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June 1995

NATIONAL SECURITY

Impact of China's Military Modernization in the Pacific Region



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We are providing information on the nature of China's military modernization and how it compares to military modernization efforts of other Asian nations.

As agreed with your staff, we plan no further distribution of this report until 5 days after its issue date. At that time we will send copies of this report to other interested congressional committees and the Secretaries of State and Defense. Copies will also be made available to others on request.

This report was prepared under the direction of Joseph E. Kelley, Director-in-Charge, International Affairs Issues, who may be reached on (202) 512-4128 if you or your staff have any questions. Other major contributors to this report are listed in appendix III.

Henry L. Hinton, Jr.
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Executive Summary

Purpose

With the end of the Cold War, the Asia-Pacific region faces an uncertain security environment. China, once viewed as a counterweight to Soviet aggression, is now viewed as a country that aspires to fill the role of the leading regional power. China is pursuing long-range military modernization that emphasizes the upgrading of its air and naval power and a realignment of its force structure. These actions and China's lack of openness on military matters have raised questions about its intentions.

GAO undertook a study of China's military modernization due to numerous, and often conflicting, reports of a military buildup in China. GAO's objectives during this study were to (1) assess the nature and purpose of China's military modernization, and (2) compare China's military modernization efforts with those of other Asian nations. GAO's work is intended to assist the Congress in decisions it faces concerning China and the region.

Background

China's military, known collectively as the People's Liberation Army (PLA), is the world's largest military force. Its weaponry, however, consists mostly of outdated equipment, and its troops are not well trained in the tactics of modern warfare. Since 1975, China's four major national goals have emphasized agricultural development, industrial growth, enhanced research and development, and military modernization. Military modernization, however, appeared to be the lowest priority as it was not until 1989 that China began to devote more resources to this goal.

Results in Brief

China has begun to modernize its military by acquiring some new weapon systems, restructuring its forces, and improving its training. Since 1989, the official Chinese defense budget increased annually at a double digit pace, but our analysis revealed that when adjusted for inflation there has been almost no real growth in the official defense budget. Major categories of defense spending, such as weapons acquisitions and research and development, however, are not part of the official budget. To date, few new weapon systems have been acquired, and other improvements, such as better training, have benefited only a few units. China's military modernization is being driven by several factors, including a desire to be the leading regional power in Asia, lessons learned about modern warfare from the Gulf War, the need to protect its economic/territorial interests, and a need to maintain internal stability.

U.S. and Asian officials and scholars GAO interviewed commented that as China's military capability increases so does regional anxiety about its intentions. Although many Asians believe that China now presents a limited threat to them, they are concerned that in the future China will have greater military capability with which to challenge them in contested areas. Tempering the potential for aggression is China's economic development, which relies heavily on foreign investment and trade. Further, many of China's neighbors are also modernizing their militaries, some more extensively and rapidly than China.

U.S. policymakers recognize that to deter aggression and combat the proliferation of weapons of mass destruction, integration, not isolation, of the region's powers is important. The United States and Asian nations are reinforcing bilateral arrangements and pursuing multilateral dialogue, and U.S. policymakers are trying to renew relations with the PLA to better understand China's intentions. Although many experts do not consider China a security threat, China could eventually emerge as a more formidable power.

Principal Findings

China Is Slowly Changing Its Military Force Structure

China has reduced its forces, acquired modest amounts of new military equipment, increased its defense budget, and changed its military doctrine in an effort to modernize its military. In addition, China maintains a nuclear arsenal and is the only country currently conducting nuclear tests. However, after it completes a series of nuclear tests by 1996, China reportedly desires to see a comprehensive test ban treaty implemented. The closed nature of the PLA is an obstacle to clearly understanding China's long-range military objectives, but actions to date indicate China has begun to slowly, methodically modernize its military structure.

Although China's official defense budget increased about 159 percent between 1986 and 1994, when adjusted for inflation, it actually increased by only 4 percent. According to Chinese officials and many China specialists, enhancements to the military's salaries and standard of living have been the cause for most of the increases in the official budget. However, China's official defense budget does not include its total defense expenditures. For example, the official budget does not include profits from defense sales and PLA commercial activities, nor does it include costs

of major weapon acquisitions funded from other budget accounts. Because of uncertainty about the amounts of other defense revenues, including profits the PLA actually earns from its commercial enterprises (such as hotels, casinos, and mines) and how these profits are used, it is impossible to determine total defense spending. Estimates of China's actual defense spending vary widely, but most estimates are about two to three times the official budget.

China reduced its military personnel by about one-fourth from 1985 to 1990 and plans additional reductions. The Chinese are buying, or are reportedly interested in buying, modern long-range bombers and fighters, in-flight refueling capability, an airborne early warning system, antiaircraft missile defense systems, submarines, and other advanced equipment from Russia and other suppliers of military equipment or military-related technology. China is also building several naval vessels and has its own fighter aircraft development program. The more modern equipment is being procured in relatively small numbers. For example, China has bought 26 Su-27 fighter aircraft from Russia and has built 1 Luh class destroyer. Major acquisitions are often financed through the proceeds from weapons exports. From 1985 to 1991, China sold about \$12 billion in defense equipment, according to the U.S. Arms Control and Disarmament Agency. Defense exports have fallen since the end of the Iran-Iraq War, during which China sold weapons to both countries.

Justification for and Influences on Military Modernization

Several factors appear to be driving China's military modernization. The Gulf War demonstrated that Chinese equipment and military doctrine were obsolete for the conditions of modern warfare. Other factors include a desire to attain military power commensurate with China's growing economic power, the protection of sovereign territories and economic zones, and the ability to deploy forces quickly within China to maintain internal stability.

China has territorial disputes with many countries in the region. The most prominent examples are China's claim to the South China Sea and its resolve to use force if Taiwan declares independence from the mainland. Many government officials and academics believe that Chinese military action is unlikely because it would precipitate negative foreign reaction. China's economic development, its first priority, depends heavily on foreign trade, investment, and assistance. As a result, China has attempted to diplomatically minimize potential problems that could result from competing geographical claims.

Other Asian Nations Are Modernizing Their Defense Forces

Economic prosperity is allowing other Asian nations to modernize their militaries too. With few exceptions, most Asian nations' current military capabilities are, like China's, also limited and based on older technologies. Until recently, many Southeast Asian nations faced serious internal security threats, and their military forces were focused on counterinsurgency warfare. As internal security threats subsided, many Asian nations changed their focus to external defense, including protecting their trade routes. Economic growth has allowed them to devote more resources to defense and take advantage of the current buyers' market in defense equipment.

Enhancing Regional Stability Through Engagement With China

China's role in regional and international security matters is increasingly important and critical to the furtherance of arms control and other security matters. As a permanent member of the United Nations Security Council, a nuclear state, a rising economic power, and a major Asian-Pacific nation, China increasingly impacts on U.S. security objectives. Accordingly, in late 1993, the United States initiated a policy of resuming dialogue with the PLA that had been suspended since the June 1989 Tiananmen Square massacre of pro-democracy demonstrators. Current U.S. objectives include (1) influencing China's security community on a range of issues of mutual concern, including proliferation and regional stability, (2) increasing mutual understanding and trust between the militaries, (3) promoting transparency within the PLA and gaining operational insights into the PLA that may assist in clarifying intentions, and (4) encouraging Chinese participation in multilateral security arrangements that promote global and regional stability. U.S. security engagement policy is being carried out through high-level dialogue, functional exchanges, and routine military activities. Although these meetings have been positive, establishing effective military dialogue in the wake of Tiananmen Square will take some time.

Asian leaders hold the view that the United States must remain politically, economically, and militarily engaged in the Asia-Pacific region to ensure stability. The most visible sign of U.S. commitment is the presence of U.S. forces in the region. Many Asians believe, however, that the American public will ultimately call for further reductions in the U.S. overseas military presence. Concerned that a U.S. withdrawal could lead to regional instability, many Asians are establishing or reinforcing bilateral ties with the United States and engaging in multilateral dialogue. On the future multilateral agenda are discussions of transparency in defense planning and diplomatic resolution of territorial disputes.

Executive Summary

Recommendations

This report contains no recommendations.

Agency Comments

In commenting on a draft of this report, the Departments of Defense and State concurred with its overall content and conclusions.

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Abbreviations

ASEAN	Association of Southeast Asian Nations
GNP	Gross National Product
PLA	People's Liberation Army
PRC	People's Republic of China
TASC	The Analytical Sciences Corporation

