In a Fortnight: Chinese Acquisitions Undercut Taiwan, U.S. Semiconductor Industry Edge

China's central Party leadership recognizes that the Chinese economy must shift away from light manufacturing and intermediate goods like steel to higher value-added manufacturing. In July 2016 the Chinese State Council Information Office published the "National Informatization Development Strategy Outline" (国家信息化发展战略纲要), laying out the central leadership's vision for modernizing China's industries and society ([Xinhua](), July 27, 2016). The Outline describes improvements across the entire spectrum of information technology, from Internet access to satellites. This followed another white paper published in May 2015 titled "Made in China 2025" (中国制造) ([SCIO](), May 19, 2015). Importantly, the latter emphasizes investment and innovation in integrated circuits (集成电路). It is apparent that the Chinese government is making a concerted push to expand Chinese production and innovation in the areas of integrated circuits and semiconductor production, both to drive job growth and longer-term strategic goals.

Globally semiconductors sales are a $339 billion industry ([Semiconductor Industry Association](),

February 2). Of this, China purchases a full $100 billion of that production. **[1]** The Chinese economy is incredibly reliant on foreign-produced semiconductor chips, most of which are then assembled into products and exported. The iPhone in our pockets, the internet router in our home and many of the other electronics that are part of our lives likely were assembled in China using chips from, among others, Taiwan.

This disproportionate reliance reduces the amount of value added through Chinese assembly but more importantly represents a dangerous over-reliance on foreign imports. Chinese officials have promoted a policy of reduced reliance on American-made servers, for instance, due to fears of key software and hardware vulnerabilities. This push is frequently referred to as "De-Ciscoification", due to U.S. company Cisco Systems' dominance of business server industry. Revelations about American intelligence collection programs by Edward Snowden increased these concerns, prompting major investment in tougher, quantum-based encryption methods (See *China Brief*, January 23, 2015; December 5 and December 21, 2016).

The import of these chips is further complicated by another wrinkle—Taiwan's dominance of the field. Taiwan Semiconductor Manufacturing Company Limited (TSMC) is the largest semiconductor foundry (producer of chips to order), with a 55% global market share in 2015 (TSMC, 2015). One consequence of PRC (and U.S.) reliance on Taiwan is that any conflict in the Straits would profoundly disrupt the global supply chain. Most semiconductors are shipped via air, and a lockdown of airspace or destruction of airports would effectively embargo shipments of chips. Analysts of China-ROC relations have for many years posited that such a situation would help

ensure that the U.S. would intervene to protect Taiwan. **[2]**

Taiwan's current edge in this field appears to be rapidly eroding. The global shift away from traditional desktop computers to mobile and greater reliance on high-speed data centers has altered the market, challenging big chip design companies like Intel (Bloomberg, January 14, 2016). Tracking with the slowing global demand, Taiwan's semiconductor industry posted mostly negative growth in 2016 (FocusTaiwan, June 23, 2016).

Advantages built on decades of technical expertise in this field are also being undermined due to PRC hiring of Taiwanese experts and outright purchases of companies and technology abroad.

The People's Republic of China has actively recruited retired Taiwanese semiconductor industry elites, most recently Jiang Shangyi (蔣尚義) a senior executive at TSMC. Taiwan's Central News Agency quoted Jiang saying that such a move would not harm his former employer TSMC due to the large technological and market differences between the two companies (United Daily News, February 4). Other Taiwanese semiconductor executives who have joined mainland firms after illustrious careers in Taiwan's electronics industries include Charles Kau (高啟全), a major figure in the Digital Random Access Memory (DRAM) production industry (ChinaPost, December 22, 2016).

PRC industry heavyweights such as Tsinghua Unigroup have attempted to purchase controlling stakes in Taiwanese producers, Siliconware Precision Industries Co. Taiwan's government, cognizant of the leverage this would give mainland firms over Taiwan's economy moved to

block the sale (FocusTaiwan, May 2, 2016). PRC firms have also resorted to economic espionage to acquire chip designs and manufacturing secrets (FocusTaiwan, November 6, 2015).

Under former Taiwanese President Ma Ying-jeou, Taiwan vastly expanded technological exchanges and investment from the mainland (Taipei Times, June 5, 2015). TSMC for its part is increasingly moving its production to the PRC; in 2016 it signed an agreement to manufacture silicon wafers in Nanjing (TSMC, March 28, 2016).

Chinese companies are also attempting to purchase U.S.-based semiconductor producers. Former U.S. Secretary of Commerce Penny Pritzker identified takeovers at the direction of the Chinese government as a threat in a speech in November 2016 (Department of Commerce, November 2, 2016). An advisory body that reviews foreign acquisitions of U.S. industries for security implications, the Committee on Foreign Investment in the United States, has noted in a number of reports that Chinese firms are aggressively purchasing U.S. manufacturers, including semiconductors. **[3]** Several attempted purchases were blocked at the behest of the White House or Congress, but others have been successful, further strengthening the PRC's semiconductor capacity.

As the PRC continues its quest to move Chinese manufacturing further up the value chain we can expect more top-level direction and purchases of high-tech firms by state-owned enterprises. These will not only attempt to stimulate economic growth to replace traditional industries but also address strategic vulnerabilities. Taiwan's position as a keystone of the global supply of semiconductors is strong, but rapidly eroding. Long-term tech trends and the PRC's drive to become a global leader in semiconductor production are eroding this edge. Though the PRC's desire for high-tech industries like semiconductor fabrication are primarily rooted in economic goals, the strategic implications of Taiwan's eroding "Silicon Shield" should not be overlooked.

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Notes

1. "2016 Top Markets Report Semiconductors and Semiconductor Manufacturing Equipment Country Case Study," U.S. Department of Commerce, http://trade.gov/topmarkets/pdf/Semiconductors_China.pdf.
2. Craig Addison, *Silicon Shield: Taiwan's Protection Against Chinese Attack* Fusion Press, Irving Texas, 2001.
3. "Annual Report to Congress: 2012," Committee On Foreign Investment in The United States, December 2013, https://www.treasury.gov/resource-center/international/foreign-investment/Documents/2013%20CFIUS%20Annual%20Report%20PUBLIC.pdf

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Beijing's New Scorched-Earth Policy Against the Uighurs

By Willy Lam

Under the pretext of joining the global war on terrorism, the Xi Jinping administration has imposed unprecedentedly harsh restrictions on the civil liberties and rights of the 10 million Uighurs living in the Xinjiang Uighur Autonomous Region (XUAR). The shift in President Xi's Xinjiang policy was marked by the replacement of the region's Party Secretary Zhang Chunxian (张春贤)—a moderate cadre noted for his "soft and flexible methods in running Xinjiang"—with Chen Quanguo (陈全国) ([Dwnews.com [Beijing]](), August 29, 2016; [*Ming Pao* [Hong Kong]](), August 28, 2016). The persistence of violence in the XUAR, however, has called into doubt whether Beijing's draconian tactics will work towards the goal of *changzhi jiu'an* (长治久安; "perennial order and stability").

Chen, 61, who served as Party Secretary of neighboring Tibet Autonomous Region from 2011 to 2016, announced in his first meeting with local cadres a comprehensive, ten-pronged package of stringent rules to rein in anti-Beijing activities in Xinjiang. These included promoting intelligence gathering; tightening control over the media and "Internet space"; hitting out at pockets of Uighur resistance according to law; improving "religious work", boosting law enforcement in cities and the countryside; increased policing of Xinjiang's borders; and improving "comprehensive law-and-order management" ([*People's Daily*](), September 18, 2016).

What critics call Beijing's scorched-earth policy has pushed the boundaries of the Orwellian police state to their limit. In November, all XUAR residents were told to surrender their passports to police for safekeeping. Uighurs, in particular, who want to travel abroad must go through elaborate police vetting before they can get their travel documents back ([Hong Kong Free Press](), November 25, 2016; [Human Rights Watch](), November 21, 2016).

