



In This Issue:

IN A FORTNIGHT

Briefs by David Cohen and Peter Wood.....1

CHINA'S EAST CHINA SEA ADIZ: FRAMING JAPAN TO HELP WASHINGTON UNDERSTAND

By Peter Mattis.....4

AIRSEA BATTLE AND ADIZ: A REACTION TO A REACTION

By Harry J. Kazianis8

CRITICAL NODE: TAIWAN'S CYBER DEFENSE AND CHINESE CYBER-ESPIONAGE

By Russell Hsiao.....11

ENDING THE SINO-MONGOLIA CHILL

By Alicia Campi14



China's map of the new East China Sea Air Defense Identification Zone

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

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

The opinions expressed in China Brief are solely those of the authors, and do not necessarily reflect the views of The Jamestown Foundation.



For comments and questions about China Brief, please contact us at < cohen@jamestown.org >

1111 16th St. NW, Suite 320
Washington, DC 20036

Tel: 202.483.8888
Fax: 202.483.8337

Copyright © 2011

In a Fortnight

EAST CHINA SEA AIR DEFENSE MOVES: WHAT FOR AND WHY NOW?

By David Cohen

China's declaration of an Air Defense Identification Zone (ADIZ) covering the disputed Diaoyu/Senkaku Islands—as well as the greater part of the East China Sea, including sections of Taiwan's and South Korea's own ADIZs—demands explanation. The announcement, issued by China's Ministry of National Defense (MoD) on November 23, demands that aircraft entering the area report flights plans to, identify themselves to and follow the instructions of China's MoD. The rules issued by the MoD imply a military threat to aircraft not recognizing Chinese authority over the zone, warning that China will undertake "emergency defensive measures" if aircraft fail to comply (MoD, November 23).

Official media have taken pains to downplay the significance of the move. Experts quoted in these media note that the ADIZ is not itself a claim of sovereignty over the disputed waters, and have noted the overlap with neighboring ADIZs. The overlap is described as coincidence rather than contradiction—Meng Xiangqing, a senior researcher at the National Defense University, recommends that aircraft enter the overlapping zones identify themselves to both countries involved (Xinhua, November 26). MoD spokesperson Yang Yujun also stressed that

the ADIZ is aimed at “potential air threats.” “Normal flights by international air liners in the East China Sea Identification Zone will not be affected in any way,” he said (MoD, November 23). Yang dismissed U.S. protest over the establishment of the zone as “hypocritical,” fairly low in the taxonomy of Chinese political criticism.

China’s official response to U.S. defiance of the ADIZ should make it clear that the country is not seeking further confrontation. After two B-52s flew over the disputed islands without identifying themselves to Chinese authorities, MoD spokesperson Geng Yansheng suggested that it was enough that China had been able to identify the aircraft independently, a significant step away from the demand that aircraft identify themselves:

The Chinese army monitored the entire process, carried out identification in a timely manner, and ascertained the type of aircraft.

“We need to stress that China will identify every aircraft flying in the air defense identification zone according to the country’s announcement of aircraft identification rules for the air defense identification zone,” Geng said. (Xinhua, November 27).

At least some Chinese analysts have framed the ADIZ as a step toward reducing tension in the East China Sea. Meng told Xinhua that “the zone will help reduce military misjudgment, avoid aerial friction and safeguard the flight order and safety” (November 25).

While the move is a continuation of recent escalation over the island conflict, it is also a substantial break from China’s practice over the past several years: rather than isolating Japan, it has forced responses from the United States, South Korea and Taiwan (Yonhap News, November 25; WantChinaTimes, November 26). The announcement also abandons the ambiguity Beijing has cultivated through irregular and unannounced visits to the disputed area, which has served to discourage coordinated response. Finally, the proactive measure makes it difficult for the PRC to sustain its account of itself as reacting to Japanese provocation.

This move is clearly calculated, planned at a high level

and carefully timed. This raises two main questions: What is it meant to accomplish, and why now? In looking for answers to these questions, analysts should consider the following contexts:

Domestic Context

Coming immediately after the conclusion of the Third Plenum, a major meeting that set an ambitious—and politically challenging—agenda for reform, it is hard to see the timing as a coincidence (See *China Brief*, Vol. XIII, Issue 23). What the connection might be is less clear. The Plenum included language on national security, largely posed in the context of stability, but did not offer strategic guidance for international relations.

Tit for Tat

According to Chinese accounts, conflict over territorial disputes stems from foreign provocation—the recent rise of Diaoyu/Senkaku tensions in particular beginning with Japan’s move to “nationalize” the islands. The threat to planes visiting the East China Sea could be a response to Japan’s threat last month to shoot down military drones visiting the disputed area, which China described as showing that “Japan means to make provocations and create a tense atmosphere” (Xinhua, October 27). However, Chinese spokesmen are usually happy to draw connections like these, and they have not in this case.

Crisis Management

According to Chinese assessments, China’s 2012 seizure of the Scarborough Shoal “ended the history of the Philippines’ illegal harassment, inspections, and impounding of Chinese fishermen’s boats” (*International Herald Leader*, September 16; see *China Brief*, Vol. XIII, Issue 22 for additional context). While China paid a price in increased tensions, especially in terms of the Philippines’ decision to seek international arbitration over the dispute, its control of the reef has given it control over when incidents like the arrest of fisherman take place.

For a leadership that describes itself as managing a period of crisis in Chinese legitimacy, being able to avoid crises at critical moments may be more important than reducing

them overall. Thus, it may be worth strained relations to impose a situation in which China can choose whether to respond to or tolerate another state's actions rather than risking having a Chinese fisherman and a foreign navy start an unplanned incident.

Descriptions of the ADIZ as a step toward increasing stability—especially through reducing “military misjudgments” suggests a similar approach to the East China Sea.

Consolidating Gains

Finally, it is worth noting that Chinese assessments of recent standoffs with Japan suggest that China has made substantial progress, breaking Japan's effective control (*International Herald Leader*, September 16). The declaration of an ADIZ may be an effort to define what China views as a new status quo, in which both nations are able to regularly challenge the other's visits to the disputed area. Even if China is unable to win recognition for the zone, a situation in which the Chinese and Japanese militaries regularly challenge each other's control is a step toward parity.

David Cohen is the editor of China Brief.

*

AFTER HURRICANE, PHILIPPINE MILITARY MODERNIZATION MORE URGENT AND LESS LIKELY

By Peter Wood

Typhoon Haiyan, known as Yolanda in the Philippines, killed 5,719 and injured 26,233 and displaced more than four million people (ndrrmc.gov.ph, December 4; *Manila Bulletin*, November 20). This is more than 4% of the country's total population. To put this into perspective, by comparison, approximately one million people were displaced by Hurricane Katrina, and 320,000 in Japan after the 2011 Tsunami. The typhoon followed on the heels of the magnitude 7.2 earthquake that hit the south central provinces of Cebu and Bohol, which according to official government figures killed 222 people (ndrrmc.

gov.ph, Nov 3, 2013).