Introduction

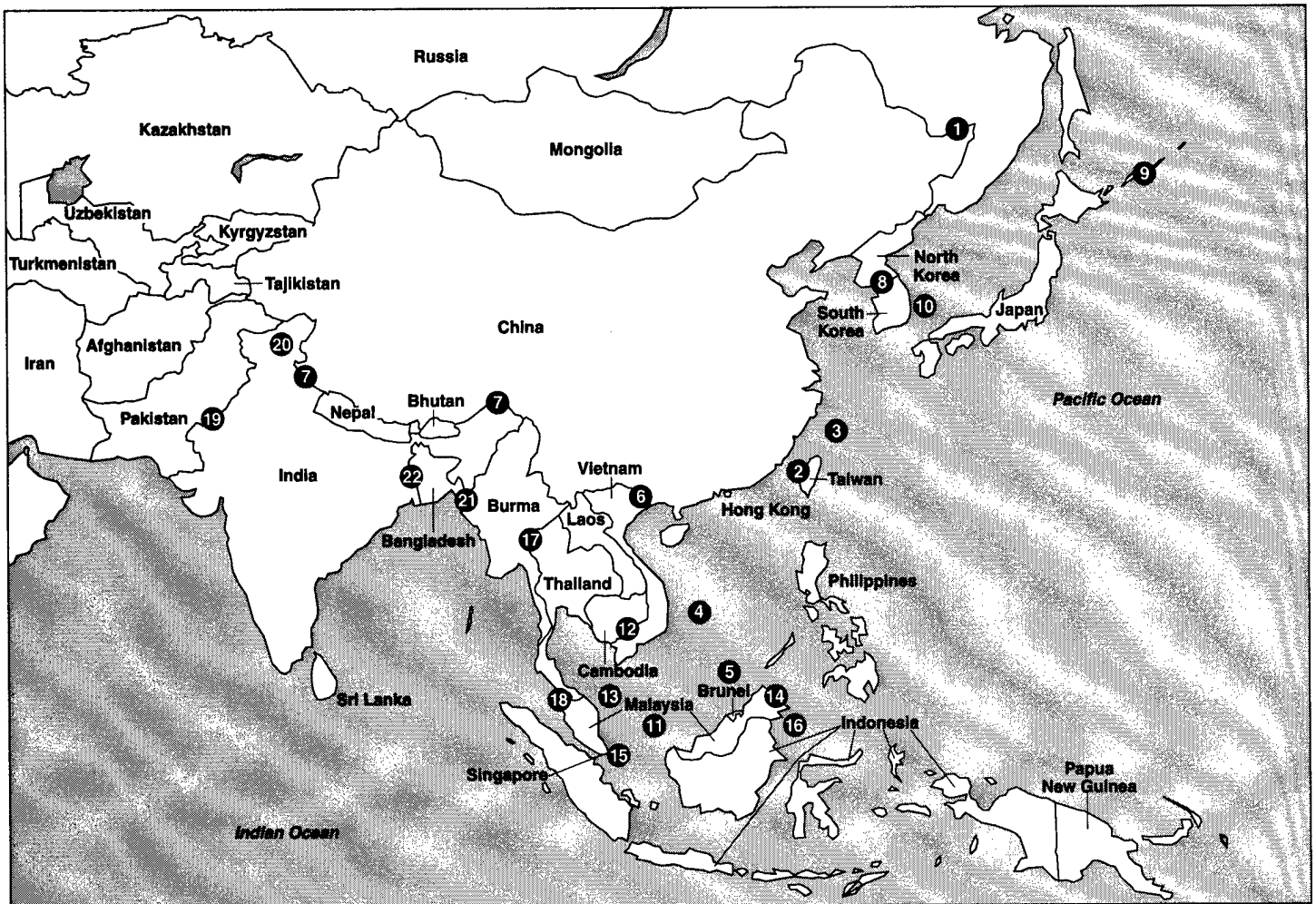
The People's Republic of China (PRC) has expanded its role in regional and global affairs, requiring U.S. policymakers to focus greater attention on U.S.-China relations and China's impact on U.S. security and trade interests in Asia. China is not only a growing military power, possessing nuclear and some advanced conventional weapons' technologies, it also has the world's third largest economy, according to the International Monetary Fund. It holds a permanent seat on the United Nations Security Council and it has the world's largest military.

In 1975, China adopted the policy of the "four modernizations" as the way to ensure long-range comprehensive security. China's plan was to modernize its agriculture, industry, science and technology, and defense. Until 1989, when China began devoting more resources to its military, economic development through the modernization of agriculture, industry, and science and technology clearly preceded defense modernization.

Relations Among the Asian Nations

China and several other Asian nations appear to be embarked on force modernization programs that when combined with long-standing territorial disputes, raise concerns among policymakers over the stability of the region. Almost every nation in the Asia-Pacific region has territorial disputes with one or more of its neighbors. This is particularly true for China, which has disputes with Russia, Japan, India, Malaysia, and Vietnam as well as an internal dispute with Taiwan. One of the major hot spots is the potentially oil-rich South China Sea, particularly the Spratly Islands. China, Taiwan, Vietnam, Malaysia, and the Philippines all occupy islands, and both China and Vietnam have signed oil exploration contracts with U.S. firms. Figure 1.1 shows the location of and lists the various territorial disputes within the region.

Figure 1.1: Sovereignty and Territorial Disputes in Asia



Parties to dispute	Description of dispute
Disputes Involving China	
① China and Russia	Border disputes.
② China and Taiwan	Dispute regarding the legitimacy of the government on Taiwan.
③ China and Japan	Competing claims over the Senkaku (Diaoyutai in China) Islands in the East China Sea.
④ China and Vietnam	Competing claims to the Paracel Islands (Xisha Quandao in China; Quan Doa Hoang Sa in Vietnam) in the South China Sea.
⑤ China, Brunei, Malaysia, Philippines, Taiwan, and Vietnam	Competing claims to the Spratly Islands in the South China Sea. China and Taiwan claim the entire island chain. Among the other parties to the dispute, Vietnam claims the most islands and Brunei the least.
⑥ China and Vietnam	Border disputes, especially in the Gulf of Tonkin.
⑦ China and India	Border disputes.
Other disputes	
⑧ North Korea and South Korea	Divided sovereignty on the Korean Peninsula, where some 2 million ground forces remain deployed against each other across the demilitarized zone.
⑨ Japan and Russia	Competing claims to the southern Kurile Islands which Japan calls its Northern Territories (Kunashiri, Etorofu, and Shikotan Islands).
⑩ Japan and South Korea	Competing claims to the Liancourt Rocks (Takeshima in Japan; Tak-do in Korea) in the southern Sea of Japan.
⑪ Indonesia and Vietnam	Boundary dispute on their demarcation line for the continental shelf near Natuna Island in the South China Sea.
⑫ Cambodia and Vietnam	Border disputes.
⑬ Malaysia and Vietnam	Boundary dispute on their off-shore demarcation line.
⑭ Malaysia and Philippines	Continuing Philippine claims to the Malaysian state of Sabah and its adjacent waters.
⑮ Malaysia and Singapore	Competing claims to the Pulau Batu (Pedra Branca Island, some 55 kilometers east of Singapore in the Straits of Johore).
⑯ Indonesia and Malaysia	Competing claims to Sipidan, Sebatik, and Ligitan Islands, some 35 kilometers south of Semporna in Sabah.
⑰ Burma and Thailand	Border disputes.
⑱ Malaysia and Thailand	Border disputes.
⑲ India and Pakistan	Border disputes.
⑳ India and Pakistan	Competing claims over the legitimate government of Kashmir.
㉑ Bangladesh and Burma	Border disputes.
㉒ Bangladesh and India	Border disputes.

Many Asian nations harbor long-standing feelings of mistrust toward each other, and they are arming themselves with the types of systems necessary to defend their interests militarily. China and most Asian countries are establishing rapid reaction forces, improving their naval assets, and modernizing their aircraft. As the military capabilities of countries in the region increase, so does the possibility of conflict because countries may feel they have the capability to press their claims.

U.S. Military Relations With China

Historically, the U.S.-China military relationship has been limited in scope. The United States established diplomatic relations with China in 1979, and in 1980, the Secretary of Defense visited China. In September 1983, the Secretary of Defense set in motion the U.S. "three pillars" approach in pursuit of a military relationship with China—high-level visits, functional-level exchanges, and military technology cooperation.

From 1983 to 1989, many high-level defense visits took place between the U.S. military and the People's Liberation Army (PLA). Working-level contacts occurred in numerous fields, including military education and training, logistics, quality assurance, systems analysis, and military medicine. In June 1984, China became eligible for Foreign Military Sales, which marked the beginning of cooperation in the area of military technology. By 1987, four sales agreements were signed: the \$22-million large-caliber artillery plant modernization program, the \$8-million MK-46 Mod 2 torpedo sale, the \$62-million AN/TPQ-37 artillery-locating radar sale, and the \$500-million F-8 interceptor avionics modernization program. There were also a limited number of commercial sales of defense equipment.

On June 5, 1989, immediately after the massacre of pro-democracy demonstrators at Tiananmen Square in Beijing, the President imposed sanctions on China to protest its actions. The U.S. sanctions targeted the Chinese military by suspending visits between U.S. and Chinese military leaders and suspending all government-to-government sales and commercial exports of weapons. The prohibition on military equipment can be waived by the President if it is important to the national interest or if he determines that China has made specified progress on human rights.

Compared to U.S. military relations with many other nations, U.S.-China military relations were limited prior to Tiananmen, but from June 1989 until 1993, they were virtually nonexistent. Contacts were limited to visits by U.S. students from the National Defense University in 1991 and 1992. U.S. actions ending military relations raised suspicion and anger within the PLA, which above all else saw the U.S.-China relationship in terms of prestige and respect. According to some officials and scholars, PLA officials believed that they were being punished for an incident in which many did not want to participate. Some of the more pro-Western officers were purged from the PLA ranks, while others lost influence. U.S. officials told us that the U.S.-China working level contacts prior to 1989 may have been instrumental in professionalizing the military and gaining China's support on a number of issues. According to these officials, during the time that

China and the United States had military contact, China muted its protests over arms sales to Taiwan, restrained from selling Silkworm missiles to Iran during the Gulf tanker operations, and cooperated with the United States on Afghanistan.

For 4 years after Tiananmen, little attempt was made to reestablish military ties. In the past year, however, the United States and China have reestablished a military dialogue.

Objectives, Scope, and Methodology

Our objectives during this study were to (1) assess the nature and purpose of China's military modernization and (2) compare China's modernization to other Asian nations' military modernization programs.

We interviewed officials and reviewed documents at the Departments of Defense and State in Washington, D.C., and U.S. embassies and consulates in the PRC, Hong Kong, Japan, Australia, South Korea, Indonesia, Malaysia, Singapore, Thailand, and India. We also interviewed representatives of the American Institute of Taiwan. Additionally, we spoke with members of the intelligence community, reviewed the U.S. Arms Control and Disarmament Agency's World Military Expenditures and Arms Transfers 1991-92, and used data from the International Monetary Fund for economic statistics. To gain perspective on Asian views of China's military modernization, we met with foreign government officials, scholars, and journalists during our fieldwork abroad. To gain China's perspective we spoke to Chinese academics at Fudan University in Shanghai, the Chinese Institute for Peace and Development Studies in Shanghai, the Shanghai Institute for International Studies, the China Institute of International Studies in Beijing, and the China Institute of Contemporary International Relations in Beijing. We also spoke to several China specialists in the United States and reviewed papers presented at the American Enterprise Institute's conferences on the People's Liberation Army and the National Defense University's Pacific Symposium.

The Analytical Sciences Corporation (TASC) provided us with information on the military holdings of China and the other Asian nations from its unclassified data bank, which incorporates unclassified U.S. government information as well as information from publications such as Jane's International Defense Review and the International Institute for Strategic Studies' The Military Balance.

Data on China's defense budget and force modernization was obtained mostly from non-Chinese sources due to China's general lack of openness on military matters, the dearth of official government documents, and the PLA's decision not to meet with us in China.

We performed our work from January 1994 to January 1995 in accordance with generally accepted government auditing standards.