Police are also taking aim at the weapons used in attacks. Firearms are very carefully regulated in China, and most violent crime in China including in Xinjiang has involved knives and cleavers. Authorities now require purchasers of knives to have their names and ID card numbers carved on the blades. According to police circulars posted on the walls of knife vendors, this stricture applies to kitchen knives, meat cleavers, choppers for killing animals, cutting knives used in cloth-making, swords used in martial arts classes, farm sickles, axes and other sharp metal implements ([Radio French International](), January 10; [Oriental Express [Hong Kong]]() January 10). These measures complement frequent body searches of "suspicious looking" Uighurs by police and paramilitary People's Armed Police (PAP) in subway stations, bus terminals, airports and highway checkpoints.

Combatting Terror with People's War and Community Policing

Chen has promoted the concept of waging a "people's war" against destabilizing forces, which was first used by Beijing in the run-up to the 2008 Summer Olympics in the capital city. Some 850,000 volunteer-vigilantes in Beijing were hired by the Ministry of Public Security to

keep track on "suspicious characters" in the immediate neighborhoods of the volunteers (See *China Brief*, July 17, 2008). Since the horrendous anti-Beijing riot in Urumqi in July 2009, which resulted in the death of close to 200 Han Chinese, Xinjiang authorities have devoted huge budgets in turning ordinary Han Chinese residents into part-time spies. In August 2014, XUAR authorities broke all records by earmarking 400 million yuan for rewards for citizens who could provide intelligence and other kinds of assistance in cracking a "terrorist" cell in Maiyu County, Hetian District. With the assistance of 30,000 mainly Han Chinese residents, the police were able to track down this gang of ten Uighurs. In the ensuing battle, nine Uighurs were killed and one captured. Not a single police or Han Chinese volunteer was injured (*People's Daily*, August 4, 2014; Wen Wei Po [Hong Kong], August 4, 2014).

Since the early 2010s, Xinjiang has pioneered the establishment of *cunjing* (村警) or village police tasked with ensuring political stability in the relatively remote southern and western XUAR, where Uighurs outnumber Han Chinese by significant margins. Unlike the police or PAP, *cunjing* officers, who are attached to particular villages, participate in farm work during daytime and patrol their designated territories at night. So successful was the Xinjiang experience that the *cunjing* system has also been adopted by provinces and regions with large ethnic minorities (China News Service, May 6, 2016; Tianshan Net, April 11, 2014). Chen has further beefed up the surveillance apparatus by putting together a labyrinthine network of "convenience police stations" in both urban and rural areas. These law-and-order outlets are on the one hand citizen-interface centers where police and other officials help residents seek government benefits such as health insurance and stipends for the severely

handicapped. On the other hand, "convenience police stations" function as intelligence-gathering and filtering centers where police mingle with ordinary residents who may report juicy stories about their Uighur neighbors. The capital city of Urumqi alone is set to have some 950 such stations (Foreign Affairs, December 23, 2016; South China Morning Post, December 12, 2016).

Chen has also upped the ante in reining in the religious, cultural and educational life of ordinary Uighurs. Huge numbers of both uniformed and plainclothes police and PAP officers are being deployed to monitor activities in the XUAR's mosques, which are seen by Han Chinese authorities as hotbeds for radicalizing Uighur youths. Despite his reputation as a tolerant leader, former party boss Zhang initiated the policy of forbidding men to grow long beards and schoolchildren to observe Ramadan. It is understood that Party Secretary Chen is gravitating toward the idea of gradually reducing the number of mosques, particularly in southern and western Xinjiang. As of 2015, there were 20,000 mosques in the autonomous region, ten times more than the figure of three decades earlier (Xinhua, March 2, 2015). However, many Han Chinese Uighur experts are convinced that mosques are prime sites for nurturing Islam fundamentalism as well as anti-Chinese sentiments. For this reason, the number of places of worship may be curbed despite anticipated opposition from Uighurs (China Review Net, November 28, 2013; Club.China.com, July 1, 2013).

Economic Carrots

The Chen leadership is optimistic that investments in the XUAR by the central government and state-owned enterprises will improve the

overall living standards of Uighurs—and serve to defuse ethnic tensions. Since coming to office, Chen has advocated a "double-fisted approach", combining tough crackdowns with economic incentives. "[Economic] development is the key to solving all problems," Chen said in January (*Xinjiang Daily*, January 10). The projected GDP of Xinjiang in 2016 was 955 billion yuan, a rise of 7.6 percent over that of 2015. While the economic expansion is one percentage point higher than the national average, the figure is a disappointment given the fact that western Xinjiang is supposed to serve as an important launch pad of President Xi's ambitious One Belt One Road global infrastructure game plan (Finance.china.com, January 12; *Xinjiang Daily*, August 20, 2016). Moreover, it is a long-established fact that Han Chinese are doing much better economically than their Uighur neighbors. Statistically, the education level of Han Chinese is much higher leading to greater economic opportunities. At the personal level, Han Chinese are often linked into the requisite *guanxi* ("connections") networks of friends and favors to find jobs and bring in investment from different parts of China.

To Chen's credit, apart from attracting mega-infrastructure projects, he is paying attention to modernizing agriculture, an area where Uighurs stand to benefit. Urumqi has been promoting organic or ecological agriculture as well as agriculture tourism (*Xinjiang Daily*, January 11; *Xinjiang Economic Daily*, December 21, 2016). Moreover, the government has emphasized reviving Xinjiang's textile industry—the one sector that has the potential to employ large numbers of both Uighurs and Han Chinese. According to the regional government's 13th Five-Year Plan (2016–2020), Xinjiang is set to become a key hub

for textile production. It will also expand the industry chain from cotton spinning to making garments. By 2020, Xinjiang is expected to produce about 500 million garments annually and create more than 600,000 jobs (*China Daily*, February 15, 2016).

Will Chen's new gambit be successful? Few Xinjiang watchers doubt the zeal and the long hours that the party boss is putting into his work. Since the time of former Party Secretary Wang Lequan—the so-called "Xinjiang Emperor" who ran the XUAR from 2002 to 2010—the position of Xinjiang party secretary has carried Politburo status. And should he gain the trust of President Xi, it is probable that Chen will be inducted into the Politburo at the 19th Party Congress slated for this autumn. This is despite the fact that in terms of factional affiliation, Chen is much closer to Premier Li Keqiang, who is the top representative of the much-diminished Communist Youth League Faction. Chen was as one of Li's deputies when the latter served as acting governor, governor and then party secretary of Henan Province from 1998 to 2004 (BBC Chinese, September 27, 2016; *Ming Pao* [Hong Kong] August 30, 2016).

However, terrorist incidents have continued unabated since Chen took office. Last September, a deputy head of the Public Security Bureau in Pishan County, Hetian District was killed and several policemen injured when they tried to crack an underground terrorist cell which doubled as an explosives factory. This is despite the fact that Pishan, being infamous as a base for anti-Beijing activists, has been under significantly higher levels of scrutiny by police (Radio Free Asia, September 19, 2016; Radio French International, September 19, 2016).

Nevertheless, in late December, Uighur activists detonated a bomb when they rammed a vehicle into the office building of the Party Committee of Maiyu County. Five people, including a Han Chinese official, a policeman, and three Uighur perpetrators were killed in the ensuing gun battle (Xinhua, December 29, 2016; Oriental Express, December 29, 2016).

Equally significant is the fact that a growing number of radicalized Uighur youths have become jihadists. Many have successfully left the XUAR and hooked up with international terrorist groups including the Taliban as well as affiliates of the Islamic State. Turkish police arrested several Uighur young men who were allegedly involved in the New Year's Eve attack on a nightclub in Istanbul in which thirty-nine people perished. Official Chinese media has claimed that would-be Uighur jihadists went to Turkey by way of Thailand and Malaysia (Global Times, January 13; Deutsche Welle, January 6; Hurriyet Daily News [Ankara], January 4).