The international community has been quick to provide significant assistance to the Philippines. This outpouring of aid is all the more necessary because of the Philippine's weak military and logistic capabilities. Furthermore, the fragmented nature of the Philippine Archipelago, and internal politics and turf wars have proved a major issue in the distribution of supplies to the effected areas (*Philippine Star*, November 11). A larger issue, however looms, on the horizon.

The Philippines have an ongoing territorial dispute with China over the Nansha, or Spratly, Islands (*China Brief*, April 26, 2012). Following the typhoon, the Philippines' ability to defend their territorial claims is perhaps at its weakest state yet. With China's establishment of an Air Defense Identification Zone (ADIZ) covering the disputed Senkaku/Diaoyu islands, there is a strong chance that similar moves could be made to further entrench Chinese pressure in the region (see this issue of *China Brief* for further coverage of the new ADIZ).

Modernization in slow motion

With immense demands being made on mostly older planes and ships for rescue efforts, even routine surveillance flights and visits to Philippine borders will likely see significant decreases. The Philippines maintain a token presence of several Marines on the Second Thomas Shoal, in a rusty landing craft deliberately run aground (“Second Thomas Shoal Likely the Next Flashpoint in the South China Sea,” *China Brief*, June 21). Already facing harsh living conditions and a tense military situation, with fewer governmental resources available these soldiers are likely to face even harder deployments in the future. Despite their domestic predicament, the Philippine government has recently committed \$11.2 million for upgrades to military facilities in the area to shore up infrastructure (Kyodo News, December 4). However, accidents have reduced the antiquated jet fleet that has been used to patrol the area to just three aircraft (Reuters, October 22, 2008; GMA News, June 30).

Attempts to upgrade the Philippines forces are likely to run into budgetary obstacles in the near future. Competition

for resources between government departments in the wake of the typhoon has already begun—in this case, the Philippine Air Force (PAF) and the Department of Social Welfare and Development (DSWD). The “turf war” had to do with DSWD use of Villamor air base, a key facility of the PAF (*Philippine Star*, November 21).

With these issues, it is uncertain how the typhoon and rebuilding efforts will affect the recently announced purchase of eight AugustWestland AW109 Power helicopters for \$80 million USD (*Philippine Star*, October 28; *AugustWestland.com*, November 6). Such helicopters would have been invaluable in providing logistical support in preparation for and dealing with the aftermath of the typhoon, but such purchases might be harder to justify when accepting cash from foreign donors.

Humanitarian Response

China’s response to the humanitarian crisis was at first muted, surprising many, even within China. The typhoon received very little in terms of coverage by media outlets, and the Chinese government initially only offered \$100,000 in aid, somewhat less even than the \$350,000 put up by the band Journey (*The Straits Times*, November 13; *Rolling Stone*, November 16).

Likely responding to this criticism, China increased the amount of aid to about \$1,640,000 on November 14 and deployed a military hospital ship, the Peace Ark, on November 21 (Xinhua, November 20; November 25). Doctors and rescue personnel associated with the Peace Ark have subsequently treated 1,000 patients (*China Daily*, December 3). Photos show navy personnel and Z-8 helicopters deployed.

From the Chinese position, any aid to the Philippines is fraught with political complications. Providing aid is an opportunity for China to demonstrate grace to a much weaker opponent, and also to undermine the Philippines position when attempting to garner support against China. However, it does place the Chinese Foreign Ministry in the unusual situation of donating to an organization (the National Disaster Risk Reduction and Management Council or NDRRMC) officially headed by the Defense Secretary of a nation with whom they have an ongoing

dispute.

Allies and the way forward

All indications point to the Philippine armed forces and aid workers facing an enormous task, particularly given the logistical challenges of the thousands of islands they operate across and the large swaths of cities destroyed and with degraded transport capabilities. The speed with which the nation can recover, and the degree to which it can rebuild infrastructure while continuing to build its armed forces, however, will have an important effect on the balance of power in Southeast Asia. This will strongly depend on the degree of response by Japan the United States.

Peter Wood is an independent researcher focusing on the Chinese military.

China’s East China Sea ADIZ: Framing Japan to Help Washington Understand

By Peter Mattis

On November 23, Beijing announced that a new Air Defense Identification Zone (ADIZ) would go into effect over the East China Sea, overlapping existing Japanese and South Korean ADIZ, requiring all air traffic passing through the zone to file flight information irrespective of its destination. Despite eliciting strong responses from Tokyo and Washington as well as restrained but negative responses from Seoul, Taipei and Canberra, China claimed the ADIZ was a routine measure for improving awareness of its airspace and protecting its national security without any ulterior motive (*China Daily*, November 30; *PLA Daily*, November 27; Xinhua, November 25; Yonhap News, November 25, Xinhua, November 23). Maintaining an ADIZ is a relatively common practice, but Beijing’s justification for the new zone rested explicitly on its disputed claim over the Diaoyu (or Senkaku) Islands (Xinhua, November 25). From the beginning, Beijing has appeared prepared to address specific foreign concerns, manage diplomatic

backlash, and coordinate the launching and publicizing of air patrols. This suggests a deliberate action, even if the reasons for why now remain mysterious. The ways in which Beijing described the ADIZ's establishment indicates China has used this opportunity not only to reinforce its claim on the Diaoyu Islands, but also to drive a wedge between Japan and the United States.

The Execution of Policy, Not the Incitement of Crisis

One of the most notable features of China's presentation of the ADIZ and its policies is the absence of crisis language. As Paul Godwin and Alice Miller have chronicled, Beijing makes steadily escalating statements prior to using military force—a feature noted in China's wars since 1949. [1] The principle mouthpieces of the party, while refuting Japanese and U.S. protestations, have remained relatively tame in their language. Only one statement in an institutional, unsigned editorial in the military's paper evoked this kind of warning:

We especially hope that some individual countries will give up their pride and prejudice. They shouldn't be blinded by their own selfishness so as to underestimate the Chinese people and the Chinese military's resolute determination to safeguard China's national sovereignty and security as well as the regional peace and stability" (*PLA Daily*, November 25).

In addition to the absence of crisis language from authoritative outlets, the ADIZ story was not initially played up in China media web portals and required deliberate interest in defense news to find. This further demonstrates China's effort to present the formation of the ADIZ in a low-key manner.

Indeed, Beijing's entire presentation of the ADIZ focuses on establishing China's action as normal and legal as well as expressing China's concern for peace. Institutional and expert commentaries in the days that followed the announcement were filled with annotations such as "having no intention to generate tensions," "a move of justice to safeguard regional peace and stability" and the assertion the ADIZ "cannot be described as a threat to

another country" (China Military Online, November 28; Xinhua, November 25; *PLA Daily*, November 25). The hawkish defense commentator Luo Yuan and National Defense University professor Meng Xiangqing even suggested the ADIZ, in the words of the latter, "will in fact bring more security for aircraft flying over the East China Sea. The zone will help reduce military misjudgment"—a position reiterated by the defense ministry this week (Xinhua, December 3; China-US Focus, November 27; Xinhua, November 26).