Overview of China's Force Modernization

In an effort to modernize its military forces, China has acquired modest amounts of modern weaponry, reduced the overall size of its forces, and changed its military doctrine. Current and historical spending trends, combined with known equipment acquisitions, suggest that China is engaging in a very slow upgrading of very old equipment, which to date has benefited only a small number of units. Several factors appear to drive China's force modernization efforts, including a desire to be the preeminent regional power, lessons learned from observing modern wars, and the need to protect what it sees as its sovereign territory. China's lack of openness about its defense planning and spending and skepticism regarding China's ability to acquire and absorb technologies needed for wholesale force modernization make it difficult to project its future military capabilities. Nonetheless, its strategic nuclear capabilities make it a global power.

China Spends More on Defense Than Official Budget Shows

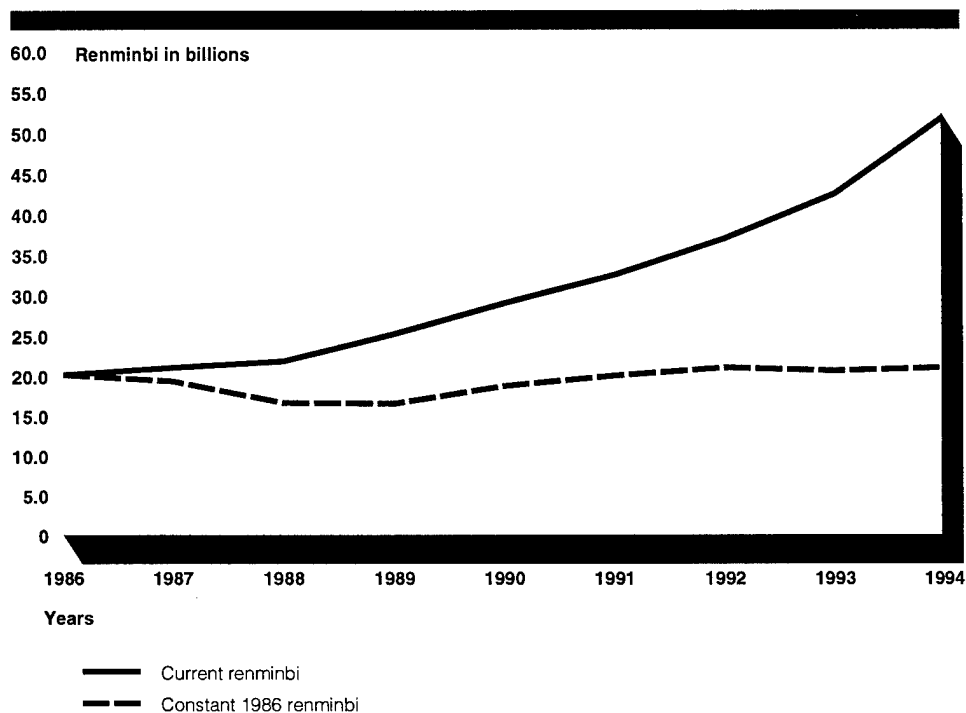
Much has been written about China's defense budget, including reports of double-digit increases in its official defense budget and the existence of a much larger unofficial supplementary defense budget. Our analysis of the official budget revealed that despite reported increases, when adjusted for inflation, the official budget has actually remained relatively constant. And although we were unable to quantify the unofficial budget, we identified a number of revenue sources that comprise it. Nevertheless, determining China's total defense expenditure is not possible.

Official Defense Budget

The official budget of the PLA consists primarily of salaries and personnel expenses and some operating and maintenance expenses, such as fuel for training. Other appropriations, including funds for defense procurement and research and development, are located in other budget accounts. As seen in figure 2.1, the official defense budget increased about 159 percent from 1986 through 1994, but when adjusted for inflation, the budget actually increased by only 4 percent.¹

¹Attempts to convert renminbi into U.S. dollars or other currency for comparative purposes distorts and, in this case, understates spending for two reasons. First, the exchange rate is controlled and therefore artificial, and second, prices for some items in China are well below world prices. For example, the official 1993 defense budget of 42.5 billion renminbi is \$7.45 billion using the 1993 official exchange rate. However, because the renminbi was devalued, the official 1994 budget of 52 billion renminbi equals \$6.10 billion at the current exchange rate. This would leave the erroneous appearance of a decline in defense spending.

Figure 2.1: The PLA Defense Budget in Current and Constant 1986 Renminbi (Chinese Currency)



Source: Budget figures from "Off the Books" Analyzing and Understanding Chinese Defense Spending, Richard Bitzinger and Chong-Pin Lin, the inflation rate for 1986 to 1993 from the International Monetary Fund, and the 1994 inflation rate was estimated at 20 percent.

Beginning in 1989 and continuing until 1994, China's official defense budget increased annually at a double-digit pace. By 1992, this rapid increase in the official defense budget, coupled with lower inflation between 1990 and 1992, allowed the official defense budget to just exceed its 1986 level in real terms. The large defense budget increases in 1993 and 1994, however, have been more than offset by inflation, which officially was 17 percent in 1993 and estimated to be at least 20 percent in 1994. In addition, the percentage of China's total national resources consumed by defense spending, based on the official budget, fell during the decade from about 2.1 percent of the gross national product (GNP) in 1986 to about 1.4 percent in 1993.

According to Chinese officials and many specialists on China, most of the increases in the official budget have been spent to enhance the salaries and standard of living of the military. They said that before the increases in

the official budget, the PLA's morale had fallen low. Several China scholars believe that official funding for the PLA would have to increase tremendously if units are to discontinue their commercial activities (as discussed below, revenues from these activities make up part of China's unofficial budget) that provide them with additional income.

Unofficial Defense Budget

Although China's actual defense expenditures are extremely difficult to measure, many analysts agree that China's total defense spending is about two to three times its official budget. They cited the following additional sources of defense support and revenues:

- Some defense spending is hidden in other parts of the state budget. For example, most military research and development costs are not included in the defense budget but are in the budgets of civilian ministries.
- The procurement of weapons, in particular arms imports, is funded by special appropriations not included in the official budget.
- Defense revenues also come from the PLA's commercial activities. It is estimated that the PLA has over 10,000 businesses run by PLA units, members, and their families. PLA units even bid on major government infrastructure projects, such as the construction of highways, for which they are paid.
- PLA units grow crops and raise livestock for food and as a result require less funding.
- China uses profits from arms exports to subsidize the PLA's purchase of foreign weapon systems.²

Because of uncertainty about the amounts of other defense revenues, including the amount of profits the PLA actually earns from its commercial enterprises (such as hotels, casinos, and mines) and how these profits are used, it is impossible to determine whether total defense spending, adjusted for inflation, has increased, decreased, or remained the same.

Several experts believe that the PLA itself does not know how much money in total it generates and spends. However, many analysts believe that China's total defense spending is about two or three times its official budget.³ Since total defense spending is so difficult to compile or

²China's revenues from arms sales fell from a peak of about \$2 billion annually in the late 1980s to less than \$1 billion in 1991. China is unlikely to rebound in the current market, which favors suppliers of advanced weapons, according to the U.S. Arms Control and Disarmament Agency.

³Estimates range from less than 2 to 12 times China's official budget, but most are between 2 and 3 times the budget.

ascertain, we believe it may be more useful to look at current and proposed changes in equipment, training, and doctrine to draw conclusions about the extent of China's military modernization.

PLA Is Modernizing Forces Slowly, With Limited Effect

Since 1985, the PLA has slowly been modernizing and changing its military equipment, doctrine, and force structure. Nonetheless, these efforts have been characterized as piecemeal, with limited effectiveness. The PLA has put a priority on upgrading the major weapon systems of its Air Force and Navy but has also made numerous changes in its ground forces. Since 1985, the PLA has reduced its force structure from about 4 million to 3 million personnel (2.3 million in the Army, 470,000 in the Air Force, and 260,000 in the Naval Forces). At the same time it has replaced its outdated "People's War" doctrine, a defensive doctrine relying on the PLA's numerical superiority and ability to trade ground to defeat a technologically superior enemy, with one more suited to fighting limited regional wars under modern conditions. PLA force modernization has emphasized

- increasing unit mobility and training in combined arms operations;
- improving logistics, combat support, and communications, command, and control systems;
- introducing a limited number of imported modern weapon systems, such as the Russian-built Su-27 multirole fighter aircraft and SA-10 air defense systems; and
- developing a number of indigenously produced systems, including several new classes of naval vessels and a new multirole fighter aircraft.

By various accounts, China is pursuing the purchase of dozens of weapon systems and technologies from Russia, Israel, and other arms suppliers. However, many of these reports have proven unfounded or are a case of Chinese window-shopping. For example, rumors of China's impending purchase of a nearly constructed, former Soviet aircraft carrier caused concern throughout the Asia-Pacific. China does seem interested in purchasing some items but continues to pursue a policy of self-sufficiency; that is, it prefers to purchase technology rather than end items. At the PLA's current pace of modernization, the replacement of its 1950's- and 1960's-vintage equipment with more modern equipment will take years.

Naval Forces

The PLA Navy's force modernization has emphasized the addition of new, indigenously built destroyers, frigates, supply ships, landing ships, and other smaller vessels. It has purchased Russian-built Kilo-class submarines and reportedly wants to purchase associated technology to replace its aging, obsolete diesel-electric submarine force.⁴ To increase the survivability of its surface combatants, the Navy seeks to acquire modern antisubmarine and anti-aircraft systems. It has had little success in developing these systems and now seeks technical assistance from Russia and, reportedly, Israel. In the interim, China has purchased a few modern systems from Western sources, such as the French-built Crotale air defense system and the Whitehead A244S antisubmarine torpedo.

Additionally, according to published reports, the electronic warfare capabilities of the new vessels are a dramatic improvement over the old vessels. The new Luhui-class destroyers and the new Jiangwei-class frigates represent a substantial improvement over the Navy's current fleet of destroyers and frigates. These new, larger, and more specialized vessels, combined with the new Dayun-class supply ships, will give the PLA Navy a much greater "blue water" capability and form the basis of a more modern and expanded fleet.

