

CHINA BRIEF

中国简报

The Jamestown Foundation Volume 18, Issue 1 January 12, 2018

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In a Fortnight: China-Russia Relations Reality Check

In 2017, China and Russia trumpeted the closeness of their relationship, calling it a historic highpoint. Xi Jinping has made good relations with Russian President Vladimir Putin a priority, visiting Russia six times and meeting with Putin on 21 occasions since taking office.

Authoritative statements by Chinese government mouthpieces, officials and think tank researchers suggest that China views Russia as a key partner in advocating its view of the international system.

Su Xiaohui, a scholar at the Ministry of Foreign Affairs-affiliated China Institute of International Studies has argued that Sino-Russian relations were a “model” or “show-room” of “New Type International Relations” ([People’s Daily Overseas Edition](#), October 31, 2017).

Though Chinese characterizations of the relationship present a united front, they also highlight China as the leader in the partnership. In October of last year, Chinese Ambassador to Russia, Li Hui (李辉), wrote an article in the Russian newspaper *Izvestia* describing the implications of the 19th Party Congress and Xi Jinping’s leadership for the Sino-Russian relationship ([Guangming Daily](#), October 29, 2017; [People’s Daily Online](#), October 27,

2017). Behind the platitudes and glossing over of a complicated history was a clear message: Russia is open to following China's lead. Indeed, while Putin articulates his own policies—sometimes in contradiction of China's—when it comes to key votes in the United Nations, Russia follows China (*Eurasia Daily Monitor*, January 8).

The shift in relative power is particularly clear when examining China and Russia's economic relationship. The new year appears to have begun on a good note for Sino-Russian trade relations; trade jumped in 2017, and based on third-quarter projections will rise to over \$80 billion (*Chinese Ministry of Commerce*, November 30, 2017). Since oil exports represent the majority of Russian exports to China (52 percent in 2016), the recent uptick in previously flat oil prices is likely to further pad Russia's export tally (*OECD*, 2016). Chinese and Russian cooperation in the oil sector continues to expand, with joint oil and gas pipelines snaking across China's western and northern borders.

Chinese investment has also rescued several Russian oil and gas projects, such as the Yamal Liquefied Natural Gas (LNG) plant (pictured below), which received an infusion of needed cash from China National Petroleum Corporation (*Xinhua*, December 27, 2017). Another project, a pipeline in northeastern China, will transport 38 billion cubic meters of natural gas from the border in Heilongjiang province across eastern China to Shanghai (*Xinhua*, December 13).



The Yamal LNG Plant in Sabetta, Yamalo-Nenets Autonomous Okrug, Russia. Image courtesy of Planet Labs.

China's winter energy crisis in 2017 and its drive to replace its coal-fired electricity generating plants with natural gas may further incentivize Chinese companies to invest in Russian oil projects (*China Brief*, December 22, 2017).

However, while the rise in bilateral trade might seem dramatic, it is important to keep a couple of structural factors in mind. In reality, both countries trade more with the European Union than with each other. Germany, for example, exported \$85 billion to China alone in 2016 (*OECD*, 2016). It is also far from certain that China even needs Russian energy in a strategic capacity. Bobo Lo, an Australian expert on Sino-Russian relations has noted China has great flexibility to use the open markets and replace Russian oil and gas if need be. **[1]** Chinese investments throughout Central Asia mean that it has also has access to Turkmen, Tajik and Kazak natural gas pipelines (*SCMP Infographic*).

Sino-Russian trade has traditionally been a hedging strategy for both partners—used to make better deals with other more lucrative partners. For Russia that increasingly may no longer be the case. In December 2017, Russia used the remaining cash in its “rainy day” Reserve Fund that was meant to offset temporary budget shortfalls due to changes in the price of oil (Meduza, January 10; Russian Ministry of Finance January 10 [Russian]). With the Brent price of crude oil up around \$70, Russia’s economy may benefit for the short term, but long-term trends in the price of petroleum and alternative energy sources promise oil prices far below the comfort zone of Russian companies.

The strategic calculus is changing as well. Russia could once rest easy at thought of a military confrontation with China. However, a once-ineffective and bloated Chinese military has reformed, reorganized and retrained. While the disposition of China’s troops has remained largely the same since tensions with Russia were high, the sophistication, equipment and ability of their troops have improved (China Brief, May 15, 2017).

Even China’s small but potent nuclear forces are now prioritizing penetration of advanced missile defenses in a move that has implications for Russia as well as the United States (China Brief, January 12; China Brief, April 21, 2016). In other technological domains, including quantum computing and artificial intelligence, China is poised to leave cash-strapped Russia far behind (China Brief, December 22, 2017; China Brief, December 21, 2016).

China’s rise has been profoundly disruptive for Russia across the breadth and length of

Eurasia. Traditional spheres of influence have been challenged or completely supplanted. Russian enthusiasm for Belt and Road projects that do not go through Russia, or for Chinese Arctic ambitions that avoid the Russian-controlled route, are muted (Eurasia Daily Monitor, October 3, 2017). However, Russia remains optimistic it can project power and influence into Central Asia—using infrastructure paid for by China. Even if Chinese economic growth slows, its eclipse of the Russian Federation—and memories of the Soviet Union—is complete. Russia has been consigned to being a politically useful junior partner, not an equal.

While both countries have eagerly promoted the image of Sino-Russian cooperation at a grand scale, a degree of skepticism is warranted. In the end, Moscow and Beijing’s relations are predicated on the old Maoist adage “If you don’t attack me, I won’t attack you” (人不犯我，我不犯人). Their self-interest does not make them allies.