Four indicators strongly suggest the declaration of the ADIZ was a well-planned policy action that was coordinated across the government, or least among senior policymakers. Although China may be getting vastly better at crisis management and getting its message out, these indicators buttress the hypothesis that the ADIZ was deliberate, considered policy:

1. Xinhua announced the ADIZ as a "Statement by the Government of the People's Republic of China," which is relatively rare and suggests a policy coordinated at the highest levels—the Politburo Standing Committee and possibly the Central Military Commission (Xinhua, November 23).
2. Chinese diplomats in at least three countries—the United States, Japan and Australia—had prepared talking points to downplay the implications of the ADIZ as well as any suggestion that it affected the sovereignty disputes in the East China Sea (Xinhua, November 26; Xinhua, November 25; *The Australian*, November 25; *South China Morning Post*, November 25).
3. A variety of Chinese military and legal experts across the PLA's different institutions were prepared to discuss the ADIZ, its implications as well as its consistency with domestic and international law and treaty commitments. In addition to the Ministry of National Defense spokesmen, Beijing presented comments from the PLA Air Force, the PLA Navy and National Defense University as well as their affiliated education establishments (Xinhua, November 26; *People's Daily*, November 24; Xinhua, November 24; Xinhua, November 23).

4. Shortly after announcement of the ADIZ, Beijing dispatched and publicized its first aerial patrol of the newly-designated zone (*People's Daily*, November 24; Xinhua, November 24).

Framing Tokyo for Washington's Benefit

The careful control of the ADIZ presentation indicates that China's story has a calculated message for a targeted audience. Although Beijing is demonstrating once again that the Diaoyu Islands are, in fact, disputed, the main messaging appears directed at Washington and its commitment to Japan. In many respects, the U.S.-Japan alliance and the basing of U.S. military forces is one of the keys to the military aspects of Washington's "rebalancing toward Asia"—a feature recognized as such by Chinese analysts (*PLA Daily*, February 2; *Dang Jian*, January 18).

China's propaganda presentation contains three themes relevant to the United States and aimed at driving a wedge between it and Japan. Although none of these are necessarily new, the ADIZ declaration offered an opportunity to use them within the context of an emerging crisis:

1. Japan, not China, is the threat to regional peace and stability
2. Washington is failing to live up to its commitments in the post-World War II world
3. Tokyo is dragging the United States toward conflict

Japan, not China, is the Threat to Regional Peace and Stability.

Consistent with its past conflicts, Beijing has painted its actions as defensive and the internationally-recognized, appropriate reaction to the provocation of Japan's military activities on its periphery (*PLA Daily*, November 27). Tokyo rather than Beijing, especially because of the government's purchase of Diaoyu Islands last year, is portrayed as the real threat to the status quo and regional stability. MND spokesman Yang Yujun stated "Facts have proven that it is Japan who has been creating tense situations" or, as one unsigned editorial put it, "[Washington] should pin the blame on the real offender

for changing the status quo in the East China Sea and undermining regional peace and stability" (Xinhua, November 25). In Beijing's telling, the situation is only going to get worse as the return of Prime Minister Shinzo Abe presages a more firm Japanese policy—a process already begun. One of the institutional editorials protesting China's innocence noted "Abe has taken a series of worrisome actions, including increasing Japan's military budget for the first time in 11 years, staging more military exercises and even openly announcing the intention to revise Japan's pacifist constitution" (Xinhua, November 25). *Washington is Failing to Live Up to Its Commitments in the Post-World War II World.*

China has attempted to frame controlling Japan (and restraining its militarism) as part of the U.S. post-World War II international system. An unsigned Xinhua editorial stated Tokyo "has also rejected and challenged the outcomes of the victory of the World Anti-Fascist War" (Xinhua, November 25). MND spokesman Yang added "Japan also boosted its military capacity under various disguises, attempting to change the post-World War II international order" (Xinhua, November 29). One article appearing on a Central Party School-run news portal before the ADIZ announcement even equated Washington's tolerance of rising Japanese militarism with appeasing Germany prior to the outbreak of World War II—something that provides an immediate palliative at the expense of long-term stability (Seeking Truth Online, October 23).

Beyond the issue of Japanese militarism, the 70th anniversary of the Cairo Declaration this month offered the opportunity to invoke the Allies' commitment to restoring Chinese territories lost to Japan. The declaration stated "all the territories Japan has stolen from the Chinese, such as Manchuria, Formosa, and Pescadores," which was later reaffirmed by the Potsdam Declaration in 1945. China's current interpretation is that this includes the Diaoyu, so "in international law, the Diaoyu Island and its affiliated islands have been returned to China since then" (Xinhua, December 1; Xinhua, November 25).

The other, more current, U.S. failure relates to China's assessment that Washington has acted in bad faith over its commitment to not take a position on the sovereignty of the Diaoyu Islands. The official statements reacting

to the ADIZ delivered by Secretary of State John Kerry and Secretary of Defense Chuck Hagel along with the B-52 flights suggest, at least to Chinese analysts, that Washington already has taken a clear stand against China. As Su Xiaohui, a researcher at the MFA-run China Institute for International Studies, wrote, “[the United States] even pretended to have forgotten its consistent claim of holding no positions in the issue of the Diaoyu Islands while making stress on its obligation to its allied country” and reiterated its treaty commitment to help Japan defend the islands (*People’s Daily Overseas Edition*, November 28).

Tokyo is Dragging the United States toward Conflict.

The official Chinese press have castigated Washington’s responses to the establishment of the ADIZ, suggesting that the United States is emboldening an increasingly militaristic Japan and moving Beijing and Washington closer to conflict. Xinhua opined that “The U.S. overreaction has bolstered Japan intentionally or unintentionally,” allowing Tokyo to malignly influence U.S.-China relations (Xinhua, November 27). According to an English-language editorial, “Washington’s ‘message’ will only add fuel to Tokyo’s dangerous belligerence and further eliminate room for diplomatic maneuvers. More importantly, it may put China and [the United States] on a collision course” (*China Daily*, November 28). Elsewhere, Xinhua warned the United States that “keeping a blind eye to the dangerous tendency in Japan could prove to be risky and might even jeopardize the U.S. national interests” (Xinhua, November 25).

This theme raises the hope that, should Washington not support Japan, Sino-American competition and/or conflict may be averted. An editorial in the English-language *China Daily* addressed this directly: “The ‘more collaborative and less confrontational future in the Pacific’ [Kerry] envisages rests more on Japan being sensible and peaceful” (*China Daily*, November 26). A Japan not confident of U.S. support, according to the Chinese media, would be less prone to militarism and more likely to deal fairly with China over the future of the Diaoyu Islands.

Conclusion

At this early date, there seem to be few clear conclusions about Beijing’s intentions in announcing an ADIZ. First, there seems little doubt that this was a coordinated policy that was executed at a time of Beijing’s choosing. It is not a policy free-for-all, but rather another calculated step that reinforces Chinese territorial claims and cannot be easily turned back, as the White House’s recommendation for U.S. commercial airlines to abide by China’s ADIZ regulations recognizes. Second, the way in which China has framed the issue suggests a deliberate effort to convince the United States that its interests are not aligned with Japan’s. The U.S.-Japan alliance is key to the U.S. rebalancing toward Asia, and many Chinese analysts have long seen this policy as little more than a prelude to—or a façade for—containment, or at least as destabilizing East Asia (Xinhua, November 26; □ Pivot and Parry: China’s Response to America’s New Defense Strategy, □ *China Brief*, March 15, 2012).