The PLA Navy has shown interest in acquiring an aircraft carrier, according to numerous sources. However, it will need to overcome several large obstacles before it can field an operational aircraft carrier and associated supporting ships. First, the PLA Navy does not have any carrier-capable aircraft. Second, although substantially improved in these areas, it still needs more and better antisubmarine and anti-aircraft capabilities to protect a carrier and its supporting vessels. Finally, to have adequate power projection capabilities from the use of a carrier, it is preferable to have more than one carrier so that a carrier is assuming the mission at sea at all times. Thus, many experts have concluded that an operational aircraft carrier does not appear to be in China's near future, even though China is funding research and development and training officers in aircraft carrier operations.

Air Forces

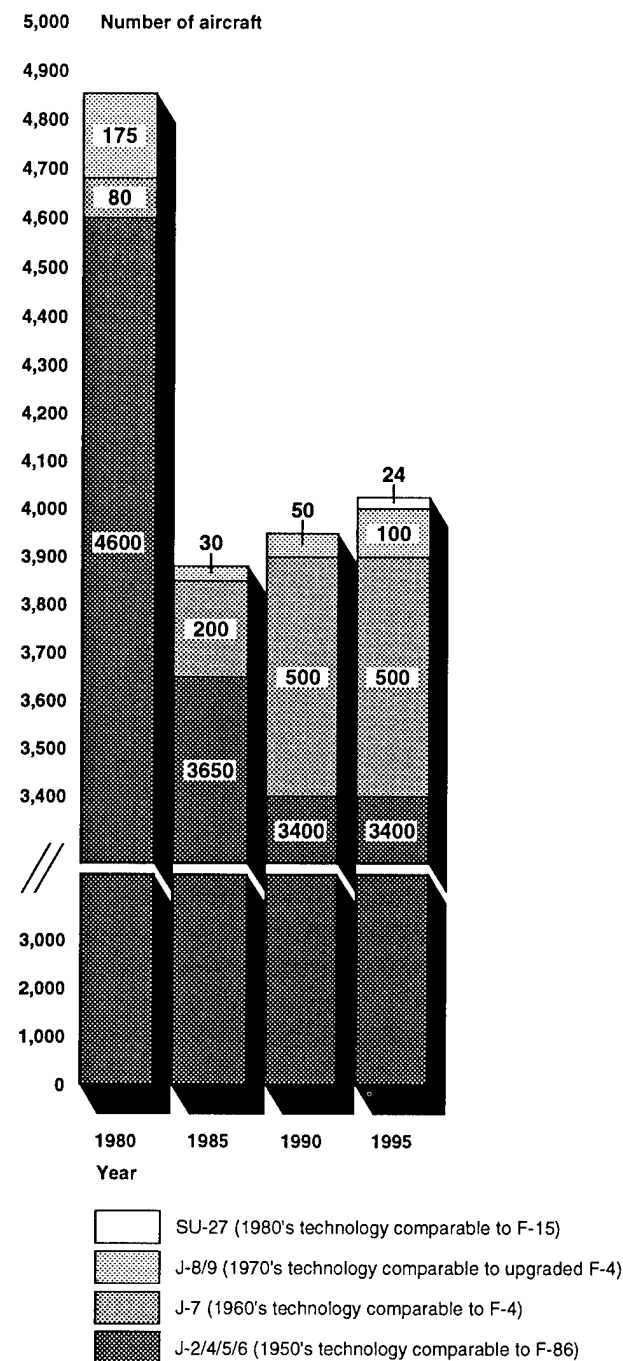
The PLA Air Force's modernization consists of purchasing Russian-built aircraft, engines, and surface-to-air missile systems; developing or acquiring an air-to-air refueling system; indigenously developing an

⁴China has reportedly produced a new diesel-electric submarine and has agreed to purchase four Kilo-class submarines from Russia, one of which has been delivered.

advanced fighter aircraft, believed to be comparable to the U.S.-built F-16; and pursuing the purchase of an airborne early warning system.

China purchased 26 Russian-built Su-27 multirole fighter aircraft and may purchase more. Although the number of aircraft is small, the Su-27s—comparable to U.S.-built F-15s—represent a large technological leap forward for the PLA Air Force and demonstrate its determination to gain experience operating advanced multirole fighter aircraft. China has reportedly purchased or will purchase additional Su-27s and is trying to obtain the technology to produce them indigenously. Additionally, China reportedly wants to co-produce the a new-generation MiG-31. However, Russia, although strapped for foreign exchange, has been reluctant to provide such advanced technology to the Chinese. China purchased 100 RD-33 engines, which power the MiG-29, to upgrade its indigenously produced F-7 fighter. The F-7s equipped with RD-33s may be exported. Figure 2.2 shows that China's inventory of fighter aircraft is enormous, but most represent 1950's technology.

Figure 2.2: PLA Air Force Fighter Aircraft



Source: TASC (The Analytical Sciences Corporation).

The 10 IL-76 medium- to long-range transportation aircraft purchased from Russia will improve the PLA's formerly limited lift capability. However, some reports speculate that these aircraft will be used as air-refueling or electronic warfare platforms. China reportedly bought air-refueling equipment and technology from either Iran or Israel and is expected to achieve an operational capability in the next few years. It also is reportedly trying to purchase a complete, fully operational airborne early warning system from either Russia or Israel.

Finally, 4 batteries of SA-10 surface-to-air missile defense systems, with 100 missiles, are expected to improve China's antiquated air defense system. The SA-10—comparable to the U.S.-built Patriot system—is designed to shoot down aircraft and has a limited ability to intercept ballistic or cruise missiles. It is believed that the purchase of these systems, which have been deployed around Beijing, was likely a direct result of China's witnessing the bombardment of Baghdad during the Persian Gulf War.

Ground Forces

The PLA ground force of about 2.3 million personnel is too large to be modernized at once; consequently, the PLA is focusing on achieving a high level of readiness in specific rapid reaction, or "fist," units. These units are the first to receive modern equipment and additional funds for training. Fist units include the 15th Airmobile Army and the PLA's recently established Marine Corps units. They are tasked with responding to any crises on China's periphery and developing, through training, the PLA's doctrine on combined arms operations, such as amphibious assaults. China reportedly purchased a limited number of T-72 tanks from Russia and is negotiating with Russia to obtain other advanced technologies and coproduction rights for advanced munitions and weapons.

PLA ground forces have received the lowest priority in the modernization effort. Even so, China's vast number of ground forces compared with its neighbors' forces makes it a significant regional power. If only the modernized fist units are considered, China still enjoys a substantial size advantage over most of its neighbors. With an emphasis on combined arms training exercises, China's fist units will enhance China's power projection capabilities.

China Maintains Numerous Weapons of Mass Destruction

China has substantial strategic nuclear capabilities, which it acknowledges, and, according to congressional testimony by U.S. officials, probably has chemical and biological capabilities, which it does not acknowledge. China maintains research, development, and production capabilities for nuclear weapons and probably does so for chemical and biological weapons as well. China's nuclear weapons and space (ballistic missile) programs have been described by several China scholars as "pockets of excellence." Although China's ballistic missiles lack the sophistication and accuracy of U.S. or Russian missiles, they provide China with a credible retaliatory capability.

Nuclear Weapons

China, a nuclear power with air-, land-, and sea-based warheads, has maintained the same official nuclear policy since it first detonated a nuclear device in 1964. Under this policy, China pledges not to use nuclear weapons first and not to use them against nonnuclear nations and nuclear-free zones. Under its nuclear strategy, China seeks to deter other nuclear powers by maintaining strategic nuclear forces of adequate size and range to reach a few cities in any potential adversary's homeland. Thus, in a crisis, an adversary cannot use or threaten to use nuclear weapons against China without facing the possibility of nuclear retaliation.

According to Arms Control Today, the air-based leg of China's nuclear triad consists of approximately 120 long-range (3,100 kilometers) B-6 bombers, 30 medium-range (1,200 kilometers) B-5 bombers, and 30 short-range (400 kilometers) A-5 attack aircraft that are nuclear capable. These aircraft are based on 1950's and 1960's technology and would have limited operational capability against modern air defense systems. China is working to develop a new supersonic bomber, the B-7, which first flew in 1988 but has yet to be operationally deployed.

The land-based leg of China's nuclear triad consists of several different types of intermediate- and long-range land-based ballistic missiles, most of which are liquid-fueled. These missiles can carry warheads with yields up to 3 megatons from about 1,800 kilometers to over 13,000 kilometers. However, China possesses only a handful of missiles with sufficient range to strike targets anywhere in the United States, according to Arms Control Today.

China's sea-based leg of its nuclear triad consists of one Xia-class ballistic missile submarine. It can carry up to 12 ballistic missiles.

China is developing new, solid-fuel land- and sea-based ballistic missiles with improved accuracy, according to numerous reports. Additionally, China appears to have developed technology for a multiple independently targetable reentry vehicle that would allow it to strike several targets with one missile. Whether China maintains tactical land-based nuclear weapons such as artillery shells or warheads for its short-range M-9 and M-11 ballistic missiles is uncertain, although reportedly both missiles can carry nuclear weapons. China's policy on the use of tactical nuclear weapons is unclear.

China appears determined to upgrade its strategic nuclear capabilities, despite the end of the Cold War. It has been the only country to continue nuclear testing during the past 2 years, while an unofficial worldwide moratorium has been in place. China justifies this testing by pointing out that it has conducted far fewer nuclear tests than either the United States or Russia (including those conducted by the former Soviet Union). However, after it completes a series of nuclear tests by 1996, China reportedly desires to see a comprehensive test ban treaty implemented.

Chemical and Biological Weapons

China has signed the Convention on Prohibition of the Development, Production, Stockpiling and the Use of Chemical Weapons, and has acceded to the Convention on the Prohibition of Biological Weapons. Nevertheless, China is suspected of having offensive chemical weapons and a biological weapons program. U.S. officials have testified before the Congress that China probably possesses both chemical and biological capabilities. Little is known about its suspected stockpile of weapons.

Reasons for China's Force Modernization

China has several reasons for modernizing its forces. The secrecy of this defense planning, however, hinders analysis of China's intentions. Foreign and U.S. government officials and China specialists most often cite five reasons for China's military modernization. First and foremost, the vast majority of weapons and equipment in the PLA's current inventory reflect 1950's and 1960's technology, and modernization efforts are therefore expected, especially since China's economic growth provides greater means with which to modernize. Other reasons cited are

- a desire to have military power commensurate to its growing economic power, allowing it to be a greater regional and global power;
- the ability to defend what it defines as its sovereign territory, which includes territories disputed with almost all its neighbors;

- lessons learned about modern warfare and high-technology weapon systems from the Persian Gulf War and other recent conflicts; and
- the PLA's role in maintaining internal stability and providing legitimacy to the communist regime.