Notes

1. Lo, Bobo. *A Wary Embrace: A Lowy Institute Paper: Penguin Special: What the China-Russia Relationship Means for the World*. Penguin Books Ltd, 2017. Kindle edition. Location 574.

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What is “Xiconomics”?

By Willy Lam

In 2017, Xi Jinping consolidated his control over much of the Party and State apparatus, culminating in October when “Xi Jinping Thought on Socialism with Chinese Characteristics in the New Era” was inserted into the Chinese Communist Party (CCP) constitution. In late December, Xi’s leadership was extended into yet another domain: economics. At the Central Economic Work Meeting (CEWM) held December 18–20, Party authorities saluted “Xi Jinping Thought on Socialist Economy with Chinese Characteristics for a New Era” (习近平新時代中国特色社会主义经济思想) as the sole guiding principle for financial and economic decision-making ([Xinhua: Global Times](#), December 20, 2017). The CEWM, which is convened every December to set directives for the new year, said in its communiqué that all cadres were committed to “upholding the party’s concentrated and unified leadership over economic work.” Xi’s economic thought—dubbed “Xiconomics” by some Hong Kong and foreign media—must be closely followed so as to ensure a “correct development direction” for the economy ([South China Morning Post](#), December 22, 2017; [Nikkei Asian Review](#), October 26, 2017).

This is the first time since the establishment of the CCP almost a hundred years ago that the party chief has been designated the highest-level designer and arbitrator of economic matters. Even the apparently omnipotent Chairman Mao Zedong mainly focused on political and military issues; finance and economics were left to experts such as economic planners Chen Yun and Li Xiannian, as well as

Premier Zhou Enlai ([CCP News Net](#), September 19, 2012; [People’s Daily](#), March 21, 2011). Xi’s anointment of himself as virtual “economic tsar” follows the marginalization of Premier Li Keqiang as the top decision-maker in this field. In a departure from tradition established since the beginning of the Reform and Open Door Policy forty years ago, Li has failed to become head the party’s Central Leading Group on Finance and Economics in the years since the 18th Party Congress in 2012. That position has been taken up by Xi, who also chairs another top policymaking body, the Central Leading Group on Comprehensively Deepening Reforms, which he set up in 2013 ([Gov.cn](#), November 20, 2017; [Xinhua](#), February 28, 2017).

Xiconomics Means “Mixing Politics With Economics”

While the CEWM noted that “Xi Jinping Thought on Socialist Economy with Chinese Characteristics for a New Era” would be elaborated during Xi’s second term as party chief (2017-2022), it seems clear that Xiconomics has resurrected the Maoist tradition of “mixing politics with economics.” This essentially means that while the leadership is, at least in theory, pursuing Deng Xiaoping’s path of market liberalization, a balance must be struck between reformist measures and political stability. In other words, financial and economic policy must correspond with the political goals of the top leadership.

Xi’s main political and economic concerns include stable, medium-level growth (at least 6 percent) and party-state control over key sectors of the economy. China’s GDP expanded 6.9 percent year on year in the first three

quarters of 2017. The objective for economic expansion in 2018 will likely be set at around 6.5 percent ([United Daily News \[Taipei\]](#), January 1; [Wall Street Journal Chinese Edition](#), November 28, 2017). However, growth has been achieved at the expense of heavy borrowing, underpinning government investments in real estate and infrastructure. Both Chinese and foreign economists have cited debt as the biggest problem facing the world's second largest economy. The Moody's rating agency regarded debt as such a large problem it downgraded China's credit rating in 2017 ([Moody's.com](#), May 24, 2017; [Reuters](#), May 23, 2017). For the sake of stability, however, the Xi team will not cut debt drastically. And despite a big bubble forming in the property market, Beijing will prevent a hard-landing in this sector because this could cause massive instability.

Promoting "High-Quality Growth"

A major thrust of Xiconomics for the "new era" is promoting high-quality growth. Specifically, this entails the expansion of high-tech and high-end manufacturing and services that have benefited from the country's impressive achievements in information and communications technology (ICT), AI, cloud computing, big data and other cutting-edge sectors. High-quality growth is intimately tied to "supply side reforms" (another hallmark of Xi's "new normal" economics), which consists of curtailing zombie firms, reducing inventory, promoting the efficiency of state-owned enterprise (SOE) groupings, and creating symbiotic links between civilian and military enterprises. "Supply side reforms" also include more spending on education and social

welfare, the reduction of poverty, and protecting the environment ([Caixinglobal.com \[Beijing\]](#), December 21, 2017; [Ming Pao \[Hong Kong\]](#), December 21, 2017; See [China Brief](#), December 8, 2017).

Elements of "high-quality growth" and related goals such as "Made in China 2025" and "mass entrepreneurship and innovation," have actually been raised by the Xi administration for the past five years. The effectiveness of this new deal remains in doubt. It is true that China has made spectacular progress in sectors such as artificial intelligence, financial technology (fintech), robotics, biotech and green technology; but these advanced sectors do not yet make up a significantly large portion of either the country's GDP or its exports ([China Economics Weekly \[Beijing\]](#), October 9, 2017; [MIIT.gov.cn](#), August 21, 2017). Moreover, high-tech industries and services usually employ fewer people than traditional manufacturing. Given Xi's commitment to low unemployment and poverty reduction, "high-quality growth" is a tall order. Moreover, SOE conglomerates are poor innovators partly because of Xi's insistence that their top management must be under tight party-state control.