Beijing’s arguments rely on Washington’s privileging Sino-U.S. cooperation on a range of global issues above other commitments. As it has been presented, Japan appears to join a set of issues—including Taiwan and export controls—that Beijing claims inhibit progress in the Sino-American relationship. The framework that Beijing has put forward for reconciling problems in U.S.-China Relations—the “New Type of Great Power Relations” or “New Model of Relations among Major Countries” (*xinxing daguo guanxi*)—reinforces this kind of thinking, because it speaks to the long-held hope of a partnership and avoiding the pessimistic repetition of great power conflict (“Chinese Dreams: An Ideological Bulwark, Not a Framework for Sino-American Relations,” *China Brief*, June 7; “China’s Search for a ‘New Type of Great Power Relationship,’” *China Brief*, September 7, 2012). Yet, Beijing’s behavior in the South and East China Seas suggests this hope will come at the cost of acceding to Chinese pressure on the international system. Thus, the choice is not between U.S. relations with China or countries on its periphery, but rather between a partnership with China and preserving the international system Washington created.

Peter Mattis is a Fellow with The Jamestown Foundation’s China Program and a PhD Student in Politics and International Studies at the University of Cambridge. He served as Editor of China Brief from 2011 to 2013.

Notes:

1. Paul H.B. Godwin and Alice L. Miller, *China's Forbearance Has Limits: Chinese Threat and Retaliation Signalling and Its Implications for Sino-U.S. Confrontation*, China Strategic Perspectives, No. 6 (Washington, DC: National Defense University, 2013) <<http://www.isn.ethz.ch/Digital-Library/Publications/Detail/?ots591=0c54e3b3-1e9c-be1e-2c24-a6a8c7060233&lng=en&id=166508>>

AirSea Battle and ADIZ: A Reaction to a Reaction

By Harry J. Kazianis

On November 23, China announced the creation of a new Air Defense Identification Zone (ADIZ) covering the East China Sea. Immediate reactions have focused on its effect on the territorial claims of Japan, South Korea and Taiwan. However, the new ADIZ is also a major step toward China's ambitions to monitor and restrict foreign military activity in what it describes as its "Near Seas." As Peter Mattis writes in this issue of *China Brief*, the rollout of the new zone displays no signs of crisis language, but instead appears to be the result of a careful policy process—likely a long-term effort to neutralize U.S. efforts to ensure access to the East China Sea, themselves a reaction to previous Chinese actions.

The ADIZ belongs not only to the context of China's territorial disputes, but also to an escalating, if low-key, disagreement with the United States over operations in the Near Seas. It provides a legal framework for China's complaints about U.S. intelligence-gathering flights near China's borders, and for radar tracking and harassment of aircraft that fail to report flight plans to Chinese authorities—what Ministry of Defense (MoD) spokesman Yang Yujun described as "potential air threats" (MoD website, November 23).

In Chinese analysis, these efforts are necessary to resist growing threats from the U.S. military against the integrity of Chinese borders. The ADIZ is thus likely a response

not only to Japan's "nationalization" of the Diaoyu/Senkaku Islands, but to the U.S. operational concept dubbed "Air-Sea Battle" (ASB) highlighted in Chinese analysis as proof of the threat of possible U.S. military intervention in China's interests. ASB is itself a reaction to China's earlier efforts to develop Anti-Access/Area Denial (A2/AD) capabilities, suggesting that Chinese and U.S. military planners are already engaged in a conceptual arms race to produce frameworks for controlling access to the Near Seas.

While China's military capabilities are growing they pale in comparison to those of the United States. Clearly aware of this, Beijing has developed a strategic posture that places its forces in position to wage an asymmetric struggle instead. Referred to as counter-intervention operations by Chinese scholars, or A2/AD by American strategists, PLA forces would attempt to exact vicious losses using ballistic and cruise missiles, ultra-quiet conventional submarines, advanced mines, possibly UAVs, and other weapons that are sophisticated and increasingly home-grown. Having studied the lessons of past military campaigns waged by Washington over the last several decades, Beijing sees strategic suicide in allowing a larger power the military advantage of building-up forces and then striking in mass. Halting such a build-up through an A2/AD strategy—with many Chinese scholars arguing for massive preemptive strikes—seems the best strategy if conflict ever occurred. [1]

In response to growing A2/AD challenges around the world, the United States has developed the operational concept of Air-Sea Battle. Holding a similar title to the NATO concept of AirLand Battle of the 1980s, ASB, in very broad terms, seeks to create a higher level of "jointness" between American air and sea power to overcome the challenge of A2/AD environments. At a recent public hearing of the House Armed Services Committee's Seapower and Projection Forces Subcommittee, Rear Admiral James G. Foggo defined the concept as it stands today:

(ASB) is designed to assure access to parts of the "global commons"—those areas of the air, sea, cyberspace and space that no one "owns," but which we all depend on—such as the sea lines of communication. Our adversaries' anti-access/

area denial strategies employ a range of military capabilities that impede the free use of these ungoverned spaces. These military capabilities include new generations of cruise, ballistic, air-to-air, and surface-to-air missiles with improved range, accuracy, and lethality are being produced and proliferated...Accordingly the Air-Sea Battle Concept is intended to defeat such threats to access (Navy Live, October 10).

Such an operational concept is clearly aimed at negating China's A2/AD capabilities, although almost all official ASB-related documents from the U.S. military take pains to avoid naming China specifically. This version of ASB implies the possibility of strikes on Mainland China to cripple important A2/AD command and control (C2) and C4ISR systems that would drive Beijing's A2/AD "system of systems" (The Diplomat, September 26). Understanding Beijing's reaction to ASB is of importance for obvious reasons: China is increasingly concerned over the implications of ASB, its effectiveness against its growing military might and A2/AD strategy. Through a series of articles in mainstream Chinese media, comments by senior officials and most importantly possible acquisitions of new military technology from Russia that could help defend current and future ADIZ plans, Beijing has demonstrated a clear focus on the challenge presented by ASB. Indeed, China's reaction to the concept will have clear ramifications for the security situation throughout the Indo-Pacific, for America's allies, as well as for the various flashpoints throughout the region.

Reactions in the Press to AirSea Battle

An unsigned article in the *People's Daily* titled, "AirSea Battle Renews Old Hostility," argued, "If the U.S. takes the AirSea Battle system seriously, China has to upgrade its anti-access capabilities. China should have the ability to deter any external interference but unfortunately, such a reasonable stance is seen as a threat by the U.S." The article goes on to note that:

It is meaningless to argue the value of U.S. and Chinese security interests. However, it is worth noting that on one hand China has no intention to drive the U.S. out of Asia, but on the other hand, China is resolute to stand firm against any

interference from the U.S. in the event of a crisis (*People's Daily*, November 14, 2011).