Many Factors Influence the Pace of China's Force Modernization

According to the officials we interviewed and reports we reviewed, several factors will influence how quickly China is able to continue to modernize its military. The most important factor is the pace of economic development, which determines the funding available to the government for defense and other spending. Other demands will compete for funding, however. Economic growth resulting in greater prosperity may result in demands for improved living conditions, which will place greater demands on the government to provide social services, education, and environmental safeguards.

China's indigenous research and development efforts, as well as its ability to absorb new technologies, will determine how quickly China can effectively field more modern weapon systems. China has had both successes and failures in its military research and development efforts. China has been successful in using indigenously developed technologies in conjunction with foreign technologies in its space and nuclear programs; however, despite technological assistance from both Russia and Israel, China has had trouble developing an indigenous fighter aircraft. Additionally, China's ability to absorb new technology has been questioned and may be a roadblock to the PLA's modernization. The PLA may have to significantly enhance the quality, education level, and training of its personnel to field increasingly sophisticated weapon systems.

The internal political environment will also affect how quickly the PLA's modernization program will proceed. Greater instability could increase the dependence of the Chinese Communist Party on the PLA to maintain order, which could in turn mean that China would devote a greater share of resources to the PLA. Furthermore, the PLA will play a role in determining the successor to Deng Xiaoping, and those vying to become the new leaders may increase funding for the PLA to elicit its support.

Conclusions

To date, China's force modernization efforts have been characterized as "piecemeal." High inflation has resulted in little real increases in the official defense budget, and the defense budget has decreased as a percentage of China's GNP. China's unofficial defense spending is very difficult to gauge because expenditures and revenues are hidden in other budgets. Acquisition of major weapon systems, for example, falls under unofficial spending. Although few new weapon systems have been procured, these systems, primarily for the Air Force and the Navy, provide capabilities for more sustained, longer-range military operations. This small amount of modern weapons combined with better training, the formation of rapid reaction units, and better command, control, and communication, and logistics has benefited only a few military units. Additionally, China continues to conduct nuclear tests as part of its effort to modernize its nuclear forces. There are doubts about China's ability to absorb, operate, and maintain the new technologies and weapons needed to modernize its armed forces. Further, the mere possession of modern weapons, platforms, and sensors (radars, night vision devices, etc.) does not necessarily create combat effectiveness. These new, but limited, capabilities could be used to stop internal strife or to conduct limited operations in areas such as the South China Sea. However, it is not clear that either of these possibilities, alone, is driving China's current modernization effort.

Regional Defense Spending, Modernization, and Dialogue

For more than a decade, most Asian nations have increased their defense spending and embarked on significant force modernization programs. This trend has continued in recent years, despite a generally less-threatening post-Cold War regional security environment. Annual defense spending in the region rose substantially between 1987 and 1993. At the same time, however, defense spending as a percentage of GNP fell or remained constant for most of these nations as a result of their remarkable economic growth. Most force modernization programs in the region have emphasized the acquisition of (1) communication, intelligence, and electronic warfare systems; (2) multirole fighter aircraft, maritime patrol aircraft, and modern naval surface combatants, all armed with antiship missiles; (3) modern diesel-electric submarines; and (4) rapid deployment forces. The net result of these modernization programs has been a substantial enhancement of some Asian nations' formerly quite limited power projection capabilities.

Multiple factors interact to influence Asian nations' increased defense spending and force modernization, according to Asian officials we met with. These factors include (1) concerns about the diminishing U.S. military presence in the region, which has created uncertainty about the emerging regional security structure; (2) unresolved international sovereignty and territorial disputes; (3) increased emphasis on future security issues, specifically the protection of maritime resources; (4) the acquisition of advanced military technologies for industrial development; (5) the increased availability and low prices of advanced weapons on the international arms market; and (6) sustained economic prosperity, which provides increased budgetary resources for modernization. Although many Asian nations are uneasy about China's increasing military power and its strategic intentions, most regional force modernization programs predate China's recent increases in defense spending. Moreover, many Asian nations view China's increasing military power as threatening only in the context of a diminishing U.S. military presence.¹ For now, concerns about China's increasing military power appear secondary to other, more immediate regional concerns about China—for example, the potential that millions of Chinese refugees will flood across their borders if China's economic reforms fail. Multilateral dialogue and the reopening of military talks between China and the United States may enhance regional stability.

¹In 1990, 135,000 military personnel were stationed in the region compared to 109,440 in the region in 1993.

Asian Nations' Defense Spending Has Increased

Regional defense spending rose substantially between 1987 and 1993. However, as figures 3.1 and 3.2 show, the current levels and recent rates of increase in official defense spending vary widely within the region. At \$39.7 billion, Japan's 1993 defense budget was over three times as large as Korea's, the second largest regional defense budget at \$12.1 billion. At \$7.5 billion, China's official defense budget was fourth largest, just behind Taiwan's \$10.5 billion budget. Although Thailand, Singapore, Malaysia, Indonesia, and Pakistan had the lowest defense budgets in 1993, their budgets increased in real terms by 34.5, 53.6, 89.6, 10.6, and 27.1 percent, respectively, compared to 1987. Comparing the same periods, Taiwan, South Korea, and Japan also showed substantial increases in their defense budgets of 24.1, 35.9, and 16.8 percent, respectively. Meanwhile, the defense budgets of India and the United States fell by about 10 and 28 percent, respectively (the 1993 U.S. defense budget was \$259 billion). In conjunction with declining defense spending in the United States, Europe, and the former Soviet Union since 1989, these increases in Asian defense spending have doubled the region's share of world military expenditures over the decade.

Figure 3.1: 1993 Official Defense Budgets of Selected Asian Nations Compared to China

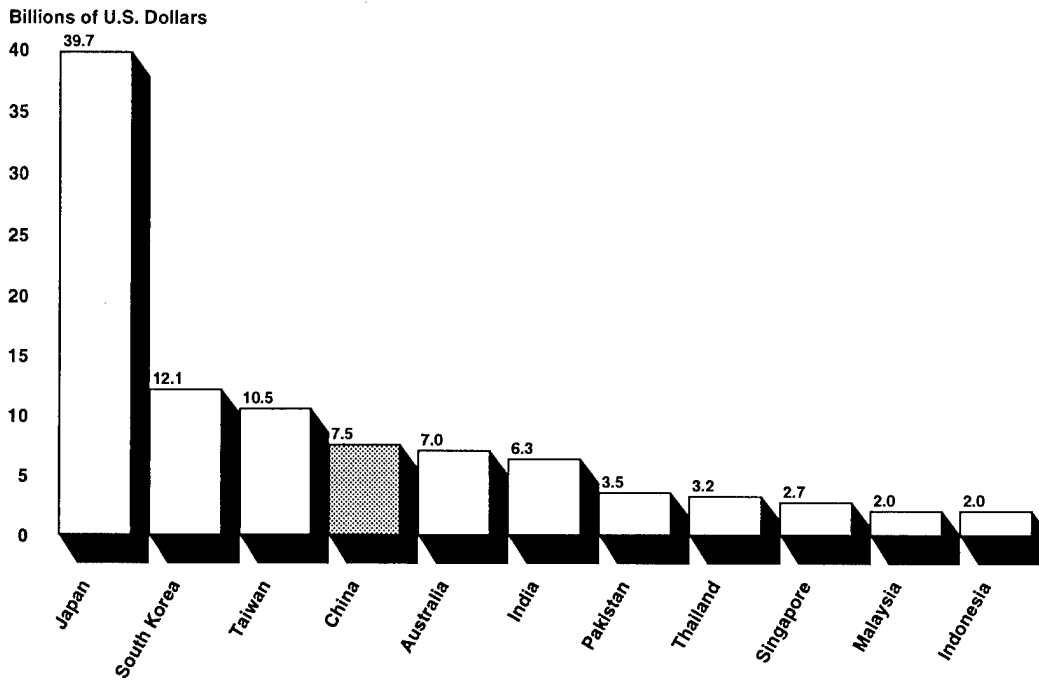
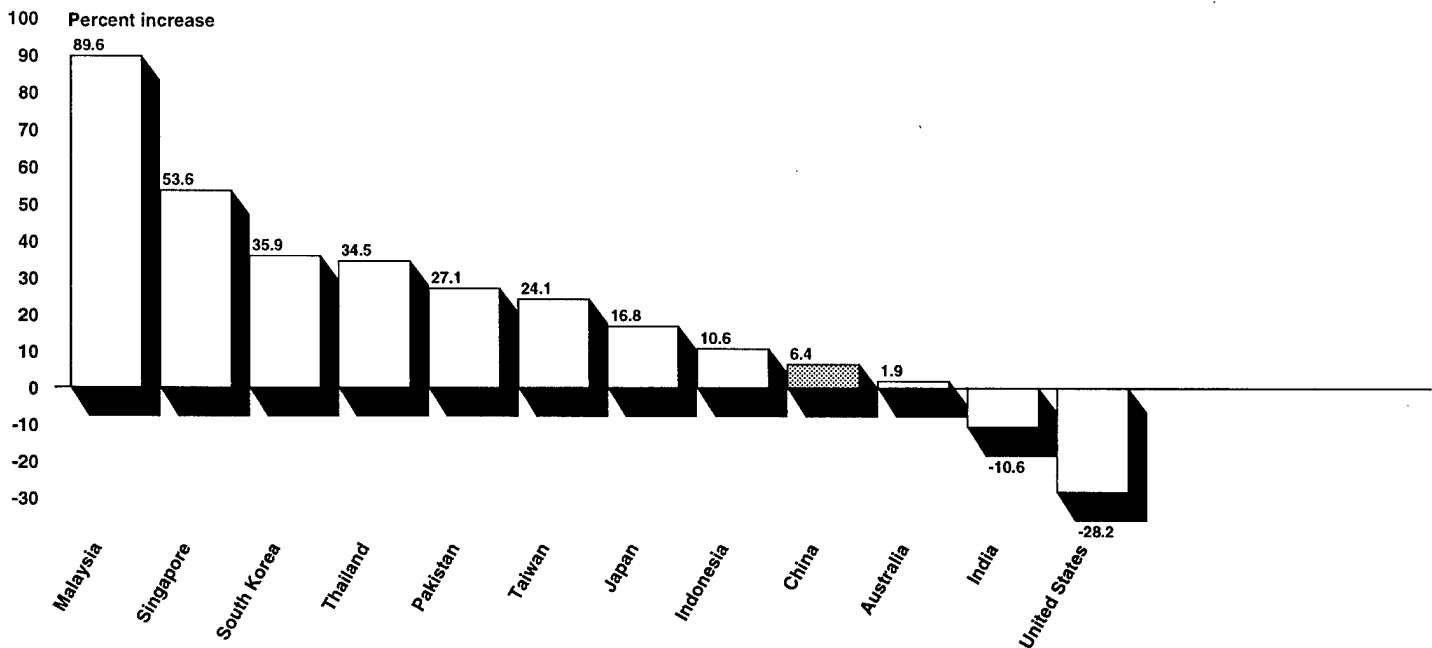


Figure 3.2: Percent Changes in the Official Defense Budgets of Selected Nations Compared to China Adjusted for Inflation, 1987 Versus 1993



Defense spending as a percentage of GNP fell for most Asian nations during the decade, even as total defense spending rose substantially. In Asia, defense spending as a percentage of GNP fell from an average of about 8.4 percent to about 6.2 percent. As a matter of policy, Japan's defense spending remained around 1 percent of GNP over this period, but rose from \$21.9 billion to \$32.6 billion because of Japan's rapid economic growth. The same is true for Singapore, where government policy fixes defense spending at about 5 percent of the GNP.

