both technical cooperation and cooperation in spaceflight (*Space News*, November 19, 2010). France and Brazil have allowed China to use their telemetry, tracking, and control (TT&C) facilities for the Tiangong mission and China is also cooperating with Russia on joint exploration of Mars. Moreover, an article in *China Space News* assessed China's success in developing space station technologies will make it a more attractive partner for participation in the ISS (*China Space News*, September 30). Yang Liwei, China's first astronaut and deputy director of the China Manned Space Engineering Office, also voiced support in April for cooperation with the United States (Reuters, April 29). In addition, Zhou Jianping, the Chief Designer for China's human spaceflight program, stated in an interview "We [China] are willing to engage in international cooperation with any country, on the principles of mutual respect, equality, and mutual benefit, on human spaceflight in order to propel world human spaceflight to a higher level" (*PLA Daily*, September 30).

China's space station missions, if successful, also may further fuel the perception of China as a rising power and the United States as a super power in decline. In this respect, Tiangong-1 is an important symbol of China's technological power and a reminder that as the United States has terminated its Space Shuttle program with no immediate replacement, China remains committed to becoming a first rate space power. China's space stations, even the 60-metric ton space station to be launched around 2020, will still be less advanced than the ISS. China disagrees with such analysis, stating China's space station is built solely by China and not an international partnership like the ISS and, even though the ISS may be larger, the technologies on the Tiangong-1 are just as advanced (*China Space News*, September 30). Nevertheless, NASA's plan to build the Space Launch System and the Orion Multi-Purpose Crew Vehicle could mean the United States will have the capability to send humans into deep space, including Mars, while China is still stuck

in low Earth orbit. Reaching these destinations however will require vision and political will on the part of the United States. Qualities China has not been shy about demonstrating. Indeed, although no official decision has been made for a manned lunar program, China now is conducting preliminary feasibility studies to send humans to the moon [5].

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Notes:

1. See, for example, "China Should Build a Mighty Air Force," *China Military Online*, August 29, 2009; Cai Fengzheng and Deng Fan, "Kongtian zhanchang yu guojia kongtian anquan tixi chutan [Introduction to the Air and Space Battlefield and National Air and Space Security System]," *Zhongguo junshi kexue [China Military Science]*, 2006/2, p. 50.
2. Jiang Zhibao, Zheng Bo, and Hu Wenhua, "Xin gainian wuqi de yanjiu xianzhuang yu fazhan qushi [Current State and Trends in Development of New Concept Weapons]," *Feibang daodan [Winged Missiles Journal]*, Issue 11, 2005, pp. 16, 25.
3. Li Yiyong, Li Zhi and Shen Huairong, "Linjin kongjian feixingqi fazhan yu yingyong fenxi [Analysis on Development and Application of Near Space Vehicle]," *Zhuangbei zhihui jishu xueyuan xuebao [Journal of the Academy of Equipment Command and Technology]*, 2008/2, p. 64 and ; Chang Xianqi, *Junshi hangtianxue [Military Astronautics]*, Beijing: National Defense Industry Press, 2002, pp. 118-119.
4. Cai Fengzhen and Tian Anping, *Kongtian zhanyang yu zhongguo kongjun [The Air-Space Battlefield and China's Air Force]*, Beijing: Liberation Army Press, 2004, pp. 123 and 131.
5. Presentation by China Manned Space Engineering Office representative Zhang Haiyan at the International Astronautical Federation's 62nd International Aeronautical Conference on 6

October 2001 accessed at http://www.iafastro.org/index.html?title=IAC2011_Late_Breaking_News_2

Retired Taiwan Officer Exchanges Offer Insight into a Modern “United Front”

By John Dotson

Amid Taiwan’s torrid summer heat, the island’s political temperature has been further raised by the controversy surrounding visits to China by senior-ranking retired national security officials. In early June, retired Taiwanese Air Force General Hsia Ying-chou was quoted as stating at a Beijing forum that “We should no longer make a distinction between the Republic of China Armed Forces and the [People’s Liberation Army]. We are all Chinese troops.” Although General Hsia denied making the remarks, legislators from the opposition Democratic Progressive Party (DPP) called for him to be stripped of his pension and benefits, and President Ma Ying-jeou directed the Ministry of Defense to draft a “code of conduct” for retired defense officials visiting China (Kmt.org.cn, June 10).