Meanwhile, China's corporate debt is about 175 percent of GDP, one of the highest in emerging market economies, according to the Organization for Economic Cooperation and Development (OECD), and SOE conglomerates account for roughly 75 percent of this debt pile ([China Daily](#), December 11, 2017; [CNBC](#), July 26, 2017; [People's Daily](#), October 12, 2016).

The Debt Conundrum

Other goals that are a part of “high quality growth,” such as boosting spending on social amenities, augmenting SOE efficiency and cutting down on inventory cannot be achieved quickly. The party-state apparatus therefore has little choice but to continue relying on debt to maintain a minimum 6 percent growth in the near to medium term. The CEWM’s recommendations for cutting debt are relatively moderate. The communiqué merely noted that Beijing would “fight the critical battle of addressing major risks with the priority on managing and preventing financial risk” over the next three years. Moreover, there will not be thoroughgoing changes in monetary policy, which is closely related to the level of leveraging.

The CEWM document noted that the authorities would “adopt a proactive fiscal policy and a prudent and neutral monetary policy.” However, no aggressive measures have been adopted to curb borrowing. In fact, “deleveraging” is not mentioned in the CEWM communiqué (Finance.sina.com.cn, December 21, 2017). The clause “credit and social financing should see reasonable growth” also seems to indicate that there would be no drastic steps to curtail “credit and social financing,” which is essential to maintaining a relatively high-level development of the infrastructure and housing sectors.

Analysts have compared the CEWM communiqué with the wording used in a Politburo meeting held in early December. The Politburo statement said that Beijing must “prevent and resolve major risks through effectively controlling the macro-level leveraging

rate.” The CEWM document, however, used much more general and less hard-hitting terms regarding the debt crisis. It said the Xi leadership would “perform well in the hard battle to prevent and resolve major [financial] risks, put emphasis on preventing and controlling financial risk... and determinedly combat financial activities that are illegal and against regulation” (Eastmoney.com [Beijing], December 12, 2017; Xinhua, December 8, 2017). According to Li Qilin and Zhang Deli, both experts at the Guangdong-based Lianxun Securities, “the future pace of economic deleveraging may be loosened up” (Finance.sina.com.cn, December 21, 2017). Lu Zhengwei, chief economist with Industrial Bank Co. Ltd., also said the CEWM’s message of spreading the measures to tackle financial difficulties over three years was a reflection of Xi’s preference for “making progress while ensuring stability” (South China Morning Post, December 21, 2017). [1]

While no official explanation has been given for a more relaxed pace of deleveraging, a number of factors are clearly at play. Most importantly, Chinese authorities have underreported the extent of total debt. Usually cited as 256 percent of GDP, credible estimates by credit rating agencies and foreign financial institutions have put the debt-to-GDP ratio at around 300 percent (Cj.sina.com.cn, June 29, 2017; Wall Street Journal Chinese Edition, January 24, 2017). Given the size of the debt pile, deleveraging cannot be accomplished quickly. A related problem is shadow banking, which has received little coverage from official media. In late 2017, Moody’s credit agency recently estimated that assets lodged with China’s informal and underground banks had soared to 82.6 percent of GDP. While in

theory illegal, the practice is often tolerated because many companies, including major employers, could go under in the event of a major crackdown on non-registered loan providers ([Asia Times](#), November 7, 2017).

While over the past decade the growth of debt has been driven mainly by enterprises and local governments, individual consumers have begun to borrow heavily. Debt owed by ordinary citizens, particularly related to mortgages, has risen dramatically. Western economists note that outstanding household debt has reached 44.4 percent of GDP—triple the level in 2008 ([South China Morning Post](#), August 6, 2017). The governments' hands are therefore tied, since rapid de-leveraging could cause a crisis in the housing sector, leading to social instability.

Conclusion

Xiconomics will receive a boost at the National People's Congress in March, when top officials in the State Council will be confirmed. A triumvirate of Xi protégés are expected to entrusted with handling financial and economic issues. They include long-time economics adviser Liu He, who was inducted into the Politburo at the 19th Party Congress. Liu, who went to the same high school as Xi, is expected to become a vice-premier in charge of finance. He Lifeng, one of Xi's underlings when the latter served in Fujian Province from 1985 to 2002, is set to remain Minister at the powerful National Development and Reform Commission. Zhong Shan, who worked with Xi in Zhejiang Province, will remain Commerce Minister ([United Daily News](#), December 12, 2017; [Hong Kong Economic Times](#), Octo-

ber 25, 2017). Given the likelihood that Premier Li will be further marginalized from top-level policy-making in finance and economics, Xi will have a near-absolute say on the delicate balancing act of promoting stability while pushing forward market-oriented reforms that will not impinge upon orthodox socialism.

Note:

1. In an effort to defend the government against accusations that deleveraging is no longer a top priority, People's Bank of China Vice-Governor Yi Gang noted in a conference on December 24 that curtailing debt was still a major task. "We must unswervingly do well in the tough battle of preventing and controlling [financial] risk," he said. Yi added that "we must control well the overall rate of leveraging, and we must insist upon enthusiastic and stable deleveraging and stabilizing the leveraging rate." In particular, the Vice-Governor highlighted the urgency of reducing debt incurred by state-owned enterprises and local-level administrations ([Tech.sina.com.cn](#), December 24, 2017). The apparent spin doctoring by Yi, however, does not alter the fact that out of political considerations, the Xi administration favors gradualist measures to curb debt so as to preserve a moderately high growth rate of at least 6 percent for 2018.

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China’s Evolving Nuclear Strategy: Will China Drop “No First Use?”