Asian Nations Are Modernizing Military Forces to Respond to Potential Regional Conflict

Force modernization is underway in many countries in the region, along with economic and political progress. Asian nations have concluded that the current (uncertain) world situation requires greater preparation for limited local wars and unanticipated low intensity conflicts, and that these contemporary wars and conflicts require quick-reaction forces structured around high technology arms and equipment. The conduct and outcome of the last Arab-Israeli, Falkland Islands, and Persian Gulf wars significantly

influenced Asian nations' military thinking in this regard. As a consequence of this influence, regional conventional force modernization has emphasized, with few exceptions, the acquisition of the following items:

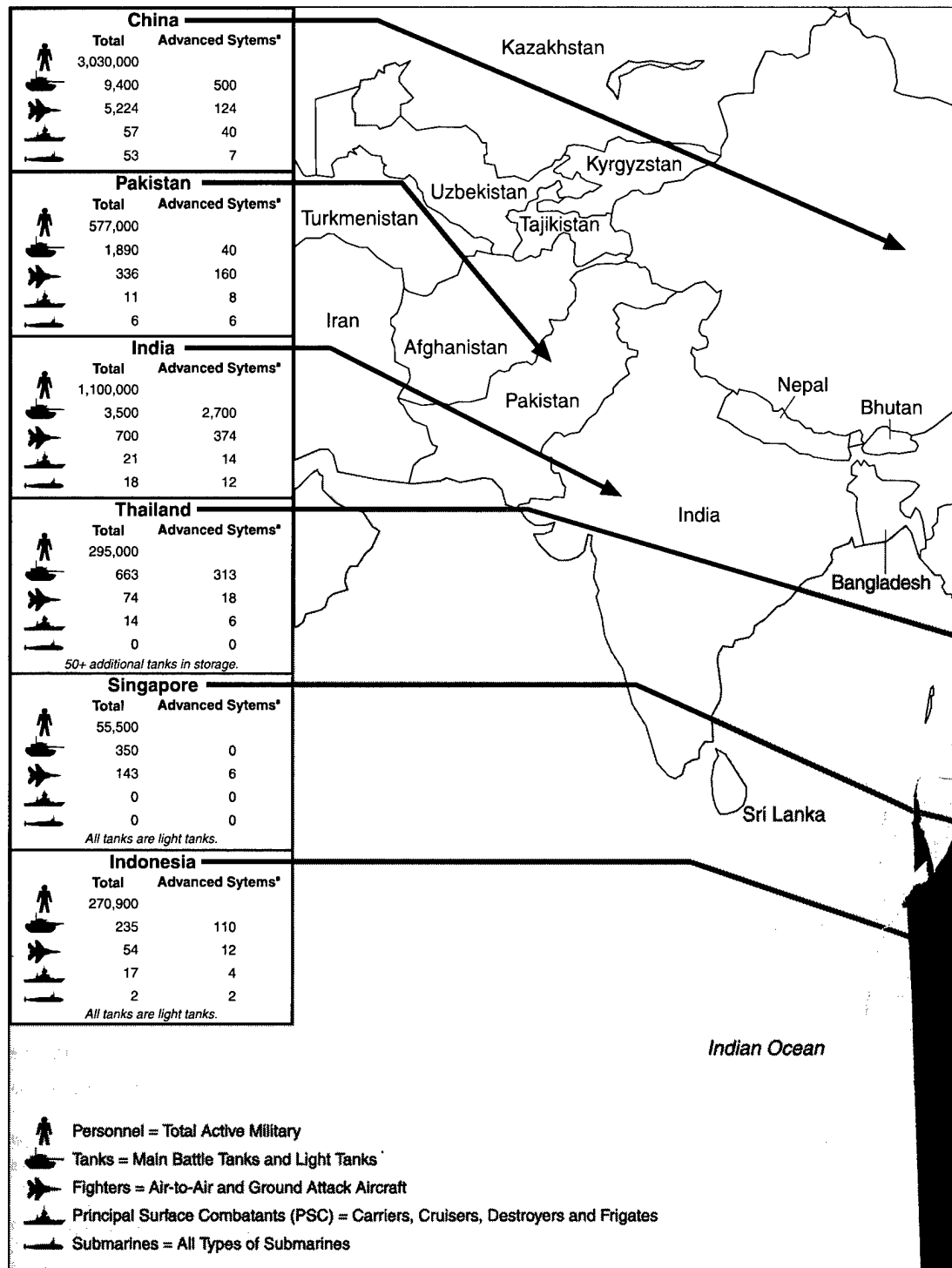
- national command, control, and communication systems, including the construction of national command centers and headquarters,² and the development of national defense planning staffs, independent operations concepts and doctrines, and national communication systems and facilities;
- national technical intelligence systems, including electronic and signal intelligence capabilities to provide real-time intelligence for enhanced maritime surveillance and for deploying appropriate electronic warfare capabilities against hostile forces;
- electronic warfare capabilities, particularly for modern naval surface combatants, with Japan leading the trend;
- multirole fighter aircraft, such as U.S.-built F-16 Falcons and F/A-18 Hornets, French-built Mirages, and Russian-built MiG-29 Fulcrums;
- maritime reconnaissance/surveillance aircraft, such as U.S.-built P-3 Orions, E-2C Hawkeyes, and C-130Hs; German-built F-50 and F-27 Maritime Enforcers; and French-built Dornier-228s;
- modern naval surface combatants, including a light aircraft carrier for Thailand, Aegis-equipped destroyers for Japan, over 100 new frigates, and over 100 new corvettes and patrol vessels;
- antiship missiles, such as U.S.-built Harpoons or Penguins, French-built Exocets, Chinese-built C-801s, and Taiwan-built Hsiung Feng IIs, deployed on aircraft and surface combatants;
- diesel-electric submarines, including Australia's Collins-class and German-type 209s; and
- rapid deployment forces (fully mobile, especially adapted for movements by air, equipped with the necessary firepower and the latest technology) and the cargo/transport aircraft to move them.

The net result of this force modernization has been a considerable enhancement of Asian nations' potential power projection capabilities, which formerly were quite limited. As in the case of China, the mere possession of modern systems does not necessarily mean they can be used effectively. For the most part, this force modernization appears to be consistent with regional countries' defense needs and emphasis on self-reliance. Figure 3.3 shows the size of several Asian nations' militaries,

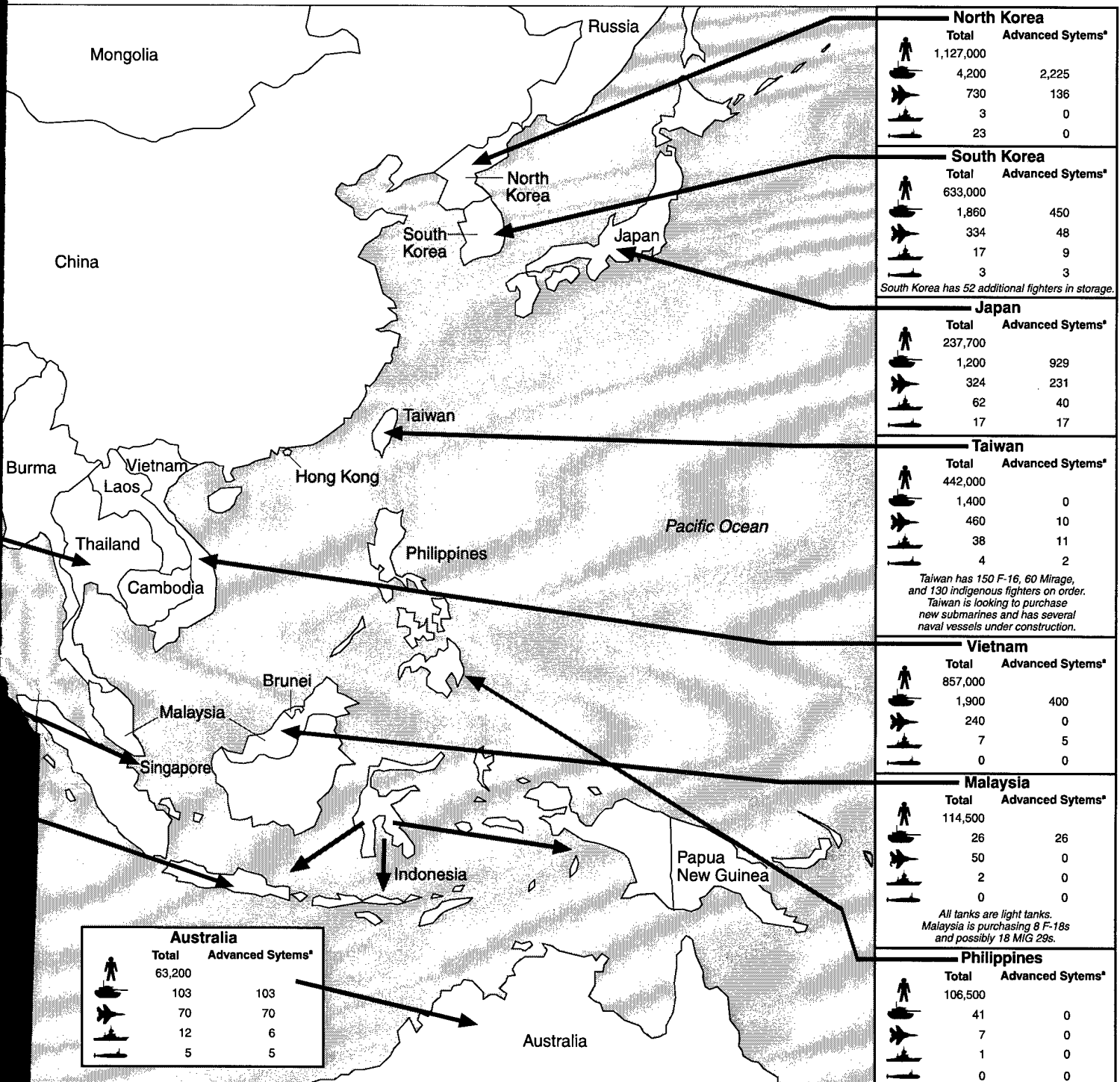
²For example, the Japan Self-Defense Force is building a new headquarters in Tokyo, South Korea is building a new military headquarters in the center of the country at Taejon City, and Singapore has built a new Ministry of Defense headquarters.

inventories of some types of weapons, and an indication of how many of those systems are considered advanced.