Conclusion

The exacerbation of police state mechanisms under Chen has obviously failed to deter the growth of radicalism in the autonomous region. As Patrick Poon, China researcher at Amnesty International pointed out, "repressive tactics [in Xinjiang] will only backfire." "When the Uighur people can no longer tolerate the discriminatory measures, some of the more radical ones might fight back," he added. "The authorities' restrictive measures can never bring peace to the region." **[1]** For many liberal Chinese intellectuals, the path to perennial stability in Xinjiang lies not in oppression but in the resumption of dialogue between Han Chinese and Uighurs—particularly the younger generation who fears for the loss of

their cultural and religious identity. "How can we create a multi-faceted and common culture [in Xinjiang] without a genuine public sphere for reciprocal [dialogue]?" asked Tsinghua University professor Wang Hui, a respected public intellectual (Dong Yue Tribune, May 18, 2016).

If only for a short spell, Xinjiang authorities seemed to be making some efforts towards reconciliation across ethnic lines. In March 2016, former party secretary Zhang designated the year as "Year for Unity and Progress of the Nationalities." While saluting the imperative of CCP leadership, Zhang urged "various nationalities [in Xinjiang] to boost their communication, interchange and blending together." "Members of different nationalities should mutually respect, reconcile with, and appreciate each other," Zhang said, adding that they should "learn from each other, help each other so that their feelings for each other should ceaselessly increase" (*People's Daily*, March 30, 2016). Unfortunately, Zhang lost his position five months later, and the "Year for Unity and Progress of the Nationalities" became a thing of the past.

Notes:
1. Author's interview with Patrick Poon, January 16.

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China Announces Reform of Military Ranks

Kenneth Allen

The People's Liberation Army (PLA) is not satisfied with its organizational structure and has been trying to adjust it to create a more effective joint war fighting capability. 2016 saw dramatic

restructuring of the former four General Departments and seven Military Regions (MR), and the demobilization of 300,000 troops and support staff. The next phase includes reforms of the officer rank and grade systems, which are being implemented to address a number of systemic problems such as corruption. Less clear are the implications for how the PLA trains and fights, though it is clearly part of a broader streamlining of lines of command and control. As China increases its international military engagement, another element—the mismatch between Chinese ranks and those used by most other countries, has become a driver of the reforms. **[1]**

Speculation about such a move began soon after the initial announcement of the broader reforms in September 2015 (gwy.yjbys, one, two and three, September 2, 2015, Bowen Press, November 24, 2016; MOD, December 19, 2016; 81.cn, December 19, 2016). In November 2016, Bowen Press, citing PLA sources, reported that, effective on August 1, 2017, the 90th anniversary of the founding of the Red Army, the PLA would reform its basic unit structure. This will mainly affect the Army by completing the conversion of all remaining divisions to brigades with subordinate battalions and abolishing (取消 / 撤消) all regiments. The Bowen report also stated that the senior colonel (大校) rank would be replaced with a new one-star brigadier general (调整), and all other general ranks would receive an additional star.

In mid-December, the first official confirmation of such plans was reported when General Zhang Yang (张阳), a member of the Central Military Commission (CMC) and Director of the CMC Political Work Department, told members of the Standing Committee of the National People's Congress (NPC) that "China will build a rank-

centered military officer system (军衔主导的军官等级制度) that is fit for the construction of a modern armed force and, furthermore, that military rank will reflect officers' capabilities, identities and status" (MOD, December 19, 2016). He added that ranks would determine career development and that the appointment system (which the CMC Political Work Department is responsible for) would be rebuilt to promote "excellent" officers and professional training.

The announcement raises three prominent questions:

1. What will the new rank system (军衔制度) look like?
2. Will the PLA abolish or adjust its current grade system (职务等级制度)?
3. When will the revised system begin?

PLA Grade and Rank System History

Ranks have only been consistently used in the PLA's for less than 30 years. As shown in Table 1, from August 1927 to 1937, the Red Army did not have a rank system for its officers (cadre). **[2]** Although portions of the Red Army (Fourth and Eighth Route Armies) had a rank system from 1937 to 1946, it was based on the Nationalist Party (KMT) system and was not consistent throughout the force. No formal rank system was used from 1946 to 1948, when the PLA was created, nor did it ever have a rank system for its enlisted force. The PLA established its first 21-grade system in 1952, which was revised five times, and its first formal rank system in 1955, which was then abolished in 1965 and not replaced until 1988. Together, the grade and rank systems have consisted of five basic components: grade categories (职务), grades (级别),

rank categories (等级), ranks (军衔), and billets (岗位). These terms do not always translate directly into English, and are sometimes mixed together, but their meaning is usually clear from the context.

Table 1: Red Army and PLA Officer Grade and Ranks 1927-Present

Year	Grades	Ranks
1927	None	None
1937	None	10 ranks based on the KMT system
1946	None	Abolished
1952	21	None
1955	20	15 ranks based on the Soviet System
1965	27 based on the State Administrative Grade System	Abolished
1972	23 based on the State Administrative Grade System	None
1979	18	None
1988	15	10 ranks

This dual system, of ranks and grades—and grades in particular—tends to be taken as a distinguishing feature of the PLA. In fact, the grades are an explicit indicator of an officer's role in the chain of command, one that in rank-based systems is indicated by *billet*.

Under the current system, every PLA organization and officer is assigned a grade from platoon level to CMC to designate their position in the military hierarchy (*China Brief,* February 4 and 23, 2016). As shown in Table 2, under the current system, each grade from military region leader down has two assigned ranks, while some ranks, such as major general, can be assigned to up to four grades. **[3]** On average, officers up to the rank of senior colonel are promoted in grade every three years, while they are promoted in

rank approximately every four years. Rarely do personnel receive a rank and grade promotion at the same time. All promotions up to the division level are local promotions that are approved at the next higher level. Promotions at the corps and above level are overseen by the CMC-level departments. Promotions to the senior levels are based on a combination of billets, grades, and ranks (*China Brief*, July 22 and August 5, 2010).

Table 2: PLA's 15-grade and 10-rank Structure since 1988

Grade	Primary Rank	Secondary Rank	Specialized Technical Officers	Civilian Cadre
CMC Chairman (军委主席) Vice Chairmen (军委副主席)	N/A GEN/ADM (上将)	N/A	N/A	
CMC Member (军委委员)	GEN/ADM (上将)		Grade 1	
MR Leader (正大军区职) TC Leader (正战区职)	GEN/ADM (上将)	LTG/VADM (中将)	Grade 2	MR (TC) Deputy Leader Equivalent 按副大军区职待遇
MR Deputy Leader (副大军区职) TC Deputy Leader (副战区职)	LTG/VADM (中将)	MG/RADM (少将)	Grade 3	Corps Leader Equivalent (按正军职待遇)
Corps Leader (正军职)	MG/RADM (少将)	LTG/VADM (中将)	Grade 4	Corps Deputy Leader Equivalent (按副军职待遇)
Corps Deputy Leader (副军职)	MG/RADM (少将)	SCOL/SCPT (大校)	Grade 5	Department Leader (正局级)
Division Leader (正师职)	SCOL/SCPT (大校)	MG/RADM (少将)	Grade 6	Department Deputy Leader (副局级)
Division Deputy Leader (副师职) / (Brigade Leader)	COL/CPT (上校)	SCOL/SCPT (大校)	Grade 7	Office Leader (正处级)
Regiment Leader (正团职) / (Brigade Deputy Leader)	COL/CPT (上校)	LTC/CDR (中校)	Grade 8	Office Deputy Leader (副处级)
Regiment Deputy Leader (副团职)	LTC/CDR (中校)	MAJ/LCDR (少校)	Grade 9	Section Leader (正科级)
Battalion Leader (正营职)	MAJ/LCDR (少校)	LTC/CDR (中校)	Grade 10	Section Deputy Leader (副科级)
Battalion Deputy Leader (副营职)	CPT/LT (上尉)	MAJ/LCDR (少校)	Grade 11	Grade 1 Staff Member (一级科员)
Company Leader (正连职)	CPT/LT (上尉)	1LT/LTJG (中尉)	Grade 12	Grade 2 Staff Member (二级科员)
Company Deputy Leader (副连职)	1LT/LTJG (中尉)	CPT/LT (上尉)	Grade 13	Worker/Clerk (办事员)
Platoon Leader (排职)	2LT/ENS (少尉)	1LT/LTJG (中尉)	Grade 14	

Grade and Rank Insignia

Although all officers wear rank insignia on their service and combat uniforms, officers ribbons identifying their grade appeared on their service dress in 2007.