By Nan Li

The PLA Rocket Force is continuing to upgrade its missile forces and shift its emphasis from a posture of immobile and vulnerable positions hidden deep in mountains to a highly mobile and more survivable mode. A new CCTV documentary also reveals that China’s multiple independently targetable re-entry vehicle (MIRV)-capable intercontinental ballistic missile (ICBM) DF-41 will begin active service in 2018 (*PLA Daily*, December 25, 2017; *People’s Daily Online*, November 28, 2017).

While China’s strategic nuclear capabilities are changing, there is still a high level of uncertainty among analysts about the specifics of China’s nuclear strategy. Though China vigorously censors information about its missile forces, examination of a body of relatively authoritative military texts provides useful context to help understand China’s nuclear strategy beyond the more visible changes in equipment. Importantly, it is evident that as China modernizes its nuclear forces, it is also debating a shift in strategy, including the abandonment of its No First Use (NFU) policy.

The Evolution of China’s Nuclear Strategy

According to Chinese nuclear strategists, two major concepts best describe the evolution of China’s nuclear strategy. The first, overarching drive for China’s development of a nuclear weapon was to “curb and stop nuclear blackmail” (遏止核讹诈), and secondly to maintain “effective counter-nuclear attack deterrence” (有效反核威慑).

China’s first nuclear strategy, adopted during the 1960s and 70s, is based on the premise that a country must possess nuclear weapons in order to prevent nations with nuclear weapons from “blackmailing” those without them. [1] China’s lack of nuclear weapons during the Korean War and the Taiwan Strait Crisis of 1958 motivated Chinese leadership to accelerate research and development of nuclear weapons, resulting in China’s first nuclear test in 1964. But because this strategy has “no clear requirements for the quantity and quality of nuclear weapons” due to technological and financial constraints, it could only meet the “minimum goal” of symbolic possession to prevent nuclear blackmail. This crude strategy may also account for the Beijing’s lack of strategic communication with other powers, which was generally construed by analysts outside China as a strategy of almost total ambiguity. [2]

The second concept, which is understood as China’s nuclear strategy from the 1980s up to present, is “effective counter-nuclear attack deterrence.” This strategy is an outgrowth of China’s development of more effective (or credible) second-strike nuclear capabilities since the 1980s. This strategy requires China

to possess nuclear counter-attack capabilities that can survive the first nuclear attack and launch retaliatory nuclear strikes (报复性核打击). These nuclear counter-attack capabilities “can be limited, but must be effective” (可以有限, 但必须有效), and capable of being launched on command if an enemy attack is detected. [3] Such a requirement also implies that surveillance satellite and radar capabilities need to be enhanced to provide sufficient early warning.

Moreover, this strategy requires China’s strategic nuclear forces to have survival and protection capabilities, so that sufficient capabilities can survive the enemy’s first nuclear attack. Similarly, China’s nuclear counter-strike capabilities “must include effective defense-penetration capabilities including the opponent’s missile defense system.” These requirements may account for China’s efforts in recent years to develop its own missile defense system and counter-missile defense capabilities, develop and deploy more solid-fuel, road and rail-mobile strategic missiles and nuclear ballistic missile submarines, and test MIRV-capable ICBMs and hypersonic glide vehicles (*China Brief*, April 21, 2016; July 21, 2017).

Another requirement of this strategy is that China’s nuclear forces must be able to “cause unbearable damage effects to the enemy”—destroying 20–30 percent of an opponent’s “important strategic targets,” which likely refers to major cities and other “value” targets as opposed to enemy nuclear forces.

China’s nuclear strategists are then faced with the problem of building sufficient capabilities to achieve these effects and deter, but which are also financially sustainable.

Finally, for this strategy to be effective and credible, China’s nuclear strategists believe that effective strategic communication is indispensable. This communication must include the demonstration of credible quantity and quality of nuclear capabilities, and of the “will and resolve” (意志和决心) to use them, and letting potential opponents to be “absolutely convinced” (确信不疑) of Chinese willingness to use nuclear weapons. This may account for Chinese media coverage of strategic missile force and submarine exercises, discussion of advanced space, air, sea, and land-based advanced surveillance capabilities and acknowledgement of ongoing tests of anti-missile systems, MIRV-capable ICBMs, and hypersonic glide vehicles.

Debating No First Use

China’s nuclear policy can be understood as following the principle of No First Use, which is consistent with its second strike-based nuclear strategy of “effective counter-nuclear attack deterrence.” But there appears to have been increasing discontent with this policy from within China’s analytical community on nuclear policy and strategy in recent years. This discontent has been reflected in several critical views of NFU.

One view is that NFU may impose certain limitations on the strategic use of China’s Rocket Force, implying reduced crisis response flexibility due to the highly centralized decision-making in employing nuclear weapons.

Moreover, some believe that NFU reduces the credibility of China’s already small nuclear

forces, and that abandoning NFU may enhance China's nuclear deterrent. These analysts are particularly impressed by Russia's abandonment of NFU to compensate for its inferiority in conventional capabilities. Abandoning NFU, they argue, is the most cost-effective way to free up scarce resources from defending China's vital strategic targets for offensive capabilities to realize China's primary strategic objectives.

Chinese analysts have also suggested that China abandon NFU in a number of threatening scenarios:

Conditions for China to Launch a First Strike [4]
China's conventional forces are unable to defend against a "large-scale foreign invasion" ("大规模外敌入侵")
If "the enemy attacks our nuclear bases with conventional arms, posing enormous threat to our strategic nuclear forces"
PLA's operational objectives face an "enormous threat" ("巨大威胁") by a "large-scale foreign military intervention" ("大规模军事干预") in a "war of safeguarding national unity"—referring to a Taiwan conflict scenario
Escalation indicating an opponent's "intention" to cross the nuclear threshold
Attacks with conventional arms against nuclear bases and targets of life-and-death value like the Three-Gorges Dam causing destruction comparable to or larger than a nuclear attack."