This alleged incident emerged from an exchange between retired Chinese and Taiwanese military officers that began with a golf tournament in Sichuan Province from June 1 to June 4 and a visit to the Wenchuan earthquake site and followed by a seminar on cross-strait relations convened in Beijing on June 6th (Huangpu.org.cn, June 7; *Taiwan News*, June 8). This was the latest in a series of recent exchanges involving retired military officers from both sides of the strait. Retired Taiwanese military officers have visited China in an individual capacity for many years, but more organized exchanges between retired Chinese and Taiwanese flag officers—initiated primarily from the Chinese side—have expanded significantly in scale since 2009.

The Taiwan Ministry of Defense has publicly stated that it has not authorized the exchanges and has called upon retired officers to refrain from such visits, but has

taken no action to stop them (*Taipei Times*, August 31, 2010). Taiwan press reporting indicates that U.S. officials have expressed concern to their Taiwan counterparts regarding the visits on the grounds that sensitive military information might be compromised or that back-channel negotiations might be conducted without U.S. knowledge (*Taipei Times*, August 31, 2010; *Taiwan News*, August 30, 2010).

More recently, similar exchanges have involved retired Taiwanese intelligence officials. Taiwanese press has reported that in December 2010, two retired generals of Taiwan intelligence—Lieutenant General Hsu Ping-chiang of the National Security Bureau (NSB) and Major General Huang Chi-mei of the Military Intelligence Bureau (MIB)—led a delegation of 17 retired MIB officials on a trip to China (*Taipei Times*, January 10). The retired Taiwan intelligence officers were members the “Society of the Loyal and Righteous Comrades of the Republic of China” (*Zhonghua minguo zhongyi tongzhi hui*), which, according to its website, is a civic organization for Taiwan intelligence personnel founded in honor of the memory of General Dai Li, the head of the Kuomintang’s “Investigation and Statistics Bureau” (forerunner of the MIB). Responding to an invitation, the delegation visited Jiangshan City, Zhejiang Province, where they were hosted by local officials to include Jiangshan City Chinese Communist Party (CCP) Chairman and United Front Work Department Director Zheng Chaoji. The retired Taiwan intelligence officers visited the former residence of Dai Li, viewed Dai-related exhibits in the Jiangshan City Museum and held discussions with local officials (*Taipei Times*, January 10; “Activity Highlights,” from Jyccroc.myweb.hinet.net).

Organizations Sponsoring the Officer Exchanges

The common thread in these officer exchanges is the sponsorship role of the Huangpu Academy Alumni Association (*Huangpu junxiao tongxue hui*). The Huangpu Alumni Association is nominally a civic organization in China for graduates of the Huangpu (Whampoa) Military Academy, an officers’ training college founded in Guangzhou in 1924 that produced many graduates who later became prominent figures in both the Kuomintang and Communist causes. The Huangpu link has long been a factor in Chinese outreach to Taiwan. When China’s “Nine Principles for Peaceful Unification” were unveiled

Timeline of Cross-Strait Retired Officers' Exchanges

Date	Description of the Exchange
Summer 2009	Retired Taiwanese generals take a golfing vacation in Guangzhou and Xiamen hosted by PLA counterparts.
November 2009	Retired military officer exchanges are proposed by Chinese participants at conferences in Beijing and Taipei.
April 2010	Retired General Hsu Li-Nung, former Director of the Taiwan Army's Political Warfare Department, led a delegation of over 20 retired Taiwanese flag officers on a visit to Beijing and Shanghai. The delegation reportedly met with senior Chinese officials, including State Council Taiwan Affairs Office Director Wang Yi, Politburo Standing Committee Member Jia Qinglin and CMC Vice-Chairman General Xu Caihou. General Hsu stated the trip focused on establishing military confidence-building measures.
May 2010	An estimated 50 retired Taiwanese officers and a delegation of 60 retired officers from the PLA attended the "Sun Yat-Sen Huangpu Cross-Strait Friendship Conference" in Taipei.
May 2010	A delegation of retired Taiwanese flag officers traveled to Nanjing for the "Second Cross-Strait Retired Generals Golf Invitational" alongside Chinese counterparts. Xiong Guangkai, the former head of PLA intelligence, reportedly participated.
June 2010	Huangpu Alumni Association Chairman Zhu Jingguang led a delegation from the China to Taiwan.
August 2010	A delegation of over 20 retired Taiwanese officers travels to a Huangpu Alumni conference held in Nanjing.
September 2010	A delegation of 31 members of the Kaoshiung "Central Military Academy Alumni Association" visited Shanghai, Jiangsu and Zhejiang.
September 2010	A delegation of 11 members of Taiwan's "China Huangpu Four Seas Fraternal Society" are hosted on a visit to Liaoning Province.
April 2011	Four retired Taiwanese generals attended a conference and promotional event in Beijing regarding a new film about the 1927 Northern Expedition.
April 2011	Retired Taiwanese generals from the Taiwan Strategic Studies Association are hosted for meetings in Beijing and a visit to the Confucius Temple in Shandong Province.
June 2011	Retired Taiwanese generals attended the "Huangpu Spirit Cross-Strait Retired Generals Invitational Golf Tournament" in Sichuan and attended a conference in Beijing.
Sources: <i>Lien Ho Pao</i> (Taiwan); The Taiwan Link; <i>China Times</i> (Taiwan); <i>Taipei Times</i> ; China Review News Agency; <i>Taiwan News</i> ; Huangpu.org.cn	