Chinese officials have also commented in various formats dismissing the ambiguity of American defense officials to name ASB as being specifically aimed at China. Speaking to the *Financial Times*, Li Yan, a researcher at the Chinese Institutes of Contemporary International Relations notes that "even if you say it's not completely aimed at China, it is still mainly aimed at China." He went on to explain that "For the Americans have said very clearly that AirSea Battle is mainly directed at anti-access and area denial warfare, and [past U.S. assessments] all show that they believe China is conducting anti-access and area denial warfare" (*Financial Times*, December 8, 2011).

While one must take seriously Chinese statements concerning ASB, scholars must also look for changes in Beijing's actions, specifically, changes in military tactics, strategy and/or procurement. As noted above, China may seek to enhance its A2/AD capabilities to offset the power of ASB. Indeed, recent reports suggest Beijing may be close to signing various deals with Russia in hopes of enhancing its own A2/AD and conventional military capabilities.

Striking at ASB Through New Defense Technology

One such agreement that has been in and out of the news in recent years is China's possible acquisition of the SU-35 fighter. While the deal is by no means sure, it is an indication of China's military desires (see *China Brief*, October 10). . If acquired, the SU-35 would give China the ability to deploy advanced fighter jets for longer periods of time in the East and South China Seas, improving the effectiveness of patrols in the new ADIZ. The aircraft would also likely be superior to most fighters in Asia (minus the F-22 or later F-35) and fill the gap until presumably domestic 5th generation stealth airframes can come on line like the much-discussed J-20.

Beijing may also be interested in acquiring a new generation of ultra-quiet submarines from Moscow (*Want China Times*, September 9; *South China Morning Post*, March 25). This has been tied to press reports surrounding a possibly SU-35 sale in many instances. While reports

do vary on the firmness of any deal, an infusion of new submarines would be of vital importance to China not only for the ability to deploy undersea vessels with greater capabilities but also new technologies each sub would come with (Russian AIP engines, quieting technologies etc.). Such technologies could give future Chinese boats new capabilities over time that would help negate the large advantage American and allied forces have in anti-submarine warfare that could be part of an ASB-based strategy.

Reports have also surfaced that Russia may even consider selling to China its most prized air defense system, the much discussed S-400 (Voice of Russia, May 6, 2012). Such a sale would have clear ramifications if such systems were deployed across the Taiwan Strait and near the disputed Diaoyu/Senkaku islands. In its article detailing the possible sale, *Defense News* notes that such a sale will give Beijing “complete air defense coverage of Taiwan” and allow for important “ballistic-missile defense capabilities that it lacks” (*Defense News*, May 25). Such a system would also certainly raise the level of risk U.S. and allied forces would face if kinetic strikes on the Mainland were part of an ASB strategy. If deployed in the area of the East China Sea, such new air defense technology would also assist in giving teeth to China’s new ADIZ.

While China may clearly be exploring its options to increase the utility of its A2/AD capabilities against a future ASB-based strategy via Russian weapons sales, there are clear challenges to such a strategy. First, even if Beijing were to purchase all of the above weapons systems, Chinese planners would need ample time to learn the intricacies of such systems, adapt them to their own needs, tie them into China’s own command and control systems as well as achieve a high level of competency in training to be able to fight under war-time conditions—certainly not something that can be done quickly.

History also suggests that Moscow may balk at such agreements. Russia has not forgotten the case of the SU-27 fighter sold to China in 1992 and in time expanded to allow Beijing to build the aircraft domestically. The agreement broke down when Russia accused China of copying the plane and recasting it for sale on the global arms market. However, given warming relations, increased military cooperation and joint training as well as

converging goals of negating American power, Moscow may see increasing utility in selling such weapons to Beijing.

The dueling strategic doctrines of Beijing and Washington will have ramifications not only for both parties but the entire Asia-Pacific and wider Indo-Pacific. A trend of precarious security competition—recently highlighted by China’s ADIZ declaration—is in danger of now becoming what many political scientists like to term a “security dilemma.” With America attempting to negate China’s A2/AD strategy with ASB and Beijing looking for responses to ASB China is likely to take more steps like the establishment of the East China Sea ADIZ, worsening the risks of miscalculation and conflict (The Diplomat, December 4).

While both sides clearly seek strategic advantage over the other, both parties must recognize continued dialogue and cooperation on various fronts can at least hope to mitigate some strategic tensions. China’s creation of an ADIZ in the East China has been interpreted by many as a hostile act driven by territorial disputes. The move, however, must also be seen in the context of growing Sino-U.S. security competition involving new military platforms, operational concepts and strategies—a conceptual arms race to produce frameworks for accessing and controlling parts of the global commons in maritime Asia.

What the future holds for this region may be decided not only by how each side responds to one another’s strategic maneuvers, but if both sides are serious at looking for ways to reduce tensions. If not, a toxic pattern of move and counter-move could be the new norm—with dangerous ramifications for years to come.

Harry J. Kazjanis serves as Managing Editor for the National Interest and Non-Resident WSD Handa Fellow, CSIS: PACNET. He previously served as Editor of The Diplomat.

Notes:

1. See Jiang Lei, *Modern Strategy for Using the Inferior to Defeat the Superior*, Beijing: National Defense University Press, 1997, and Shen Kuiguan, “Dialectics of Defeating the Superior with the

Inferior,” in *Chinese Views of Future Warfare*, Washington, D.C.: National Defense University Press, 1998.

Critical Node: Taiwan’s Cyber Defense and Chinese Cyber-Espionage

By Russell Hsiao

Cyberspace is emerging as a contentious frontier in cross-strait relations. Overt military tension in the Taiwan Strait has ostensibly given way to a cold war in the cyber-domain. A surge in China-sponsored cyber intrusions was highlighted recently by Taiwan’s intelligence chief, Tsai Der-sheng. In remarks made during a public hearing held in late March at the Legislative Yuan’s Foreign Affairs and Defense Committee, the head of the National Security Bureau (NSB) drew attention to the increasingly severe and complex nature of the cyber threat posed by China to the world, and particularly to Taiwan (ROC) (*Taipei Times*, March 21). Taiwan’s Ministry of Defense (MND) 12th National Defense report—which was released in early October—also reflected the growing cyber threat in its overall assessment of Chinese military capabilities directed against the island. The MND report stated that China plans to enhance its combat capabilities to a level sufficient to invade Taiwan by 2020 (Focus Taiwan, October 10; MND *National Defense Report 2013*, October 9, hereafter *NDR 2013* in references). While preparations by the People’s Liberation Army (PLA) for a military invasion of Taiwan would be detectable with early warning signals and other cues, a coordinated cyber attack could be instantaneous, hard to predict, and thus preemptively counter. Given modern economies, governments’ and militaries’ increasing reliance on information technology and networked computing for critical functions—including military operations—a successful, targeted, and coordinated cyber attacks could alter the strategic calculus, and possibly determine the tactical landscape before a kinetic military operation. After a decade long confrontation in cyberspace, the cyber-domain over the Taiwan Strait appears to be coming to a cross-road. Its import for national security appears to be a top priority for decision makers in Taipei. Indeed,

Taiwan’s defense planners and stewards of the U.S.–Taiwan defense relationship—increasingly faced with a resource constrained environment—need more than ever to prioritize developments of asymmetric capabilities in the cyber-domain to deter China’s increasing coercive capabilities against Taiwan.