It is also important to note that the PLA has only five officer career tracks—military (军事), political (政治), logistics (后勤), equipment (装备), and specialized technical (专业技术); however, this

system may also be revised. Rather than being identified by a billet-affiliated grade for the first four career tracks, such as a regiment leader-grade (正团职) officer, as shown in Table 2, specialized technical officers are identified by one of 14 technical levels, such as grade 8 (8 级) for a regiment leader-grade equivalent officer. However, since 2007, all officers and civilian cadre (who have their own grade system) wear the same ribbons (1-8 rows with 1 or 2 stars) on their service dress. For example, Figure 1 shows the ribbons for a regiment leader-grade officer, grade-8 specialized technical officer, and an office deputy leader-grade (副处级) civilian cadre (e.g., three rows and two stars).

Figure 1: Regiment Leader-grade, Grade-8, and Section Leader-grade Ribbons

Civilian cadre (文职干部) are not assigned military ranks, but they do wear special rank insignia and are assigned one of up to 14 levels (级) according to whether they are non-specialized technical or specialized technical personnel. Figure 2 shows the rank insignia for a major general (star) on the left and a senior-level civilian cadre (chrysanthemum) on the right.

Figure 2: Major General and Senior-Level Civilian Cadre Rank Insignia

Ranks vs Grades in the New System

There is speculation that the PLA will either abolish or adjust the grade system and move primarily to a rank system. It is this author's opinion that the grade system may be adjusted slightly, but that it will remain the foundation for the PLA's organizational and officer career path structure. This is due to its role as the basic framework for command and control (C2), promotion, retirement and protocol within the PLA. For example, the PLA has apparently already replaced the Military Region Leader and Deputy Leader grades with Theater Command Leader (正战区级) and Deputy Leader (副战区级) grade, respectively, to accommodate organizational name changes (81.cn, October 23, 2016; 70tt.com; 360doc, October 6, 2016; 81.cn, September 26, 2016).

All military billets are assigned a grade (based on organizational level) and personnel move up their career ladder based on the grade system, not the rank system. Command and control (C2) and coordination among PLA organizations are defined by the grade, not rank structure. Organizationally, units can only command units of lower grade levels. For example, a corps leader grade unit is authorized to command divisions, but not vice versa. Mandatory retirement is based on each grade, such as 55 for corps leader-grade officers, not time-in-service or time-in-rank. Even basic military protocol follows grade, not rank and by regulation, personnel must call each other by their surname and their position, such as Deputy Director Wang or Commander Li (81.cn, June 7, 2010).

Given the problems arising from abolishing the grade system, the PLA will most likely maintain

a grade system as the foundation for hierarchical organization of the officer corps.

Changes to the Rank System

Beyond the three adjustments proposed in the Bowen report—abolishing the senior colonel rank, adding a one-star brigadier general rank, and adjusting the current three-star general rank to become a four-star general rank—no specific information concerning the PLA rank system changes is available. However, one of the most likely changes will be to abolish the primary and secondary rank system for each grade, which will mean that some ranks will cover more than one grade. It unclear, however, how officers in ranks that would be abolished, such as senior colonels will be promoted to brigadier generals or demoted to colonel.

Given the December 19 announcement, there is little doubt that the PLA will adjust its rank system. Similar to the significant system changes that occurred in 1988, there are two driving forces for change, both of which are based on visual interests. First, as part of the PLA's growing military foreign relations program, senior PLA officers wearing three stars are not necessarily seen as co-equals when they interact with their foreign counterparts who are wearing four stars. Placing greater emphasis on officer rank contributes to the PLA's goal to be seen as an integral part of the global military community. Second, when officers engage each other during meetings where they do not know each other, they can immediately see where they fit into the organizational structure and can easily address each other by their rank.

These changes raise several key questions:

- Which PLA officers will receive a fourth star?
    - o Will the CMC vice chairmen and members have four stars?
    - o Will the four service political commissars have four stars?
    - o Will the five Theater Command commanders and political commissars have four stars or three stars?
- Which PLA organizations will have one-, two-, and three-star commanders/directors and political commissars?
- Will there be a limit to the number of flag officers for each rank?
- Rather than having two ranks per grade and some grades applied to up to four ranks, will one rank cover more than one grade?
- Will all promotions continue to be local promotions or will there be a central promotion board for all officers and enlisted personnel?
- Will the mandatory retirement age be based on their rank and/or time-in-service rather than on their grade?

When Will The New System Begin?

Historically, guidance involving the PLA's officer corps rank and grade systems have been incorporated into various laws and regulations, including revised iterations of the Regulations on the Military Ranks of Officers of the PLA (中国人民解放军军官军衔条例), *Law of the PRC on Officers in Active Service* (中华人民共和国现役军官法), and *PLA Internal Affairs Regulations* (中国人民解放军内务条令). The NPC is responsible for approving them before they are implemented.

On December 25, 2016, the Third Plenary of the 25th Session of the Standing Committee of the 12th NPC in Beijing adopted the decision on the temporary adjustment (暂时调整) to the application of relevant provisions of the Active Service Law and Military Ranks Regulations regarding the posts, ranks, appointment and removal, education and training, benefits and support, as well as demobilization and resettlement. ([MOD](), December 30, 2016; [MOD](), December 30). The next step is for the CMC to formulate an implementation plan and relevant temporary policies and regulations, and carry out necessary trial programs to proceed orderly with various reform measures according to law. The temporary adjustment will be effective on January 1, 2017 ([NPC](), December 25). Current speculation is that the new rank-centered system will be implemented on August 1, 2017. If this is correct, it will also be just before the 19th Party Congress, which will include a major change in the PLA's leadership.

Conclusion

There is little doubt that significant changes affecting the PLA's rank and grade systems will soon take place. The big question is how these changes will affect the way the PLA trains and fights. While interactions among senior officers with the same rank in the international military affairs arena will be immediately visible and easily monitored, the systemic changes will significantly affect officer promotions, career progressions, and organizational interactions, but they may not be discernable to the public for some time.

It is this author's opinion that the PLA will not transition strictly to a rank system, although changes to the rank system will certainly occur.

The PLA will need to maintain some type of grade system that forms the foundation of the PLA from a C2 and coordination perspective and provides a promotion ladder. It is also the author's opinion that not all divisions and regiments will be abolished and/or integrated into brigades; however, more units, especially in the Army, will make this transition. Previous revisions to the rank system have been haphazard and only implemented slowly. As witnessed in 1988, the PLA has enacted major transitions to its grade and rank system; however, it took the PLA several years to completely incorporate all of the changes and clearly did not meet today's requirements.

Notes

1. The author would like to thank the many reviewers who were kind to offer suggestions and critiques on an earlier draft.
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3. From 1988 to 1994, every grade was assigned three different ranks.