in 1981, their leading spokesman was PLA Marshall Ye Jianying, a Huangpu alumnus with many old classmates in Kuomintang uniforms across the Strait.

Although it appears on the surface to be a privately organized, person-to-person initiative, the Taiwan officers' exchange program is actually a project of the CCP's United Front Work Department (UFWD). The Huangpu Alumni Association is a thinly-disguised front organization operated by the UFWD. It is one of several entities identified by name on a United Front Work Department website as organizations managed by the UFWD. At a UFWD-hosted reception in January, UFWD Vice Director You Lantian praised the Alumni Association for its "outstanding achievements in Taiwan work," and expressed confidence that it would "continue to adhere to the policy of the central authorities for Taiwan work... and make new contributions for the peaceful reunification of the Motherland" (Huangpu.org.cn, January 25).

Furthermore, the Huangpu Alumni Association also shares the same contact phone number and address with an organization titled the China Council for the Promotion of Peaceful Unification. The Council describes itself as "a voluntary association of people from all walks of life who support reunification, with an independent legal status," but this is a dubious assertion. The Council's chairman is Jia Qinglin, the CCP Politburo Standing Committee member who is the senior-most official in overall charge of united front activities, and its executive vice-chairman is Du Qinglin, the Director of the United Front Work Department (Xinhua, March 16).

Additionally, a new organization emerged in 2011 as a sponsor of the officer exchanges, which also bears clear fingerprints of the UFWD. The Huangpu Alumni Association and the "Chinese Strategic Culture Promotion Association" co-sponsored the June 2011 conference in Beijing that produced the controversial alleged comments of General Hsia Ying-Chou (*Taiwan News*, June 8). Chinese media has described the latter group as made up of "experts, scholars, organizations and voluntary associations of social activists, together composing a national, non-profit social organization... [which] will put forward insightful counsel and suggestions to the central leadership and relevant government agencies." Despite this depiction of the group as a civil society organization,

it is also headed by senior CCP officials. The group's executive vice-chairman is PLA Major General Luo Yuan of the Chinese Academy of Military Science and its president is Zheng Wantong, deputy chairman of the UFWD-controlled Chinese People's Political Consultative Conference (CPPCC) and former UFWD deputy director (Zhongguo Taiwan Wang, January 5; China Vitae).

In addition to the UFWD's role in operating these organizations, the UFWD also has taken a more overt role in the Taiwan officer exchanges. Officials from the central UFWD and many of its regional branches have been involved as coordinators and hosts for sponsored trips of retired Taiwan officers throughout China. In one example, a visiting delegation of retired Taiwan officers traveling in northeast China in September 2010 was hosted by UFWD officials in each of five different cities that they visited (Huangpu.org.cn, September 9, 2010).

The Role of the CCP United Front Work Department

Inside China, the United Front Work Department (UFWD, *tongyi zhanxian gongzuo bu*) is the leading CCP organ for relations with groups outside the Communist Party. It operates state-controlled "mass organizations" such as the All-China Federation of Labor Unions and officially-sanctioned religious organizations. It also provides nominal "consultation" on government policy to selected groups via stage-managed fora, such as the Chinese People's Political Consultative Conference. In territories beyond Beijing's control, the "united front tactics" of the organization seek to identify and win over influential people or civic groups to support the goals of the CCP and to "carry out [Chinese] foreign policy with nongovernmental (noncommunist) organizations... [it conducts] covert action by attempting to influence organizations in other countries in support of Chinese foreign policy objectives" (*The Standard* [Hong Kong], July 12, 2010) [1].