Figure 3.3: 1994 Military Holdings in
Select Asian Nations



Chapter 3
Regional Defense Spending, Modernization,
and Dialogue



^aAdvanced systems are at least mid-1960's design with advanced technologies, such as laser range finders for tanks.

Source: TASC (The Analytical Sciences Corporation).

Multiple Factors Influence Asian Nations' Defense Spending and Modernization

Multiple factors shape Asian nations' defense spending and force modernization efforts. Underpinning the regional force modernization is the sustained high rates of economic growth in many Asian countries, which substantially increased budgetary resources. Other factors include perceptions of diminished U.S. military commitment to the region, which has created uncertainty about the emerging regional security structure; unresolved international sovereignty and territorial disputes involving most regional states; increased emphasis on external security issues, specifically protection of exclusive economic zones and their maritime resources; the acquisition of advanced military technologies to speed civilian and military industrial development; the increased availability and low prices of advanced weapons in the international arms market; and improving national or military prestige. Due to Asia's diversity of cultures, different levels of political and economic development, and lack of a common perception of military threat, some factors are more salient than others in each country.

Perception of Diminished U.S. Military Presence

Asian nations' perception of a slow, but continuous, decrease of U.S. military commitment creates uncertainty within the region about the nature of the emerging, post-Cold War security structure. Asian nations are concerned that the current, generally favorable regional security environment will prove transitory. Major security crises could spring from North Korea's nuclear aspirations, social unrest in China, hostilities in the South China Sea, renewed civil war in Cambodia, or other intraregional tensions.

The perception of a reduced U.S. military commitment has created a heightened awareness among Asian nations of the need for self-reliance or national resiliency in security matters. For most regional countries, increasing self-reliance involves a primary emphasis on defense of maritime approaches and a redirection of defense planning away from internal counterinsurgency warfare. Self-reliance for many of these nations translates into independent surveillance, warning, and intelligence capabilities to monitor regional developments, especially in the maritime

approaches. These requirements for self-reliance are reflected in Asian nations' current force modernization programs.

The Asians' perception of a reduced U.S. commitment to the region originated with President Nixon's 1969 Guam Doctrine, which states that the United States will look to Asian nations to be primarily responsible for their own defenses. These perceptions were reinforced by a number of events, including

- the subsequent U.S. pullout from Vietnam and Indochina;
- President Carter's decision (later reversed) to withdraw U.S. ground forces from South Korea;
- U.S. requests for Japan and South Korea to assume a greater role in their own defense;
- the 1992 U.S. East Asian Strategic Initiative, which called for a phased reduction in U.S. forces in the Pacific;³
- the closure of U.S. bases in the Philippines⁴;
- post-Cold War cuts in U.S. defense spending and military capabilities worldwide; and
- U.S. reluctance to commit forces to peacekeeping operations in Cambodia.

Despite U.S. pledges to maintain a military presence in Asia, these events have created the general regional perception of a declining U.S. military commitment to the region. Many Asians harbor doubts about the willingness of the U.S. government—faced with decreasing congressional and public support for foreign interventions—to commit forces to the region in circumstances of future tension or conflict. Asian nations are convinced that U.S. military presence will continue to diminish, creating a power vacuum that China and Japan, or perhaps India or Russia, will attempt to fill.

In the view of many Asian officials and scholars we interviewed, the U.S. military presence in Asia has

- greatly reduced regional uncertainty and prevented any dramatic escalation of regional security tensions;

³Recognizing that the 1992 report was viewed as a plan of reduction, the 1995 report stated a clear commitment to maintain 100,000 military personnel in Asia for the foreseeable future.

⁴Until 1992, under the Military Bases Agreement of 1947, as amended, the United States maintained and operated major facilities at Clark Air Base, the Subic Bay naval complex, and several small subsidiary installations. About 15,000 military personnel were stationed in the Philippines (not including the Seventh Fleet personnel temporarily ashore).

- provided a guarantee of ultimate security against major threats to the region; and
- fostered a relatively benign security environment with high levels of local confidence, which has facilitated the region's rapid economic and social development.

The end of the Cold War has not substantially changed the perceived role or value of the U.S. military presence in the region. Asian nations conclude that efforts to solve security problems in Asia continue to depend heavily on U.S. political will and military capabilities.

Officials and others we interviewed throughout Asia are concerned by the prospect of either China or Japan emerging as an independent maritime power to replace the United States. Their concerns about Japan are based on its history of militarism and what many perceived as a cultural tendency toward aggression. Asian nations view the U.S. military presence and the U.S.-Japan security alliance as a check on Japanese militarism and will accept a major regional role for Japan only within the framework of that alliance. Asian nations are concerned that Japan's defense of its sea lanes out to 1,000 nautical miles from Tokyo might initiate a process leading to the development of an independent Japanese defense capability. In general, Asian nations fear that Japan might add military muscle to its economic domination of the region, and they will not accept a condition where Japan's regional military role becomes commensurate with its economic role.

Asians' concerns about China are based on its military modernization, its issuing of the Territorial Waters Law in 1992 declaring its sovereignty over the South China Sea and other disputed areas, and its continued unwillingness to renounce the use of force against Taiwan. According to some Asian officials and studies, China remains a self-contained, inward-looking nation, often more reluctant than other nations to accept constraints on its own actions in the interest of wider regional community. It retains a rigid and highly centralized political system that is less subject than most others in the region to the popular pressures that can modify a government's international conduct. Uncertainties about China's future international posture are amplified by uncertainties about its future internal affairs, particularly the outcome of its impending leadership transition. However, according to other Asian officials and studies, China's strong emphasis on economic development and international trade, positive attitude toward foreign investment, and the free flow of capital and people in and out of China provide substantial evidence that it will

develop as a peaceful and constructive member of the region. According to these more optimistic sources, China's evident determination to become a fully integrated member of the region's dynamic economy requires it to become equally cooperative on security matters. Also, they believe that China's economic interest in trade and investment will act as a strong incentive to cooperate with other nations to keep the peace and maintain stability.

Unresolved Sovereignty and Territorial Disputes

According to numerous sources, while the end of the Cold War reduced the likelihood of global war, this development probably increased the likelihood of local wars and conflicts because it removed the tempering mechanism that often served to keep regional tensions under control. Asian nations face numerous sources of tension involving competing sovereignty claims, unresolved territorial disputes, and challenges to government legitimacy. The contentious sovereignty and territorial disputes in the South China Sea have lately received much attention, but numerous other disputes exist in other parts of Asia, as discussed in chapter 1. The perception of a diminishing U.S. military commitment also increases the likelihood that regional tensions could erupt into open conflict.

Increased Emphasis on External Security Issues

As a result of increased economic prosperity and effective counterinsurgency programs, many Southeast Asian nations face diminished internal threats to their security and legitimacy. At the same time, these nations find their continuing and future economic prosperity increasingly tied to the safety of navigation and the maritime resources contained in their exclusive economic zones,⁵ which are often much larger than their land areas. Diminished internal threats have allowed many Southeast Asian nations to restructure their military forces to focus on monitoring and policing their exclusive economic zones against piracy, poaching, smuggling, environmental damage, and other threats. Thus, a focus on modern maritime and air forces to support new economic and security interests in the surrounding seas has replaced an earlier emphasis on ground forces oriented to internal security.

As maritime resources, territories, and sea lanes have become more important, Asian nations have sought to protect them from potential

⁵These economic and security interests took on additional importance with the implementation of the 1982 United Nations Law of the Sea Convention, which for the first time defined the concept of an archipelagic state (such as Indonesia and Malaysia) and allowed many regional states to claim 200-nautical-mile exclusive economic zones in the regional seas.

harassment from air or sea. As a result, they have sought to acquire maritime patrol and response capabilities needed to intercept intrusions into areas of interests, to help protect offshore territories and resources, to keep hostile forces away from their territories, and to prevent resupply. For example, in December 1993, the Philippine Navy announced that it would deploy more forces to the country's major fishing grounds to deter poaching, piracy, and illegal fishing.

In addition to acquiring new forces, some regional states are exploring ways to cooperate to protect their joint interests in the region. Such efforts include proposals for joint Indonesia-Malaysia-Singapore patrols in the Straits of Malacca to deter piracy and environmental damage. Another effort is Australia's proposal for military cooperation arrangements for sea-lane security in Southeast Asian waters.