4. In 1949, the PLA created 19 bingtuan headquarters, which is translated as "army" or "formation," that consisted of subordinate corps. In 1950, all 19 bingtuan headquarters were abolished; however, the term remained in effect as a generic concept for organizations at the tactical level (corps, division, brigade, and regiment) and, from 1977 to 1988, was the generic term for a two-level grade between the corps and military region levels. In 1988, the primary bingtuan-level organizations were the three PLAN fleets and the seven PLAF Military Region Air Force Headquarters, each of which was upgraded to Military Region deputy leader grade. China Military Encyclopedia, Beijing: Academy of Military Science, 1997, Vol 2, p. 13. PLA Military Terminology, September 1997, p. 156. PLA Military History (中国人民解放军军史), Volume II, China Military Encyclopedia (Second Edition), Beijing: Academy of Military Science, December 2007, p. 396–411.

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Encyclopedia of China Publishing House, July 2007.

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China Intensifies Effort to Establish Leading Role in Asia, Dislodge U.S.

By Timothy R. Heath

In early January China's Foreign Ministry published a White Paper on "China's Policies on Asia-Pacific Security Cooperation" signaling an intensification of China's effort to establish itself as the dominant power in Asia and dislodge U.S. influence (FMPRC, January 11). Building on the country's economic strength, China is challenging U.S. power in Asia at its source: America's role as a security provider. The paper provides a glimpse into China's ambitions by outlining a three-part strategy to build an alternative architecture, normalize U.S. acceptance, and enforce regional compliance with Chinese leadership preferences through rewards and punishments.

Since 1998, China has issued security-related white papers, but these have largely centered on developments related to the country's military and national defense policy. The "China's Policies on Asia-Pacific Security Cooperation" white paper, by contrast, focuses on the broader strategic question of how to ensure security for the Asia-Pacific region (FMPRC, January 11). As such, it is the first official policy document to provide China's view of its leadership role in Asia. An accompanying People's Daily commentary noted that this is the "first time" China has "provided a systematically organized policy on Asia-Pacific

security cooperation" (*People's Daily*, January 13).

Numerous high-level meetings paved the way for the policy. In 2013, China held its first work forum on foreign policy to the Asia-Pacific region (*China Brief*, November 7, 2013). At the 2014 Shanghai summit of the Conference on Interaction and Confidence-Building Measures in Asia (CICA), President Xi Jinping proposed a vision for how Asians could manage security for themselves. In 2016, President Xi elaborated on his concept of Asia's security at a follow on CICA meeting (Xinhua, April 28, 2016).

Drivers of Regional Security Policy

The issuance of a security policy for Asia reflects China's view that it should assume duties befitting its status as a rising great power, as well as frustration with U.S. efforts to maintain its position in Asia. Decades of rapid growth have propelled China into the upper ranks of world powers, and it has sought to expand its leadership role accordingly. As the white paper put it, China regards the "advancement of regional prosperity and stability as *its own responsibility* [emphasis added]." China's objection to American power owes in part to the potential threats posed by U.S. alliances and in part to problems inherent in divided regional leadership (The Diplomat, June 11, 2014. From China's perspective, an alliance with the United States emboldens neighbors to challenge Beijing and elevates the risk of a devastating U.S.-China conflict. Chinese authorities also regard divided leadership along economic and security grounds as unsustainable and as an impediment to growth. In a 2015 commentary in the *People's Daily*, Wang Yiwei, a professor at People's University of China, explained

that the "root cause of all kinds of security problems" lay in the fact that "Asian countries depend on China economically and on the United States for security" (*People's Daily*, May 24, 2015). The ideal of "community of common destiny" frequently invoked by Chinese officials expresses a similar idea that the economic and security leadership should be mutually reinforcing. Applied to Asia, Foreign Minister Wang Yi has explained, this "community" is one in which the "two wheels of economic and security cooperation move together" (FMPRC, April 25, 2015). Not surprisingly, Chinese commentators have accordingly leveled harsh criticism of U.S. leadership in Asia. A representative commentary in *People's Daily* last year accused the United States of seeking to "strangle the new East Asian order that was taking shape" (*People's* Daily, September 18, 2016).

U.S. authorities have countered such criticism by seeking stronger cooperative ties with China, even as Washington undertakes a "rebalance initiative" aimed at shoring up its influence in Asia. But such engagement has scarcely mitigated China's resentment of the rebalance. A typical commentary in the official news agency, Xinhua, denounced the rebalance as "corrosive to the region's peace and stability" (Xinhua, September 8, 2016). It said that to realize regional peace and prosperity, the United States should "come up with an epitaph to the pivot".

More than harsh criticism will be required to dislodge the United States, however. The white paper summarizes a three-part, long-term strategy to entrench Chinese leadership and devitalize the rebalance. *First*, China aims to provide competitive alternatives to the main features of the US-led security architecture. *Second*, Beijing

aims to normalize U.S. and other great power acceptance of the emerging order. And *third*, China intends to incentivize regional compliance through rewards and punishments.

An Alternative Security Architecture

Beijing's proposed security architecture competes directly with many aspects of U.S. ambitions. In a Fact Sheet published in 2015, the Obama administration defined the rebalance in terms that include: 1) a *vision* for Asia and the Pacific; 2) a deepening of *relationships*; 3) the advancement of a *rules-based regional order*; and 4) the promotion of *cooperation* on global issues (WhiteHouse.gov, November 16, 2015). The below subsections contrast China's with the U.S. approach for these elements.

Competing Visions

The U.S. Rebalance Fact Sheet outlined a vision of a "stable and diversified security order" in which countries "pursue their national objectives peacefully and in accordance with international law and shared norms and principles." It stated that the United States seeks to "build a network of like-minded states that sustains and strengthens a rules-based regional order and addresses regional and global challenges."

China's white paper offers a competing vision at odds with key elements of the U.S. view. China's vision centers on "common, comprehensive, cooperative, and sustainable security." It defined "common security" as one that "rejects the idea of security for some countries while leaving the rest insecure." This directly contradicts the idea of a network of states that share "like-mindedness" with the United States. Indeed, the white paper pointedly argues that a "strengthening of

military alliances targeted at a third party is not conducive to common security."

The white paper defined "comprehensive security" as one that required taking into "full account the historical background and reality" of security-related affairs. This rejects the U.S. idea that disputes should be mediated according to international rules and claims legitimacy instead for "historical facts" raised by China and the "reality" of Beijing's views. The white paper explained that "cooperative security" prioritizes "dialogue and cooperation" as the main means of "increasing strategic mutual trust" and resolving differences. This idea does not inherently conflict with the U.S. vision, although it does imply alliances are not necessary. The white paper defined "sustainable security" principally in terms of a focus on "development." In calling for a "synchronized progress of regional economic and security cooperation," this idea by definition prioritizes China's preferences over those of the United States since China plays a larger role in driving the region's economic integration.

Competing Views of Rules and Order

The U.S. Rebalance Fact Sheet highlighted the pursuit of a "rules-based order" featuring strengthened "regional institutions," "good governance," and "universal values" such as "respect for human rights" and "fundamental freedoms" (WhiteHouse.gov, November 16, 2015). Once again, the white paper presents a contrasting view. It argues that all countries in Asia [i.e., China] should determine the rules. The white paper stated international and regional rules should be "discussed, formulated and observed by all countries concerned," rather than being "dictated by any particular country." As an exam-

ple, the white paper listed the Chinese origi-nated "five principles of peaceful coexistence" as a "universally recognized law" that should be "abided by" in resolving maritime dispute issues.

Competing Security Relationships

The U.S. rebalance prominently features the de-velopment of a "network" of alliances and part-nerships. China rejects the idea of alliances. In a 2014 speech, Xi Jinping warned countries against strengthening alliances (VOANews, May 21, 2014). The white paper builds on China's long-standing opposition by urging all countries to "pursue partnerships rather than alliances." Chinese official media since 2014 has high-lighted "partnerships" (*huoban guanxi* 伙伴关系) as an important idea in contemporary foreign policy. Diplomatic officials regard a partnership as a flexible category of bilateral or multilateral relationship distinguished principally by cooper-ation between non-allied parties to achieve mu-tually profitable goals. Foreign Minister Wang Yi has explained that partnerships are character-ized by "equality and inclusiveness" and they are "not directed against a third party" Partnerships include both weak varieties in which little is shared and robust ones between like-minded countries that collaborate on sensitive political and even military endeavors. As Wang ex-plained, "Those who share a common goal and cherish the same ideal can become partners, and so can those who put aside minor differences in order to seek common ground" (*People's Daily*, May 4, 2016). Writing in Seeking Truth, Foreign Minister Wang stated that China established an "initial network of partnerships" in 2014 (Qiushi, January 1, 2015).