In pursuit of this, the UFWD takes a leading role in efforts to influence opinion in ethnic Chinese communities, to include self-described "worldwide united front propaganda work," and coordinating "struggle against the activities of... hostile forces who seek to divide the motherland." Historically, the UFWD also engaged in clandestine foreign intelligence work, propaganda and influence operations against Taiwan, including efforts to

seed its personnel into Taiwanese society at the beginning of the cross-strait intelligence contest.[2]. A UFWD website hints obliquely at this role, stating the CCP's designated tasks are to "Understand the situation, have a grasp of policy, adjust relationships and arrange for what is possible."

Effects and Future Prospects of the Exchanges

The role of the UFWD in organizing the exchanges of retired Taiwanese military and intelligence personnel makes it clear that there is more going on than simple reminiscing over friendly games of golf. Chinese officials hope to use the exchanges to achieve a two-track set of goals. The first is to influence opinion in Taiwan's elite circles of national security policy-making in favor of closer relations—and eventual reunification—with China. This facet of the program has been explicitly acknowledged by CCP officials. Jia Qinglin's work report for the 2011 session of the CPPCC hailed "the [Huangpu] spirit as a bridge and link to increase the solidarity of Chinese sons and daughters and use cultural exchanges to cultivate in Taiwan compatriots the sense of being a part of the Chinese nation" (*China Daily*, March 3).

Retired security officials of mainlander heritage represent the constituency in Taiwan most likely to support reunification and could serve as willing conduits for CCP propaganda messages intended to manipulate public perceptions in Taiwan. However, this latter concern is tempered by the fact that the exchanges have thus far shown little impact on government policy and by the fact that younger national security officials in Taiwan may have very different outlooks from the aging mainlander officers who are the primary participants in the exchanges (*Asia Times*, May 3).

The second major goal behind the exchanges is almost certainly an effort to glean information of intelligence value and some commentators in Taiwan have expressed serious concerns about the exchanges on the grounds that sensitive national security information could be exposed (*Taipei Times*, January 10). Such concerns can only have been increased by the July 2011 conviction of Taiwanese Major General Lo Hsien-Che for spying for Beijing (*China Times* [Taiwan], February 9; *Taipei Times*, February 10). Although no longer in active service, retired generals and intelligence officials represent a highly valuable

source of potential information for Chinese intelligence collectors—to include factors such as command and control relationships, contingency planning, the status of unit readiness and the personalities of senior officials—whether gained through direct recruitment, or more subtly through targeted elicitation.

These exchanges provide an illuminating look at some of the methods by which the CCP conducts intelligence collection and perception management operations directed at Taiwan, as well as its employment of front organizations that masquerade as civil society groups. It also reveals China's efforts to cultivate selected political or economic elites to shape foreign perceptions. Regardless of the extent to which these efforts may or may not succeed in advancing the political goals of the CCP, the CCP United Front Work Department will almost certainly continue to expand its active outreach to retired Taiwan security officials. It will be up to Taiwan's democratic process to decide where to draw the line between individual rights of expression and travel in a free society and the national security restrictions required to maintain those same freedoms.

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Notes:

1. Nicholas Eftimiades, *Chinese Intelligence Organizations*, Annapolis, MD: Naval Institute Press, 1994, p. 109. The term "consultation" (*xieshang*) is the one used most frequently in UFWD sources to refer to its work on government policy with non-CCP groups: "Zhuyao Zhineng" (Major Functions), The United Front Work Department, http://www.zytzb.cn/09/introduce/200910/t20091010_577660.html.
2. David Shambaugh, "China's Propaganda System: Institutions, Processes and Efficacy," *The China Journal*, No. 57, January 2007; "Zhuyao Zhineng" (Major Functions), United Front Work Department Website; Andrew Nathan

and Perry Link (ed.), *The Tiananmen Papers*, New York, NY: Public Affairs Books, 2001, pp. 158–159; and Roderick Macfarquhar and Michael Schoenhals, *Mao's Last Revolution*, Cambridge, MA: Harvard University Press, 2006, p. 96; Henry Flocks, "Chinese Defections Overseas," *Studies in Intelligence*, Fall 1965, declassified Sep. 18, 1995, www.cia.foia.gov.