Supporters of NFU offer a number of rebuttals. Rather than hampering crisis response flexibility, they argue, the decision to employ nuclear weapons has always been "controlled

in the hands of the state's top leadership" which would be unaffected regardless of whether China continues the NFU policy.

Regarding whether abandoning NFU may enhance the credibility of China's nuclear deterrence, it is argued that some countries may follow a policy of "first-use," but that "does not mean that they would engage easily in nuclear adventure." Chinese analysts carefully note that Russia's abandonment of NFU in 1993 neither deterred NATO from its eastward expansion nor stopped the U.S. from waging a war in Kosovo. An additional concern is that if the gap in nuclear capability is too large, if the weaker side abandons NFU, it may trigger a pre-emptive nuclear strike by a superior opponent.

Supporters of NFU also argue that a "large-scale foreign invasion" of China is unlikely due to the rapid increase in the destructiveness of modern warfare, which has forced major powers to pursue limited objectives with limited wars. The difficulty large powers have faced in invasions (such as Vietnam and Afghanistan) further demonstrates the low likelihood of success of such a strategy.

Moreover, according to the pro-NFU view, the United States has less incentive to intervening in a war over Taiwan, and abandoning NFU may have little impact on U.S. decision whether to intervene because the U.S. has "absolute nuclear superiority" over China. With a tradition of "inferior fighting superior," they argue, China should build up its conventional capabilities to deter Taiwan independence and U.S. intervention.

Finally, in regard to attacks on China's nuclear bases and strategic targets of "life-and-death value" (such as the Three-Gorges Dam) with conventional arms, supporters of NFU argue that recent wars demonstrate that attacks meant to cause civilian casualties and economic losses—instead of achieving operational objectives—are unlikely. Moreover, China can deter these strikes because China possesses long-range, conventional precision-strike capabilities that can retaliate in kind by striking both the opponent's homeland targets and its overseas bases. As a result, foreign conventional attacks of these Chinese targets are highly unlikely if not completely impossible.

Conclusion

China's nuclear forces are undergoing an important transformation into an effective, survivable force. As these new capabilities come online, China's leaders will have to reassess the full scope of their nuclear strategies. While No First Use is likely to remain China's official nuclear policy in the near future, in the meantime, the dynamic evolution of China's nuclear policy, strategy, and capabilities requires careful analysis. Such analysis is particularly necessary if NFU begins to have great popular support within the PLA, if China develops a more grim view of its regional security environment, or if China believes that its economy is sufficient to support a more robust nuclear capability along the lines of Russia or the United States.

Notes

1. For a discussion of this strategy, see Lt. Col. Li Shaohui (李韶辉) and Captain

Tao Yongqiang (陶永强), "Capabilities Foundation and Policy and Strategy Space for Nuclear Deterrence" (核威慑的实力基础和 策略空间), *Military Art* (军事学术), June 2006. Both authors are graduate students at China's Second Artillery Command College in Wuhan. See also Military Strategy Department of Academy of Military Science, *Science of Military Strategy* (战略学) (Beijing: Military Science Press, 2013), p. 172.

2. Chong-pin Lin, *China's Nuclear Weapons Strategy: Tradition within Evolution* (Lexington Books, 1988). At this time, China had air-dropped weapons and later missiles, and it had also begun an ambitious program to build SSBNs.
3. For a discussion of this strategy, see Li and Tao, "Capabilities Foundation," and Colonel Li Xianrong (李显荣), *On Nuclear Strategy* (论核战略) (Beijing: People's Press, 2014), p. 366. Li was a lecturer at Qingzhou Campus of Second Artillery Command College, and is currently a professor at Strategy Teaching and Research Department of China's National Defense University in Beijing. See also *Science of Military Strategy*, p. 175.
4. For a summary of anti-NFU views, see Major General Jin Yi'nan (金一南 lecture at <https://www.youtube.com/watch?v=cYpj3OsoOSw>

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CPEC: “Iron Brothers,” Unequal Partners

By Sudha Ramachandran

Serious differences have come to the fore between China and Pakistan over the \$60-billion China-Pakistan Economic Corridor (CPEC). At a Joint Working Group (JWG) meeting at Islamabad in November 2017, China announced its decision to suspend funding for at least three road projects in Pakistan, pending the release of “new guidelines” ([Dawn](#), December 5, 2017). Only a few days earlier, Pakistan rejected Chinese funding for the \$14-billion Diamer-Bhasha dam project and withdrew its request for inclusion of this project in CPEC. Pakistan objected to Chinese conditions, which included Chinese ownership of the project, operation and maintenance costs and securitization of the project by pledging another operational dam. According to Pakistan’s Water and Power Development Authority Chairman Muzammil Hussain, these requirements “were not doable” and against Pakistan’s interests ([Express Tribune](#), November 15, 2017). China has denied these allegations ([Global Times](#), December 12, 2017).

China and Pakistan often hold up CPEC, a flagship venture of China’s Belt and Road Initiative (BRI), as a symbol of their co-operative partnership. Recent developments indicate serious differences between the two countries. Differences are inevitable between partners, even those that claim to be ‘iron brothers.’ However, the Sino-Pakistani relationship in CPEC is an unequal one. Not only will CPEC benefit China more than Pakistan, Beijing also calls the shots. It is even cracking the whip to ensure Islamabad concedes its demands on contentious issues. Islamabad’s vulnerability to Chinese pressure can be expected to increase especially after the US’ decision to suspend security aid amounting to around \$1.3 billion annually to Pakistan in early January.