China’s Cyber Threat to Taiwan ‘Very Severe’

The NSB report, which was prepared in advance of a legislative hearing in April and reported on by the Taiwanese media, described China as being armed with a cyber army of more than 100,000 people. The report also outlined the counter-measures taken by other countries against increasing state-sponsored cyber attacks (Focus Taiwan, April 28). It added that the PRC has allocated more than \$80 million to its cyber war workforce in 2013 (Focus Taiwan, April 28).

Taiwan has been the most intense target of China-sponsored cyber espionage (Radio Free Asia, March 1). Indeed, the island nation has endured at least a decade of highly-targeted data-theft attacks from China of the kind that are now clearly being directed towards larger countries (Reuters, July 18). For instance, at the 10th National Information & Communication Security Taskforce meeting in 2002, a Taiwanese government report on Chinese-cyber intrusions revealed that hackers from Wuhan, Hubei province, infiltrated computers covered by Chunghwa Telecom, and installed hacking programs that stole a large trove of data (a 2011 report by Project 2049 also found that Wuhan is the headquarter for the PLA Third Department Sixth Bureau). A total of 42 units of government websites were infected and 216 computers infiltrated in the coordinated attack. According to Cai Qingyan, who was then-Executive Yuan Minister without Portfolio, it was the first time Chinese hackers organized a major cyber intrusion on Taiwan’s cyber networks (China Gaze, October 11, 2002).

It followed the first documented “Taiwan-China Hacker War,” which took place in August 1999 when then-Taiwanese President Lee Teng-hui defined relations between Taiwan and China as state-to-state relations. Chinese hackers responded by sabotaging government, university and commercial sites. These attacks reportedly involved more than 160 infiltrations of Taiwan’s national

computer networks. The hackers also attacked the American Institute in Taiwan's website. Indeed, Taiwan's cyber networks have been a primary target of Chinese hackers since, but as a result, these attacks have honed the island's cyber defense capabilities and infrastructure.

At the legislative hearing in April, the NSB director described the Chinese cyber threat as "very severe." In an uncharacteristically bleak response to a question by a legislator, the NSB director stated that "transportation and financial infrastructure would inevitably be put at risk if the CCP could successfully take destructive actions against Taiwan" (Taiwan National Policy Foundation, March 21). The director's statements and the report seem to reflect NSB's growing concerns over the vulnerabilities of the island's critical infrastructure. The NSB revealed that the agency's external websites were hit by hackers 3.34 million times in 2012 (*China Post*, May 8). The activities have grown in scope and volume. Additionally, while the traditional focus of Chinese cyber attacks has been on an adversary's government networks, the report stated that they have shifted their focus to civilian think tanks, telecommunications service providers, Internet node facilities and traffic signal control systems (Focus Taiwan, April 28). This trend appears consistent with the *modus operandi* of some Chinese hacker group activities against U.S. targets.

Then-NSB deputy director Chang Kuan-yuan stated that 38 percent of cyber attacks were launched from "zombie computers" that had been infected by viruses or Trojan horses (Chang submitted his resignation on October 22) (*The Diplomat*, April 30). These controlled computers serve as nodes in a broader network, and are typically industrial computers not protected by firewalls or invasion detection systems. Once hackers have taken control of these computers, they can use the compromised computers as relay points for infiltrating more secure networks.

The magnitude of this intrusion is partly explained by Chinese hackers using Taiwan as a "springboard" for other attacks. According to a Taiwanese network security company engineer cited by the *China Times*, because of the shared language and culture between Taiwan and China, Chinese hackers tend to target Taiwan as ground zero for launching larger cyber offensives. The

springboard tactic allows Chinese hackers to cover their digital footprints. When network security professionals attempt to undertake forensic analysis of digital evidence, a springboard may be the only identifier since it acts the primary internet protocol address for the attack (*China News*, October 7, 2010).

According to Chuang Ming-hsiung, section chief at the Criminal Investigation Bureau's High-Tech Crime Prevention Center: "Before China releases a virus to the United States, it will test it on Taiwan. That's why Taiwan has a faster response rate than the United States." According to the MND *National Defense Report 2013*: The PRC Cyber Force continues to use remote infiltration and viruses (malware) to infect, steal information or monitor our [Taiwan's] websites, affecting the normal operation of information systems. Once a conflict arises, these operations will enable them to cripple our command, control and logistics network, which will affect the normal operation of the ROC Armed Forces' information systems, and delay its contingency response time.

PLA Involved in Cyber-Attacks

There are at least two bureau-level PLA units conducting cyber-espionage on Taiwan. According to the Project 2049 Institute's 2011 report *The Chinese People's Liberation Army Signals Intelligence and Cyber Reconnaissance Infrastructure*, they are the PLA Third Department's Sixth Bureau and the Nanjing Military Region's Technical Reconnaissance Bureau. The Third Department's Sixth Bureau has a military unit cover designator of 61726 and is headquartered in Wuhan's Wuchang district. The Nanjing MR Headquarters Department, led by former GSD Second Department (military intelligence) Director Major General Yang Hui, oversees two TRBs that are likely focused on Taiwanese military and other communications and computer networks, as well as U.S. activity in the Western Pacific area of operations. According to the *National Defense Report 2013*: "Starting in 2010, the PRC began developing new spy software to steal classified information on the internet. The software was developed with automated functions capable of changing data encryption, concealing transfer channels, and countering tracing attempts by network security personnel."

Public-Private Initiatives in Cyber Security

There are three major institutional actors in Taiwan's cyber-defense infrastructure: NSB, MND, and the Criminal Investigation Bureau (the successor to the Taiwan Provincial Police Administration).

There are currently three units under the MND's Information and Electronic Warfare Command, which was established in 2004, and include 3,000 military personnel who are responsible for countering cyber attacks (China News, October 7, 2010). Taiwan is reportedly developing a fourth cyber warfare unit as part of the government's overall efforts to beef up its cyber-security capability (*China Post*, April 30). The Taiwanese government is also increasing its spending on cyber-defense by expanding the MND's Communications, Electronics and Information Bureau (CEIB) and creating a facility for conducting simulated cyber warfare (ZDNet, September 3, 2012). CEIB coordinates among different stakeholders within military for C4I, IW, EW, and other related areas. [1]

The lead unit in the NSB that has the cyber portfolio is the office for Sci-tech Intelligence and Communication Security, also known as No. 5. According to a recent unverified corporate intelligence report, Taiwan has developed an automatic Chinese character identification programs that filter signatures from Chinese computer attacks, in particular the analysis of viruses and IP addresses. The programs were developed by the NSB and the Office of Electronic Defense Information (NSB website; Intelligence Online, April 24).

Taiwan is planning for a nationwide multi-agency exercise to simulate how the government would respond in the event of a cyber attack. The CEIB is scheduled to conduct joint exercises with other parts of the military (*Taipei Times*, April 30). The NSB report urged the government to work with local telecommunication providers to enhance their security up to the Internet and telecommunications infrastructure level in light of the increasing cyber attacks on civilian networks. Taiwan's three leading telecommunication service providers—Chunghwa Telecom Co., Taiwan Mobile Co., and Far EasTone Telecommunications Co.—will reportedly be working along-side with the government (Focus Taiwan,

April 28).