Although Chinese authorities oppose alliances, they recognize their appeal. The white paper recommends countries retain the form of alli-ances, but deprive them of potency. It called for "relevant bilateral military alliances" to become "more transparent and avoid confrontation," so as to "play a constructive role" in promoting re-gional peace and stability. These suggestions amount to a recommendation that alliances support China's efforts to build a regional secu-rity order and avoid actions that Beijing finds objectionable.

Competing Venues for Cooperation

While both countries agree on the need for co-operation to address security challenges, China advocates institutions and mechanisms in which it plays a leading role, rather than those that de-pend on U.S. alliances and initiatives. However, China recognizes the reality that U.S. power will persist. Accordingly, for the medium-term, at least, the white paper affirms the likelihood that Chinese led mechanisms will co-exist alongside U.S. based ones.

To cope with this situation, the white paper called for "improving" and increasing "close co-ordination" between the existing mechanisms. It noted the "diversity" of institutions, such as the Chinese-led SCO and CICA, "as well as military alliances formed in history." Acknowledging that a "consistent framework is not foreseeable in the near future," the white paper anticipated a tran-sition period in which "multiple mechanisms ad-vance together in the evolution of a regional se-curity framework." The white paper does not preclude a role for the United States. Indeed, it called on "major powers to jointly promote a re-gional security framework." However, the out-come of such collaboration should be "based on consensus," which suggests China seeks greater say over the U.S. role.

The white paper also outlines a larger role for the PLA in promoting stability, combatting transnational threats, and maintaining peace. The white paper stated China's armed forces "make positive contributions to the maintenance of regional stability." It also explained that the PLA will "intensify military exchanges and cooperation to offer more guarantees for peace and stability in the Asia-Pacific region." This again contrasts with China's desire to see a reduction in the U.S. military's presence and posture in Asia, which Beijing regards as threatening.

Normalizing Major Power Acceptance

China's ambition to overhaul the region's security architecture faces a major hurdle in the form of potential opposition from the current leader, the United States. Another danger lies in the potential collaboration of other major powers, such as India or Japan. The white paper advocates cooperation and coordination as a means of avoiding war and normalizing gradual acceptance of the emerging security order.

The white paper builds on a recent development in official foreign policy thinking that distinguishes between the role of major and minor powers. The shift in official parlance towards describing China as a "major power" reflects both the reality of the country's national strength and a long-standing belief that the world is moving towards a multi-polar era (*The Diplomat*, December 22, 2014). In this understanding, major powers coordinate amongst one another in bilateral and multilateral venues to address threats while respecting the authority of one another in their respective geographic areas. The white pa-

per hails this "new type of major power relations" as one defined by "non-conflict, non-confrontation, mutual respect, and mutually beneficial cooperation." The white paper illustrates its application in Asia, identifying China, the United States, Russia, India, and Japan as major powers that should "jointly promote a regional security framework" to "effectively deal with the increasingly complex security challenges in the region." The paper also calls on "small and medium-sized countries" to "not take sides." This point reinforces the idea that smaller powers should follow the lead of the major powers responsible for managing the security order.

Enforcement of Chinese leadership

The third part of China's approach to establishing itself as the region's security leader lies in enforcing its leadership. Since 2013, Chinese leaders have signaled their intent to use rewards and punishments to incentivize countries to accommodate Chinese political preferences, an idea well captured by the "profit-righteousness concept" introduced by Xi Jinping (*China Brief*, November 7, 2013). The white paper and current events provides two examples of how China intends to enforce its leadership. The first example involves maritime security disputes, and the second concerns the deployment of a Terminal High Altitude Area Defense (THAAD) missile system in South Korea. The white paper reiterates China's stand on these issues. The implication is clear: relevant countries are expected to act on Beijing's preferences. Those who support China will reap rewards, while those who do not will be punished.

Regarding territorial disputes, the white paper shows a remarkably sanguine view. It states, "Regional hotspot issues and disputes are basically

under control." Although authorities remain intent on defending Chinese claims against encroachment, this assessment suggests leaders are focused on the much bigger prize of securing regional leadership, rather than squander such an opportunity for the sake of fighting over desolate maritime features. The paper argued that the "region should follow the tradition of mutual respect, seeking common ground while reserving differences, and peaceful coexistence, and work to solve disputes properly and peacefully through direct negotiation and consultation." Philippine President Duterte's decision to heed this advice and downplay the dispute in favor of warmer ties with China yielded generous pledges of $24 billion in investment (Bloomberg, October 21, 2016).

Regarding the THAAD deployment, the white paper observed, "forming Cold War-style military alliances and building global and regional anti-ballistic missile systems will be detrimental to strategic stability and mutual trust." Beijing has responded to South Korea's disregard for China's preferences with economic and military retaliatory measures (KBS World Radio). Chinese pressure has driven down public support in South Korea for the THAAD deployment from 44 percent to 34 percent and made the deployment a divisive election issue (VOANews, January 16).

Implications

By undercutting the most compelling justification for U.S. leadership role, the issuance of a security policy poses a serious challenge to the U.S. position in Asia. Replicating its approach in the economic domain, China seeks to create alternatives to the institutions and mechanisms that underpin U.S. power. China's variants in some cases may compare poorly to that of the United States. Partnerships may offer benefits, for example, but they lack the assurance and close ties of alliances. But this may matter less than commonly assumed if countries decide that the entire package of economic and security goods offered by China leadership surpasses what the United States can provide. It is possible to envision a situation in which countries increasingly opt to follow China's lead, even as they formally uphold alliances and partnerships with the United States as "insurance" against Chinese misbehavior. Warning signs of this possibility may be seen in Philippines President Duterte's moves towards closer security ties with China and the debates in Australia over proposed security arrangements that downplay traditional alliance obligations (Lowy Institute, August 15, 2014).

If China succeeds, a United States that finds its influence waning could be tempted to rely on military strength to uphold its status. Statements by U.S. Secretary of State Rex Tillerson threatening to impede Chinese access to the South China suggest senior U.S. officials may already be contemplating such a path (C-SPAN, January 11). Although tempting, the adoption of militarily confrontational policies would not only spur China to redouble its efforts to marginalize the United States, it would raise the risk that the two competitors for regional influence could head down the tragically well-trodden historical path to conflict. China's rise cannot be denied, and a blended security architecture featuring Chinese and U.S. elements may well be the only way to resolve fundamental differences in a manner that does not lead to war. If so, the paramount task for both sides will be to mobilize resources and effort to shape the terms of the evolving order. To bolster its leverage, America will have to work harder than ever to engage the region

across a broad range of issues. But the prize of economic benefits gained by ensuring U.S. access to an increasingly vital part of the global economy provides a powerful incentive. Paradoxically, the Trump administration is likely to find that progress on its domestic agenda will depend on the progress of America's competition for influence in Asia.

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Rural China and the Asian Methamphetamine Trade: a Case Study of Lufeng

By Zi Yang

East Asia is in the midst of an intensifying struggle with methamphetamine trafficking that has led to dramatic political changes. Philippine President Rodrigo Duterte, elected on a populist agenda, has made the swift elimination of narcotics trafficking the central promise of his administration. While his methods have largely drawn criticism from the international community, China has backed his campaign, citing its own concerns about the growth of drugs (Inquirer [Philippines], July 20, 2016). This is not without cause. China is also facing domestic troubles due to rising production of cheap methamphetamine and increasing rates of addiction.