Corridor and More

Although CPEC is widely seen primarily as a “connectivity corridor”, power plants and special economic zones (SEZs) are also being developed. The project is envisioned as linking China’s economically underdeveloped Xinjiang Uighur Autonomous Region with the deep-sea port of Gwadar in Pakistan’s Baluchistan province through a network of highways, railways, oil and gas pipelines and fiber optic cables ([China Brief](#), July 31, 2015).

However, little was known about its massive plans for Pakistani agriculture. Original documents of CPEC’s long-term plan, whose details were disclosed by the Pakistani English daily *Dawn* in May, reveal that Chinese enterprises will lease thousands of acres of Pakistani agricultural land to set up ‘demonstration projects’ to introduce new seed varieties, pesticides and irrigation technologies. Facilities for processing, storing and transporting,

grains, fruits and vegetables are also being set up, indicating that access to the full supply chain of Pakistan's agriculture is an important goal of CPEC (Dawn, June 21, 2017). China appears to be using CPEC to strengthen its food security, a key priority of President Xi Jinping (China Brief, March 2, 2017).

CPEC's scope is breathtaking. In addition to opening up Pakistan's domestic economy to Chinese participation on an unprecedented level, it will result in China's deep penetration of Pakistan's security, society and culture. The cross-border fiber optic cable project, for instance, will establish fast and reliable connectivity routed through China. It will facilitate terrestrial distribution of broadcast TV that is envisioned as carrying Chinese culture into Pakistani homes (Dawn, October 3, 2017). In addition, China is promoting the study of Mandarin and has set up dozens of language schools across Pakistan. In fact, under a Memorandum of Understanding between the governments of Sichuan and Sindh provinces, Mandarin was made a compulsory subject for school children in Sindh. The number of Chinese nationals working and living in Pakistan has also surged in recent years, transforming entire neighborhoods in Pakistani towns into 'Chinatowns' (Herald, January 28, 2017; Dawn, June 4, 2017). Pakistan faces a sinicization of its economy, population and culture.

Pakistani Expectations and Apprehensions

Often described as a 'game changer', CPEC is expected to boost Pakistan's Gross Domestic Product growth rate from 5 to 7.5 percent and create 2 million direct and indirect jobs between 2015–2030 (The Nation, October 8,

2016). Pakistan's government speaks glowingly of its potential to transform Pakistan into a regional economic powerhouse, and even make it the next "Asian Tiger" economy (CPEC, Government of Pakistan). In the months following CPEC's inauguration in April 2015, opinion pieces were effusive in their praise of China. Beijing was hailed for going out of its way to "substantially strengthen" bonds with Pakistan. Its economic aid was looked upon as largesse and indicative of "the commitment of the Chinese leadership towards Pakistan" and its 207 million people (The News, April 27, 2015; Pakistan Bureau of Statistics, 2017).

Pakistan's former Prime Minister Nawaz Sharif has said that Baluchistan will be CPEC's "biggest beneficiary" (The Nation, May 5, 2017). Baluchis, however, are not convinced. CPEC evoked little optimism among them from the start, and they fear that CPEC would benefit outsiders rather than locals. An additional concern is that migration of workers to Gwadar will change the demographic profile of the province, leaving the group a minority (The News, June 4, 2016). Baluch opposition to the project is strong and has even been expressed violently. Baluch militants have carried out several attacks on workers from outside the province, includes those from China (Gandhara, September 29, 2016; Herald, July 14, 2017).

Over the past year, a small but vocal group of analysts have begun expressing unease over what CPEC will bring Pakistan. In particular, they are calling for transparency on deals (Dawn, July 30, 2017; Daily Times, November 5, 2017). In Dec 2017, the Pakistani government released a summary of CPEC's Long-

Term Plan (The News, December 20, 2017). But even this sheds no light on the terms and conditions of agreements, project timelines or the exact nature of Chinese funding.

Documents disclosed by *Dawn* and information trickling out of official meetings point to troubles ahead. The most important is the looming debt trap. Economists have highlighted the estimated \$90 billion in debt that Pakistan will have to repay China over 30 years (Express Tribune, March 12, 2017). The consequences if Pakistan is unable to repay are unclear, though it is possible it would meet the fate of Tajikistan and Sri Lanka, which ended up ceding territory to China in lieu of unpaid debts (Dawn, March 23, 2017).

CPEC's terms and benefits disproportionately favor China. The state-run China Overseas Port Holding Company, for example, which will operate Gwadar port for a period of 40 years, is set to take 91 percent of gross revenue collection from terminal and marine operations and 85 percent of gross operations revenue from the Gwadar free zone (The Nation, April 20, 2017). SEZs are being set up exclusively for Chinese companies where they will be exempted from taxes (Dawn, March 9, 2017). The CPEC plan provides the Chinese with visa-free access to Pakistan. There is no such reciprocal arrangement for Pakistanis and China's visa rules for Pakistanis have in fact tightened (Dawn, September 2, 2017). There is even little clarity regarding who will run or supervise the elaborate electronic surveillance system that China will install in Pakistani cities (Hindustan Times, June 13). With such free rein over debt, policing and tax collection, there is concern over

CPEC's implications for Pakistan's sovereignty. It could turn Pakistan into a Chinese colony (Economic Times, June 12, 2017). Parallels are being drawn between CPEC and the East India Company, the forerunner of British colonial rule in the Indian sub-continent (Dawn, October 18, 2016).