The National Information and Communication Security Taskforce (NICST), which was established in 2001, under the cabinet acts as another interagency coordinating group for civilian cyber defense and overall situational awareness (China News, September 7; NICST website).

Taiwan's telecommunication industry is already heavily protected, but a robust cyber defense capability may demand a more proactive posture that only more jointness would provide. Given the limited input and output channels for signals received by and transmitted from Taiwan, such conduits are essential for developing greater foresight.

Conclusion

The cyber-domain over the Taiwan Strait is now at a cross-road. Defense planning is increasingly being made under a resource constrained environment, and require careful prioritization and foresight by stewards of the defense relationship. Its import for national security appears to be a top priority in Taipei—but whether it is enough remains to be seen. Areas of cooperation could include the defense of critical infrastructure such as telecommunication networks, financial systems and electricity supplies, and to establish international rules on cyber-issues (Asian Review News, May 15). While Taiwan has made important strides in cyber-defense, a major challenge ahead is integration and jointness among nations and among different systems established by the major stakeholders in the island's cyber defense infrastructure (China News, September 7). Vulnerabilities in one nation's cyber-defense infrastructure could potentially affect the viability of a collective cyber defense. While a Department of Defense report on "Taiwan Strait Posture Status" asserted that Taiwan was leading the world in the area of development of counter-virus techniques, the security environment over the Taiwan Strait has changed significantly since its publication. [2] Taiwan and China have both invested a great deal in the development of disruptive cyber warfare techniques in order to gain an edge in cyber superiority, but the overall balance is tilting in China's favor. In light of the recent pronouncements by the NSB and the MND's defense report, the development of offensive and defensive

capabilities in cyber-space are clearly becoming a key objective in Taiwan's military modernization.

Russell Hsiao is a Non-Resident Senior Fellow at the Project 2049 Institute, and a National Security Fellow at the Foundation for Defense of Democracies in Washington, DC. The opinions expressed in this article are the author's own and do not necessarily represent the positions of his affiliate organizations.

The author would like to acknowledge the valuable input provided by Project 2049 Institute Executive Director Mark Stokes.

Notes

1. James Mulvenon in *The Information Revolution in Military Affairs in Asia*, Palgrave Macmillian, 2004, page 150.
2. Daniel Ventre, *Information Warfare*, Wiley-ISTE, 2009, page 80.

Ending the Sino-Mongolia Chill

By Alicia Campi

Sino-Mongolian relations improved during the fall, with a pair of official visits demonstrating progress on both economic and military ties. The first was Mongolian Prime Minister Norov Altankhuyag's trip to China on October 22–26. During the visit Altankhuyag and Chinese Premier Li Keqiang agreed to a number of new large-scale medium and long-term cooperation projects aimed at strengthening the strategic partnership the two countries had established in June 2011. Among them were an agreement by the three Mongolian companies that mine coal in Mongolia's Tavan Tolgoi basin to export 1 billion tons of coal, worth potentially \$50 billion at current prices, to China's Shenhua Group Corp. in the next 20 years; establishing a coal gasifying plant with Sinopec Group to produce gas for export; and creating a working group to oversee construction of new road, rail and pipeline infrastructure connecting the two countries with Russia. The second trip from November 13-16th

was made by PLA Deputy Chief of Staff Lieutenant General Wan Guanzhong, who led a Chinese Defense and Armed Forces delegation to Ulaanbaatar for a 7th Ministerial meeting.

With the coal agreements, the Mongolian government appears to be trying to reverse a downward trend caused by Mongolian efforts to reduce its dependence on the Chinese export market by limiting Chinese coal companies acquisitions and projects in the country (see *China Brief*, August 23). Efforts to improve the relationship also reflect a Chinese push to build ties with neighboring countries, with Mongolian leaders evidently embracing Chinese President Xi Jinping's concept of a "silk road economic belt" through Central Asia (see *China Brief*, October 10; November 2). However, there remain significant obstacles to the relationship, both in terms of commercial disputes and mistrust of China among the Mongolian people and leadership.

Altankhuyag's Visit to China

Prior to traveling, Mongolian Prime Minister Altankhuyag gave an interview in Ulaanbaatar to *Xinhua News* in which he said that Mongolia is located at a junction between Asia and Europe, and closely connects China with Europe and other parts of Asia by railways, roads and other links. Thus it supports China's growing trade ties with Central Asian countries, and will also actively participate in the construction of a "Silk Road Economic Belt" (*Xinhua*, October 20). He flew on October 22nd to Sichuan province to participate in the 14th Western China International Fair in Chengdu.

In his speech there he particularly sought to reassure Chinese investors that Mongolia was a reliable partner full of business opportunities, addressing concerns raised by previous actions against Chinese coal companies in Mongolia: "There are many projects and programs that the two countries plan to co-implement in infrastructure, mining and energy; so, the western region of China has been building opportunities to intensify mutually-beneficial cooperation with the southern and western regions of Mongolia" (*The Mongol Messenger*, October 25). On the third day of his visit the Prime Minister attended a Mongolia-China business meeting in Shenyang, Liaoning

province where Mongolia's Ambassador to China Ts Sukhbaatar noted that Liaoning has the closest seaport to Mongolia so "The province has potential to become our nearest partner in China" (*The Mongol Messenger*, November 1).

In Beijing the Prime Minister met with 100 Chinese and Mongolian businessmen to discuss stability in Mongolia's legal environment and plans for new major projects. On October 25, Altankhuyag met President Xi Jinping, Premier Li and he signed a strategic partnership protocol wherein, "The two sides agree that the establishment of the Sino-Mongolian strategic partnership is a milestone in the development of bilateral relations while the signing of the new document will promote bilateral cooperation in various areas for the consolidation and further deepening of this partnership" (Xinhua, October 25). China also promised to provide 1,000 scholarships over the next five years to Mongol students.

Nine other agreements were signed covering economic and technical cooperation; regulation of civil aircrafts search and rescue work; establishment of a scientific park; disaster protection; Development Bank of Mongolia and China Development Bank cooperation; two MOUs between Mongolian Railways and Shenhua Group regarding coal sales over rail links to Tavantolgoi and the Ukhaa khudag-Gashuunsukhait border checkpoint; development of a coal gasifying plant with Sinopec; and MOU on buying additional oil from PetroChina (*The Mongol Messenger*, November 1).