Shabu, or methamphetamine ("meth" for short), is the drug of choice for most of the Philippines's 1.7 million addicts (Philippine Star, December 16, 2016). In July 2016, Duterte, with his typical bluntness, issued death threats against three prominent Chinese drug lords and accused China of harboring narcotics smugglers (SCMP,

July 28, 2016). To date, Chinese nationals do play a role in the Philippine drug trade, although the vast majority of traffickers are local Filipinos (Inquirer, July 7, 2016). To make matters more complicated, the Philippine press has a tendency to lump Mainlanders, Taiwanese, Hong Kongers, Macanese and members of the Chinese diaspora into one umbrella term—"Chinese"—thus creating further confusion on the origins of "Chinese drug lords." Nevertheless, regular appearances of Chinese individuals in the Philippine drug war highlights China's role in the Asian narcotics trade (HK Standard, September 8, 2016).

China is the world's largest cultivator of *Ma huang* (*ephedra sinica*; 麻黄). A precursor of meth, Chinese *Ma huang* is used to manufacture one-third of Asia's total meth production (2009). **[1]** Although Chinese officials frequently downplay the country's role in this illicit industry, increasing efforts to clamp down on rising meth production shows that the Chinese state does recognize this as a problem (South China Online, January, 3). In recent years, total drug-related criminal cases involving opiates shrunk to 30 percent while cases relating to meth and synthetic drugs climbed to 60 percent. In 2014, there were 1,459,000 registered synthetic drug addicts, 1,771 percent higher than 2005's 78,000. A 2013 study of 2,773 recovering synthetic drug addicts in Beijing, Shanghai, Guangdong, Yunnan and Hunan provinces show that meth was the first choice of 65 percent of respondents, followed by the meth precursor ephedrine (27 percent) and meth tablets known as *magu* (4 percent). **[2]**

Although domestic and international consumers of Chinese meth are mostly city-dwellers, China's meth trade is actually rooted in the

countryside. An examination of China's most active meth manufacturing region—Guangdong Province's Lufeng City—provides insight into the rise and resilience of meth trafficking based out of rural China.

Lord Thunder's Domain

Sandwiched between the special economic zones of Shenzhen and Shantou is the tri-city area commonly referred to as Hailufeng—composed of Shanwei, Haifeng and Lufeng. Although the region is home to several natural harbors, its economy remains stagnant and is often overlooked by investors. Yet underneath the gray surface, subterranean business is booming. Since the beginning of Reform and Opening-up, the tri-city region has accumulated a reputation for illegal activities. As a local saying goes, "Up in the heavens there is Lord Thunder; down on earth, there are the people of Hailufeng (天上雷公, 地下海陆丰)."

The City of Lufeng is probably the most lawless of the three. In the 1980s, Lufeng was known for smuggling. In the decade following, it gained infamy for counterfeiting. Now, Lufeng typically occupies headlines as the busiest region for narcotics manufacturing. Prior to a major crackdown in December 2013, the region supplied one-third of China's meth. **[3]**

Most of Lufeng's meth comes from its suburbs and outlying areas, and in particular, an area called *sanjia* (三甲地区), made up of three towns—Jiazi, Jiaxi, Jiadong. A hub of criminal enterprises, in 2016, half of Lufeng's 328 wanted criminal suspects came from *sanjia*, and 65 belong to the village of Boshe—once China's largest meth factory ([The Paper](#), May 18, 2016).

A little over two kilometers from the sea, Boshe is a village of 14,000 all belonging to the Cai lineage (族). During the early hours of December 29, 2013, 3,000 police, armed police and border control troops descended upon Boshe ([BBC](#), July 10, 2015). After encircling the village, the authorities began their largest ever operation seeking to completely root out drug manufacturing. By daylight, the police had broken up eighteen narcotics gangs and arrested more than 182 gang members. Seventy-seven drug labs, as well as an explosives manufacturing plant, were destroyed. A total of three metric tons of meth, along with twenty-three tons of precursor chemicals were seized. Nine guns, 62 rounds of ammunitions and one grenade were also netted ([People's Daily](#), January 3, 2014).

The village of Boshe has been subdued ever since. As of May 2016, 43 security cameras and more than 40 policemen monitor the villagers' every move ([The Paper](#), May 25, 2016). But only a few years ago, Boshe was the richest village in the area, nicknamed "Little Hong Kong" for its wealth. More than two-thirds of its villagers were involved in meth manufacturing ([RFA](#), January 3, 2014). Money and precursor chemicals flowed in daily. New country homes and refurbished ancestral shrines reminded visitors of Boshe's opulence. And neighboring villages even began to circulate a rumor that Boshe worshippers burned wads of newly minted notes at ceremonies to honor their ancestors ([Guanchazhe](#), January 18, 2014).

Boshe's Rise as a Meth Village

How did Boshe become involved in the meth trade? What was its position in the value chain?

Who led the enterprise? To answer these questions, we must start with the story of one man—Boshe's former party secretary, Cai Dongjia.

A native of Boshe, details about Cai's early life is murky except that he was a gregarious man who made good investments in personal relations. Once the security chief of Boshe, Cai left for Shenzhen in 1999 as narcotics manufacturing in Lufeng intensified (Guangdong Provincial Public Security Department, December 15, 2015). After returning home in 2005, Cai rejoined the bureaucracy with the help of a few old friends in the government and was appointed the village committee secretary and Party secretary of Boshe a year later (QQ News, March 30, 2016).

Cai came from the largest of the Cai lineage's three houses (房). Therefore, not only is he the Party's man but also he carries a weighty responsibility to the Cai lineage as their informal clan leader. Initially, Cai wanted to lead his fellow kinsmen on a path to wealth (致富) legally. But after failures to introduce cash crops, Cai, along with a few close relatives, decided to try narcotics manufacturing (China Dissertation Online, June 30, 2014).

Using his personal connections, Cai gained support from corrupt superiors in the government and even made partnership with police officers. [4] Business boomed like never before. Young men, elementary pupils, and even septuagenarians joined the enterprise. Investments poured in from businessmen and crime syndicates based in the Pearl River Delta that provided Boshe men with funds to purchase *Ma huang* from Fujian province, which was shipped to Boshe by the truckloads (The Paper, May 25, 2016; People's Daily, January 2, 2014). Barrels of ephedrine—processed from *Ma huang*—and

over-the-counter medications containing ephedrine or pseudoephedrine were also stockpiled in the village. [5] Meth production was conducted as a township or village enterprise, where each household took up a division of the labor. The finished products were then transported to the nearest harbor, only 2.5 km away, to be loaded onto vessels that sailed to the Pearl River Delta. A common fishing vessel could carry two tons of meth if properly concealed (Xinhua News, June 22, 2016). Upon arrival to the Pearl River Delta, Triads from Taiwan, Hong Kong, and Macau made purchases and drove the goods onward to the international destinations, but especially the Southeast Asian states of Malaysia and the Philippines. [6]

Meth Manufacturing Techniques in China

The "Lufeng Method" is a way of cooking meth—modeled upon the ephedrine/pseudoephedrine reduction method that was perfected in its namesake town before spreading throughout China. Meth manufacturing in Lufeng, which was once done openly, has gone underground after the December 2013 crackdown. Intimidated by the heightened security, Lufengnese meth cookers left their hometowns to set up labs elsewhere around Guangdong.

One such operation was rapidly built in a mountainous and swampy area 371 km away from Lufeng. This small-scale meth factory designed by Lufeng meth cooks produced 837.3 kg of meth in only six days. Funded by investors from Guangzhou and Shenzhen, the factory, built by brick and wood, was divided into three areas: living quarters, work area and garbage disposal. Carefully designed, factory supported rotating

24-hour shifts for a maximized output ([Xinhua News](), November 4, 2015).