China's Concerns

Although the Chinese government has avoided publicizing its concerns over political instability in Pakistan, there is apprehension in China over the implications of unrest and insecurity for CPEC (Global Times, September 9, 2016 and China Daily, December 12, 2016). Indeed, protests at project sites about issues like compensation for land, environmental concerns and exclusion of locals from project benefits delayed projects (Dawn, July 7, 2017).

Another concern is violence targeting CPEC projects and Chinese nationals in Pakistan. The corridor links Xinjiang with Baluchistan, both turbulent regions, and runs through the insurgency-wracked Khyber Pakhtunkhwa and disputed Gilgit-Baltistan territories. Bomb blasts and grenade attacks have killed scores of Pakistani workers and Chinese nationals employed in CPEC projects (Global Times, May 25, 2017). China is worried that Uighur militants will attack Chinese targets in Pakistan. In December 2017, the Chinese Embassy in Islamabad warned its nationals of a "series of terror attacks" targeting "Chinese-invested organizations and Chinese citizens" in Pakistan (Dawn, December 8, 2017). In October 2017, it raised concern over a possible terrorist threat to its ambassador in Islamabad from the East Turkestan Independence Movement (ETIM) (Dawn, October 22, 2017).

The unsettled status of Gilgit-Baltistan, territory that is part of Pakistan Occupied Kashmir (POK) over which India lays claim, worries China as it raises questions about the legality of CPEC projects here ([Express Tribune](#), January 7, 2016). Pakistan's upcoming parliamentary elections are an additional cause for concern. While Pakistan's main political parties are not opposed to CPEC, there are differences in their priorities. The ruling Pakistan Muslim League—Nawaz (PML-N) prioritizes projects along CPEC's relatively calm eastern route, which runs through its stronghold, Punjab. However, should the Pakistan Tehreek-e-Insaf (PTI) form or be part of the next government it can be expected to shift focus to the turbulent western route. A change in government could lead to a review and or change in the deals ([Global Times](#), Aug 3, 2017).

Pressure on Pakistan

To reassure China on the safety of its nationals and investments, Pakistan has set up a 15,000-strong Special Security Division and raised a naval contingent to protect Gwadar port ([China Daily](#), March 15, 2017). At China's urging it has also cracked down on ETIM, and Baluch and other militants opposed to CPEC ([Pakistan Today](#), October 18, 2015).

Under Chinese pressure Pakistan has taken decisions that are not in its interest. Chinese prodding has forced it to begin taking steps to formally integrate Gilgit-Baltistan ([Express Tribune](#), January 7, 2016). While this may provide legal cover for Chinese projects in Gilgit-Baltistan it will cost Pakistan the goodwill of

Kashmiri separatists ([The Wire](#), March 20, 2017).

China's decision to suspend funding for the three road projects is another example of such pressure and is possibly aimed at disciplining Pakistan for its defiance of Beijing over the Diamer-Bhasha project ([FirstPost](#), December 7, 2017). China is reportedly keen to have the Pakistani Army put in charge of CPEC projects as its involvement is expected to improve efficiency and speed up execution of projects, guaranteeing CPEC's success ([European Foundation for South Asian Studies](#), December 8, 2017). Formalizing the army's role in CPEC could become part of the new guidelines.

Pakistan's defiance of China on the Diamer-Bhasha project is likely to be short-lived. Its economy and military are far too dependent on China for Islamabad to resist Beijing's pressure for long. This dependence has deepened following the United States' decision to cut aid to Pakistan. In a sign of things to come, the Pakistani government reacted to the US announcement by allowing the renminbi to be used for bilateral trade and investment activities, reversing an earlier decision in November barring the use of renminbi on the grounds that it would undermine Pakistan's economic sovereignty ([Business Recorder](#), January 8; [Express Tribune](#), November 21, 2017). China's grip over Pakistan in CPEC has tightened.

Conclusions

China and Pakistan are likely to continue to differ on issues related to CPEC. However, these are unlikely to derail the initiative, given

their strong relationship, Pakistan's deepening dependence on China and Beijing's determination to make a success of BRI's flagship venture. Other countries participating in BRI can draw lessons from Pakistan's experience with CPEC. They can expect massive Chinese investment but not on generous terms. Chinese funding is not largesse and will extract a heavy price. As in Pakistan, they can expect sinicization of their economy, population and culture. Countries weighing the costs of Chinese investment should factor in Chinese interference in their political system.

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The PLA Accelerates Modernization Plans

By Kevin McCauley

China is moving up plans for the completion of its military reforms and modernization. Shortly after the close of the 19th National Congress of the Chinese Communist Party, CCP General Secretary Xi Jinping announced that the modernization of the People's Liberation Army's (PLA) would essentially complete by 2035. Subsequent reporting confirmed that this announcement represented an acceleration of the military modernization plan, shortening the original plan's third stage by 15 years from 2049 to 2035 ([Xinhua](#) November 24, 2017). However, Xi added that the PLA

would not transform into a world-class military until mid-century ([Xinhua](#), October 27, 2017).

This shortened timeline is a sign of both successes of the reforms and recognition of continuing areas of weakness for the PLA. Even more importantly, however, is the fact that this accelerated timeline is being accompanied by reform of military education and training which are necessary complements to the equipment modernization. Cultivating military talents as part of the military educational reforms, and enhancing training to approach actual combat conditions are important components of military modernization.