The MOUs with Shenhua, China's biggest coal producer, would ensure a long-term buyer for the three Mongol companies (Erdenes Tavan Tolgoi (TT), Mongolia Mining Corporation (MMC) and Tavantolgoi JSC) operating in the Tavan Tolgoi basin, which contains 6.4 billion tons of coal reserves. One billion tons of coal will be shipped over 20 years—an average of 50 million tons annually or triple the 18 million tons expected to be exported this year. In a subsequent Ulaanbaatar interview Yaichil Batsuuri, CEO of state-owned Erdenes Tavan Tolgoi, explained the agreement with Shenhua also stipulates that any coal not wanted by Shenhua can be sold on the international market. Mongolia's total coal exports fell to 11.38 million tons in the first nine months of 2013 from

2012's 14.29 million tons, with the value of these coal exports dropping to \$783.94 million from \$1.43 billion. MMC exported 3.2 million tons of coal in the first half of 2013, which accounted for 42 percent of Mongolia's total coal exports in the period. (National Statistics Office, businessweek.com, October 29) However, this year Erdenes TT has not earned revenue because it must use its coal production to repay a \$250 million loan from 2011 to Aluminum Corporation of China (CHALCO), and it still owes 3 million tons, valued at \$170 million. Shenhua second MOU with these companies and Mongolia's state-owned railway company covers building a freight line to the Chinese border.

Cooperation with Sinopec to build a brown coal gasifying plant would enable Mongolia to supply its domestic needs and export to the Chinese market. The target is to produce 15 billion metric tons of gas fuel annually, which would require almost 50 million tons of thermal coal at a cost of \$1 billion yearly. The Mongolian Government is making plans for a gas pipe network (*UB Post*, October 30; , November 18) The MOU between Mongolia's Petroleum Authority and PetroChina would increase Mongolian crude oil extracted from Mongolia for processing in China. Presently, up to 10 thousand tons of refined petroleum product is returned every month to Mongolia (english.news.mn, October 28).

The Sino-Mongolian working group to oversee new rail, road, and pipeline links to Russia is key to Mongolia's economic future. A Mongolian economics adviser reportedly said that landlocked Mongolia aimed to become a "transit corridor" to facilitate trade between its two giant neighbors and reduce the costs of delivering Russian oil and [natural gas](#) to China. A Mongolian official speaking anonymously to Reuters said that Mongolia would allow Chinese firms to invest and build in the hope that improved infrastructure will generate more revenue from its coal sector (Reuters, October 28). The Chinese also see benefits. Premier Li recommended China and Mongolia "develop an overall plan for railways and roads as well as natural gas, electricity and transportation linking the two nations." He also said Beijing is willing to hold discussions on a free trade area around the border (*China Daily*, October 26).

Sino-Mongolian Defense Developments

The Sino-Mongolian military relationship deepened in 2013 with the signing in July in Beijing of the Military Grant Aid to Mongolia protocol covering PLA and Mongolian border troops (infomongolia.com, July 3). From September 16–23, a total of four hundred soldiers from both countries took part in the Sino-Mongol military exercise, “Steppe Leader,” to practice disaster rescues, while concurrently in Beijing, Mongolian Minister of Defense Dashdemberel Bat-Erdene was signing an “Agreement on Military-Technical Cooperation” with PRC Vice President Li Yuanchao. This agreement regularizes the joint Steppe Leader military exercise, provides for mutual assistance in military techniques and supplies, organizes vocational training for Mongolian military personnel, and upgrades from observer status PLA participation in the U.S.-organized “Khaan Quest” multi-national annual military peacekeeping exercises (infomongolia.com, September 16).

General Wan’s visit aimed at establishing the cooperative mechanisms agreed upon during Bat-Erdene’s trip. The Chinese military media asserted: “The Mongolian side takes Mongolia-China strategic partnership as one of the priorities of its foreign relations, and is willing to further deepen exchanges and cooperation...” (China Military Online, Mongolian Ministry of Defense website, November 15). While in Ulaanbaatar Wan met with Tserendejid Byambajav, Chief of General Staff of Mongolian Armed Forces, and toured the Defense University, Mongolia’s comprehensive training center Unit No. 311, and the “Complex for Peace” Bagabuyan rehabilitation center established by the Chinese government for Mongolian peacekeeping soldiers (english.news.mn and Montsame, November 15).

Obstacles Still on the Road

This flurry of diplomatic activity masks troubling trends bubbling beneath the surface. A case in point is the four-month hold-up at the border of Mongolian copper concentrate from the massive Oyu Tolgoi (OT) mine operated by Turquoise Hill, a Canadian mining enterprise 51%-owned by Anglo-Australian Rio Tinto. OT, which began production in July and was targeted

to develop 72,000-77,000 tons this year, is projected to cost around \$14 billion but eventually contribute up to a third of Mongolia’s economy by producing more than 1.2 billion pounds of copper worth over \$4 billion at today’s prices, 650,000 ounces of gold (\$800 million) and 3 million ounces of silver (under \$100 million) each year. In October, 38 thousand tons of concentrate were still locked in a Chinese border warehouse due to a customs impasse over regulations permitting only trade between Chinese and Mongolian companies not third country companies crossing the Gobi border (english.news.mn, October 22). When the first one thousand tons of copper concentrate moved across to China on October 22nd, foreign investors thought that finally the long-awaited OT production would proceed. Earlier in October the Mongolian Parliament had eased the controversial Strategic Entities Foreign Investment Law (SEFIL) which was particularly onerous for large state-owned foreign investor companies like the Chinese. However, the picture is not so rosy because other problems still swirl around OT, involving how to proceed with the funding of its \$6 billion underground stage, cost overruns, and management disputes. As a result, development of OT’s second phase has been on hold since August over Rio Tinto’s continuing difficulty in finalizing an investment agreement under the original 2009 terms with the Mongols, who hold only a 34% share. Furthermore, Turquoise Hill in November suddenly suspended further work at OT due to financing problems. When on November 8 the Mongolian government cancelled another 106 mining licenses as part of its anti-corruption clampdown, again Mongolia’s economic forecast was riled with uncertainty about Chinese trade and overall foreign investment.

Adding fuel to growing anti-Chinese sentiment among the Mongolian populace has been a report of the cyber intelligence agency Cyber Squared’s Threat Connect Intelligence Research Team (TCIRT) that Mongolia faces the problem of Chinese “state-sponsored” cyber-spies targeting Mongolian businesses and government agencies in order to monitor their relationships with the West. TCIRT claims there is “evidence of offensive tactics against Mongolian targets which are very similar to those long applied against Tibetan and Uyghur □ nationalists and affiliated groups.” The malware used came from an unidentified Chinese cyber-warfare unit that has been dubbed “Comment Crew” or “APT1.” Numerous

examples were discovered of targeting economic, military, and diplomatic sources. Among the targets were the joint U.S.-Mongolia military exercise Khaan Quest 2014 and the June 2013 Mongolian presidential election. The Mongols believe the reasoning behind the spying is to help China understand changes in Mongolian relations with “third neighbors” such as the U.S., Japan, ROK, and European Union (*The Register*, english.news.mn, October 10). So despite the fact that China is Mongolia’s largest trade partner and foreign investor, with bilateral trade volume in 2012 reaching \$6.6 billion, the Sino-Mongolian economic relationship remains in flux.

Dr. Alicia Campi has a Ph.D. in Mongolian Studies, was involved in the preliminary negotiations to establish bilateral relations in the 1980s, and served as a diplomat in Ulaanbaatar. She has a Mongolian consultancy company (U.S.-Mongolia Advisory Group).

*** **