With the government crackdown on supply raising meth prices from the wholesale price of 20,000 RMB per kilogram in 2013 to 30,000 RMB per kilogram in 2016, the lure of greater profit will continue to entice cooks and traffickers to defy the law ([Wenweipo](), December 31, 2016).

Impact of Meth on Rural China

From criminal's perspective, there are a few short-term positive and long-term negative effects regarding meth manufacturing. Employment and financial gains are the greatest incentives for most people in the drug trade. An average Boshe laborer makes 1,000 RMB per month. But as a drug trafficker, one can easily make a few hundred, if not more than a thousand RMB a day ([China News](), January 1, 2014). Although fast money comes with equally high risk since China has severe penalties for drug dealing, and authorities have not been reluctant in executing traffickers ([Sohu News](), June 27, 2015).

The impact of meth on society and the environment raises long-term developmental obstacles for local communities. Drug addiction is increasing in Lufeng, in congruence with the provincial pattern ([QQ News](), May 30, 2012). Addicts to one kind of hard drug are more likely to try other drugs, which is reflected in the surge of HIV/AIDS in rural Lufeng through needle sharing. **[7]** Gun crime is also a concern in these areas since traffickers are likely to be armed ([South China News](), October 14, 2016; [People's Daily](), October 28, 2016). Poisonous waste from meth production, freely disposed, contaminates

the environment and retards economic development in the long run ([Sohu News](), January 3, 2014).

State Initiatives in Combating Meth Manufacturing

In addition to enacting laws to limit the public's access to medications containing ephedrine/pseudoephedrine ([Sina News](), December 27, 2012), the government's response so far has mostly been the tried and true method of *strike hard* (严打), where it uses overwhelming force and a harsh application of the law to quickly reduce crime. Although Boshe is now a poster child of China's anti-meth efforts, one author wonders how long this may last, given the costliness of maintaining such a campaign. **[8]** Yes, meth making is down in one village, but surrounding narcotics villages in the *sanjia* region are still in business ([QQ News](), January 18, 2014). Not to mention that despite the crackdown, Boshe villagers are still making meth, if not, traveling to new parts of China along with other Lufengese in search of a freer business climate to set up shop. Moreover, Chinese anti-drug police forces are fraught with internal challenges such as low pay, insufficient training, understaffing, overburdening, low morale and bureaucratic politics. China still has a distance to cover in developing a strong law enforcement counterweight against the deadly attraction of meth. **[9]**

There is no singular approach to solving the problem of meth trafficking in China. Ninety percent of people and goods enter China through Guangdong, which accords all of the province's coastal cities a natural advantage in trade that includes drug trafficking. Lufeng's stagnant human development limits economic

mobility for its residents. **[10]** Take education for example. Despite population growth, the number of middle school students in attendance dropped from 147,000 in 2010 to 107,600 in 2014. Likewise, elementary school students in attendance diminished from 205,700 in 2010 to 116,500 in 2014 ([China Data Online](#)).

But the determining factor influencing the meth trade is official collusion with drug traffickers. Local officials—including policemen—worked with Cai Dongjia's enterprise. Yet this is far from the only instance. **[11]** Lufeng's city government, especially its public security bureau has a notorious reputation for being a cesspool of corruption. Two former Lufeng public security bureau chiefs, Chen Junpeng and Chen Yukeng, were convicted of taking bribes from and protecting drug traffickers. **[12]** In 2013, the entire Beidi dispatch station was placed under investigation due to similar concerns ([Hailufeng Info.](#), April 8, 2016).

Shanwei, the prefectural-level city that governs Lufeng, fares no better. Ma Weiling, the former Shanwei public security bureau chief and one-time provincial drug czar, sold official posts at will to the highest bidder and shielded city officials from criminal investigation. When Cai Zhiquan, a deputy of Shanwei city's people's congress was identified as a suspect in a shooting incident, Ma helped him avoid criminal charges after accepting a bribe of 1.3 million HKD ([CCP News](#), April 8, 2016). Without Ma's support, Chen Junpeng and Chen Yukeng, powerful patrons of Lufeng's traffickers, would not have been Lufeng's top cops ([CCP News](#), October 21, 2015).

Conclusion

The alarming death toll of the Philippine drug war has refocused the world's attention on Asia's drug trade. At the center of Asian meth manufacturing, China's successes and failures in combating drug trafficking will have regional, if not global, implications. Although the current hard-line approach did have an impact on reducing meth manufacturing in one area, strike hard campaigns only last for so long. Official collusion with traffickers and economic underdevelopment cannot be addressed by simple, quick fixes. What is needed is a regular application of the law by professional law enforcers supported by a corruption-free government, and more importantly, greater investment in human development to expand opportunities for vulnerable communities like the townships and villages in the vicinity of Lufeng.

China's drug problem will continue to highlight a number of issues that the Chinese government faces. The rural-urban divide is changing crime and public safety. Domestic stability will increasingly take up more resources of the state and further strain the links of authority that tie the central government and the provinces. Despite the growth of China's security budget in recent years, the state's seemingly inability to stamp out the drug business shows us the corrupting effects of the trade on local administrators who protected traffickers for financial gains. Moreover, China's internal security strategy, which prioritizes political crime and threats against national unity, gives traffickers space where they can operate without impunity.

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2. Xinmin Fan, "我国毒品社会问题新趋势与应对思路 [New Trends in Narcotics-Related Social Problems in Our Country and Thoughts on Counter-Measures]," Social Sciences in Guangdong, no. 2 (March 2015), p. 189; Yanping Bao et al., "我国五地区合成毒品滥用者中海洛因多药滥用特征及相关因素分析 [The Characteristics and Associated Factors of Heroin Poly Drug Use among Synthetic Drug Users in 5 Areas in China]," Chinese Journal of Drug Dependence, no. 6 (December 2015), pp. 452, 453.

3. Jiadi Zhuang, Ning Bin, and Guangjie Li, "群体性事件形成的演化博弈分析——以广东省陆丰市毒品博社村为例 [Analysis of the Evolutionary Game of Mass Incidents—using Guangdong Province's Lufeng City's Boshe Village as an Example]," Market Weekly, no. 9 (September 2014), p. 85.

4. We do not know exactly how many officials were involved in Lufeng's drug trafficking, and we may never find out. Cai Dongjia might, in fact, be a lower-level player who was sacrificed to protect higher-ups. Likewise, we do not know the exact number of police officials involved in the drug trade. However, with a meager salary of 2,000 RMB per month, traffickers easily bought off the policemen. See: Gang Liu, "广东'制毒第一村'何以成为'法外之地' [Why Did Guangdong's 'First Narcotics Manufacturing Village' Became a 'Lawless Territory']," Country, Agriculture, Farmers, no. 2 (February 2014), p. 37.

5. There are about 31 types of common Chinese medications that contain ephedrine/pseudoephedrine.

6. 67.7 percent of drug traffickers arrested by the Guangdong police from January 2015 to May 2016 were Taiwan, Hong Kong, and Macau nationals. See: Sohu News, June 23, 2016. Yuanyuan Xu and Zhixin Qiu, "论广东制造毒品犯罪的现状、趋势与对策 [On the Status Quo and Developing Trend of Drug-Making Crimes in Guangdong Province and Countermeasures]," Journal of Political Science and Law, no. 5 (October 2015), p. 22.

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10. Qingcai Sheng, "广东黑社会性质组织犯罪成因研究 [Research on the Reasons for

Crimes by Organized Criminal Gangs in Guangdong]," *Journal of Guangdong Ocean University*, no. 5 (October 2009), p. 42.

11. The Chinese Communist Party never intended to portray itself as absolutely corrupt and irredeemable. Thus, corrupt scandals exposed by the official press only shows the tip of the iceberg.

12. Chen Junpeng accepted bribes that totaled 1.66 million RMB and 200,000 HKD. Chen Yukeng's case involved bribes totaling 2.5 million RMB and 940,000 HKD. See: Xinhua News, July 1, 2015; Xinhua News, October 22, 2015.

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