Background

President Xi's current reform efforts, first announced in November 2013, are scheduled for completion by the end of 2020 ([Government of the PRC](#), November 15, 2013; [Xinhua](#), September 13, 2017). These reforms seek to lay a strong foundation by completing several long-term projects: mechanization of the force by incorporating information and computer technologies, significantly increasing key combat capabilities, improving military education and training, and making adjustments and refinements to the restructured force and command systems ([Xinhua](#), May 13, 2016).

President Xi has initiated the most expansive military reforms and reorganization in at least three decades, breaking institutional barriers that had impeded the required command and structural changes proposed by PLA academ-

ics. President Xi appears to have removed impediments to initiating the tough, but needed changes through personnel promotions, corruption charges to remove opposed officers, as well as populist appeals to the collective interest and party loyalty to build a strong modern military (*China Brief*, February 4, 2015; *Xinhua* August 11, 2014; *China Military Online* February 28, 2014).

Accelerating Modernization based on Key Concepts

Past PLA media and defense white papers have identified the requirement to accelerate various components of PLA modernization, improvements in training and exercises, as well as accelerating the modernization of national defense and the armed forces in general. The need to accelerate military modernization is in part a response to China's complex security environment. But it is also a response to the perception that the speed of technological change, and modernization of advanced militaries in the world is threatening to leave the PLA further behind (*Information Office of the State Council*, March 31, 2011; *Information Office of the State Council*, April 16, 2013 [English]; *Information Office of the State Council*, May 26, 2015; *PLA Daily* August 31, 2014).

In 2012, an Air Force colonel, Dong Zifeng (董子峰), who held numerous operational and academic positions, as well as serving as a joint operations expert at the Academy of Military Sciences published a book *Transformation of Generating Mode of Warfighting Capability*. Dong advocated an accelerated modernization effort focused on implement-

ing system of systems operations and integrated joint operations, two dominant theoretical subjects impacting all aspects of PLA transformation (*China Brief*, July 17, 2014). **[1]**

It is not known if the new accelerated military modernization plan announced by President Xi incorporates proposals from this publication, the author does highlight many requirements prominent in PLA publications, suggesting that Dong's book provides useful insights. The author views transformation of the method for generating combat effectiveness as key to overcoming difficult issues threatening to leave the PLA behind the world's advanced militaries. His intent is to accelerate modernization by focusing the effort on the areas that will allow the services and branches of the PLA to work together in a networked, cohesive way.

Dong takes a holistic and interactive approach including development of personnel, weapons and equipment, organizations, training, military research, operational innovation and experimentation, as well as the impact of technology and the international situation. The feedback process allows for revision and refinements of the modernization process (*China Brief*, July 17, 2014). **[2]**

Endless Modernization

Although the revised PLA modernization plan focuses completion of the current military reform plan by 2035, no military can afford to stagnate. The PLA is already focused on seizing the commanding heights of science and technology through innovation in research that can bring about profound changes in warfare (*PLA Daily*, May 12, 2017). The PLA,

believing scientific and technological innovation is the core engine of combat effectiveness, has identified new and disruptive technologies leading to a new revolution in military affairs based on intelligent technologies. These areas include artificial intelligence, big data, quantum communications and computing, nanotechnology, hypersonic vehicles, directed energy weapons, battlefield robotics, and weapons based on new physical principals that can dramatically change warfare (PLA Daily, August 17, 2017).

A key area the PLA is researching is artificial intelligence as one of the most significant of the disruptive technologies. The incorporation of intelligent technologies into weapons and equipment, what the PLA refers to as “intelligence-ization” (*zhiyehua*; 智能化), is viewed as a new revolution in military affairs and a key to warfare in the post information age. The PLA views this technology as a potential game changer providing an opportunity for less advanced countries to overtake the world’s advanced militaries. The 19th Party Congress which accelerated the military modernization plan also placed a priority on speeding up the development of military intelligent technologies (PLA Daily, November 14, 2017).

PLA theorists view the development of disruptive technologies as a nonlinear process that can lead to a shock wave causing a technological avalanche. This will lead dramatic changes in industry and economies, society, and the power of countries (PLA Daily, February 10, 2017). However, technological development and equipment modernization could be the easy part of the PLA’s modernization effort. Ongoing reforms of military education,

training and exercises, and development of joint operations are critical areas where they cannot fail if the PLA hopes to optimize the employment of new technologies through innovative operational methods. PLA is deficient in these areas by its own estimates.

The incorporation of artificial intelligence (AI) into the PLA will prove insightful, as the incorporation of autonomous systems collides with the PLA’s preference for centralized, unified command and control. Decentralized command is only employed in secondary directions, or temporarily when required by an unforeseen battlefield situation. PLA theorists have already stated that military artificial intelligence must be human controlled, which could protect against the dangers of AI, but also degrade its advantages. The PLA continues to maintain that while science and technology provide the core for a combat effective force, man remains decisive to the outcome of wars (PLA Daily, December 8, 2017; PLA Daily, December 12, 2017).

Conclusion

The decision to accelerate the current PLA modernization plan promises an upward change in the trajectory of the PLA’s increasing combat capabilities as it ventures toward global operational capabilities. The accelerated modernization plan combined with China’s emphasis on developing key disruptive technologies that could allow the PLA to leap frog past the current advanced militaries represents a significant course correction. Reform of military education and training, and innovation in doctrine and tactics are critical to the success of this effort. President Xi’s promotion of fundamental change in all aspects

of the PLA is long overdue, but should be a cause for future concern when combined with a more aggressive strategy in Beijing.

Notes:

1. For an overview of how Dong Zifeng envisioned transformation, see the translated chart [here](#).
2. *Lectures on Joint Combat*, (Beijing: Military Science Press, 2013), p. 6.

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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 Peter Wood.

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