Acquisition of Advanced Military Technologies for Industrial Development

According to some U.S. and Asian officials and academics, some Asian nations desire to acquire advanced military technologies to facilitate the development of indigenous military and civilian production capabilities. As we reported in 1994, military and civilian manufacturing activities in some Asian nations are closely connected.⁶ A 1988 study of Sino-Japanese-U.S. military technology relations noted that Japanese officials often elected to produce sophisticated U.S. weapon systems in Japan instead of buying them from U.S. sources even though the unit-cost of such items produced in Japan was driven higher because Japan gained more than it lost over time by procuring greater access to U.S. military technology and by significantly reducing its research and development (or "learning curve") expenditures in the process.⁷

Many of the recent acquisitions of advanced weapon systems in Asia have a clear technology transfer component, for example, Malaysia's widely publicized purchases of F/A-18s and MiG-29s. For both sales, Malaysian officials negotiated technology transfer agreements, including the development of a MiG-29 maintenance facility in Malaysia. Indonesia's widely publicized purchase of 39 ships from the former East German Navy was driven by the Minister of Research and Technology's plans to establish a modern ship repair facility at Surabaya, not by military requirements. In fact, many high-level Indonesian military officers opposed

⁶Asian Aeronautics: Technology Acquisition Drives Industry Development (GAO/NSIAD-94-140, May 4, 1994).

⁷Tow, William T., *Sino-Japanese-US Military Technology Relations*, Institute of Strategic and International Studies (ISIS) Malaysia.

the purchase because, in their opinion, the country would have received better value for the money by purchasing new modern naval surface combatants from a Western European source.

Increased Availability and Low Prices of Advanced Weapon Systems

The glut of weapons on the current world arms market facilitates regional force modernization. With the end of the Cold War, the defense industries of Russia, the United States, Europe, and other nations are competing to supply military items to buyers throughout Asia, specifically air, naval, and communications technologies. Russia, with its economy in difficulty and in need of foreign exchange and imports, has been especially willing to lower prices and accept barter trade for modern weapon systems. Even regional arms manufacturers are competing for arms export business. For example, leading Australian defense electronics contractors have formed a joint working group to promote exports of command, control, communications, and intelligence equipment to Southeast Asia. China is also competing in the regional arms market, having sold ships to Thailand and aircraft to Pakistan. In short, the increased availability and low cost of advanced weapon systems will result in the acquisition of a greater number of such systems in the region than would otherwise be the case.

Improving National or Military Prestige

In some Southeast Asian nations—notably Indonesia and Thailand—the armed forces play a significant political role. In such an environment, the purchase of advanced military equipment is seen as enhancing national prestige. For example, prestige is reportedly a major factor in the Royal Thai Navy's proposed purchase of diesel-electric submarines and an aircraft carrier. Likewise, prestige is believed to be a major factor in Indonesia's purchase of F-16 aircraft.

Asian Nations' Concerns About China

For many Asian nations, the potential threat of Chinese military action (spawned by increasing military power) is of small immediate concern. More important issues seem to be the potential for large numbers of Chinese refugees, economic competition from China, and political intervention by overseas Chinese communities.

Millions of Chinese Refugees May Flee to Neighboring Countries

A concern for many Asian nations is the possibility that China's economic reforms will fail or that the stress of its impending leadership transition will lead to internal fighting that could result in a flood of millions of Chinese refugees to neighboring countries. Such migration would raise urgent and perhaps acute economic and social problems for many of China's neighbors. In support of their concerns, some Asian officials point to signs of instability caused by China's rapid and uneven economic growth. Several Asian officials and a study of the current situation in China noted a growing surplus of unemployed workers, including a large number of economic- and opportunity-seeking migrants from China's depressed rural or inland areas.

In general, many Asian officials are sensitive about the problem of large-scale unplanned population movements in the region. Recent experience gives them the sense of a continuing problem with large numbers of displaced people, many of whom cannot or will not be repatriated to their homelands. For example, after the fall of Vietnam, Laos, and Cambodia to communist forces, waves of Indochinese refugees crossed the border into Thailand or took to boats in the South China Sea and the Gulf of Thailand, creating social and economic problems for many Southeast Asian nations.

Economic Competition From China

Another concern of several Southeast Asian nations is the possibility that China's rapid economic development will undermine their prosperity by diverting critical foreign investment and firms seeking low-cost, semiskilled labor. Officials from several Southeast Asian nations noted that their nations' economies are still very dependent on foreign investment for their continued growth and prosperity, specifically investment by Japanese and Western firms seeking low-cost, semiskilled workers. Officials from these countries argue that any significant diversion of foreign investment to China would significantly reduce their potential economic growth. Indeed, various sources show that the overseas Chinese community accounts for a considerable portion of the foreign investment pouring into China in recent years. In addition, one report expressed concerns that Southeast Asia's lucrative, but increasingly competitive, markets have been flooded with Chinese-made consumer goods, many produced in China's state-subsidized defense sector factories.

Overseas Ethnic Chinese Communities

An additional concern of some Southeast Asian officials and others we interviewed was the possibility that China might intervene in their

domestic affairs through the cultural and nationalistic movements of overseas Chinese communities. This concern is based in part on these communities' support for PRC-supported communist insurgencies, although there has been no recent evidence of this kind of activity. Burma, Cambodia, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam have large ethnic Chinese minorities, both immigrant and native born.⁸ In most cases, these ethnic Chinese communities maintain a cultural separateness and language. In part as a result of these factors and racial tensions, ethnic Chinese communities have often been the focus of deep-rooted suspicions of the majority in many Asian nations, which were intensified during the Cold War when ethnic Chinese communities were the focus of Chinese-sponsored communist insurgencies.

While these insurgencies have been defeated, many Southeast Asian officials remain suspicious of overseas Chinese and concerned that China could intervene in their domestic affairs through these communities. China's diplomatic interventions, while legitimate under international practice according to State Department officials, have increased the worries of some of its neighbors. For example, China demanded that the Indonesian government take appropriate steps to protect the ethnic Chinese community after recent worker riots in Sumatra that were largely directed at ethnic Chinese factory owners.

Asian Nations' Support Dialogue on Security Issues

Although the view among many Asians is that China does not appear to have hostile intentions toward its neighbors, there is concern that China's behavior could change as its military capabilities change. To help diffuse tensions that could escalate or be exacerbated by the modernization of regional forces, Asian nations are moving toward more multilateral dialogue.

Regional security dialogue commenced with the Manila meeting of the Association of Southeast Asian Nations (ASEAN) Ministerial in July 1992 and since then has gained wide acceptance beyond the subregion to include China and the United States. Historically, Asian nations have relied on bilateral, rather than multilateral approaches to protect their security interests. The community is diverse with no common enemy, and nations harbor long-term apprehensions about each other. The dialogue is essentially preventive diplomacy designed to bring together potential adversaries to ease tensions and eliminate misconceptions. Thus, some

⁸Singapore, which has a substantial Chinese majority, is the only Southeast Asian nation that does not fit this demographic pattern.

Asian experts envision that future discussion may focus on territorial claims and military budgets. China, which was invited to participate in the 1994 ASEAN Regional Forum held in Bangkok, made it clear that while it supports a regional security mechanism, it would not participate in a forum that would be used to "gang up" on it.

The United States Is Taking Steps to Engage China

In addition to the multilateral discussions, the U.S. government took steps in 1993 to reengage China in bilateral military dialogue as part of its Asia-Pacific strategy. The U.S. strategy for a "new Pacific community" recognized the growing importance of Asia in U.S. security and prosperity by linking security requirements with economic realities and U.S. concerns for democracy and human rights. The strategy called for, among other things, stronger efforts to combat the proliferation of weapons of mass destruction on the Korean Peninsula and in South Asia, and the development of new arrangements to meet multiple threats and opportunities. U.S. officials recognized that reopening military dialogue with China was key to enlisting China's cooperation on security issues pertaining to North Korea, arms control, and the disputed Spratly Islands.

The best way for the United States to influence Chinese behavior on several issues may be through the PLA, according to U.S. government officials and others we interviewed. They pointed out that the PLA is a major player within several areas of great concern—regional stability, nuclear proliferation, and arms control and the PLA clearly has influence in controlling Chinese military exports. Some defense analysts believe that some defense exports may even occur without foreign ministry approval. They indicated that the PLA must be convinced its interests are served by providing greater insight into its defense budget and policies.

According to U.S. officials, severing military dialogue with China has been costly to both sides. China lost prestige and access to U.S. training and technology. But the United States lost the opportunity to influence and gain the assistance of the PLA on a number of issues of concern to the United States, such as the proliferation of nuclear weapons.

From November 1993 through October 1994, several high-level defense meetings between the United States and China took place. Dialogue began when the Assistant Secretary of Defense for International Security Affairs proposed several specific initiatives to lay the foundation of a new program of military contacts with the PLA, including academic exchanges, high-level visits, attendance at conferences, and peacekeeping-related

activities. In March 1994, senior PLA leaders in Beijing met with the Under Secretary of Defense for Policy to discuss greater military cooperation, including port calls and joint training exercises for U.N.-sponsored humanitarian rescue missions. But talk of whether or not to renew China's Most Favored Nation status, in light of limited progress in human rights, remained in the forefront, delaying further military contact.

Historically, the U.S. military relationship with China has never been allowed to proceed ahead of the political one. No further action was taken until mid-1994, shortly after the de-linking of human rights from the decision to approve Most Favored Nation trading status. Meetings in August and October between the Secretary of Defense and senior PLA leaders continued to emphasize common security concerns (for example, a nuclear-free Korean Peninsula), and both sides agreed to continue to hold meetings on a number of military issues, including defense strategies. Contact at a lower level with the younger PLA officers through exchanges and educational programs are beginning to take place. It will take time to build a mutually trusting relationship, but dialogue between the two sides indicates steady progress is being made. One U.S. official commented that the benefits of military dialogue are already emerging. He cited as an example the PLA's restraint in criticizing the United States on recent changes in U.S.-Taiwan policy.⁹

Conclusions

Most regional defense spending and force modernization is not focused on or in direct response to China's current force modernization. In most cases, regional spending and modernization predates or occurs simultaneously with China's recent efforts. Moreover, the defense modernization of some of China's neighboring countries is proceeding more rapidly than China's defense modernization. Although regional states remain wary of China's military modernization, their most immediate concerns regarding China center on the possibility for millions of Chinese refugees fleeing economic or political chaos in China, potential economic competition from China that would slow their own economic growth, and the possibility that China might use their ethnic Chinese communities to intervene in their domestic affairs.

Although many experts do not currently consider China a security threat, in the next decade or two, China could emerge as a more formidable power. According to U.S. and Asian officials, U.S. military-to-military

⁹For example, Taiwan's office in the United States will be renamed from Coordination Council for North American Affairs to the Taipei Economic and Cultural Representative Office, and higher-level U.S. government visits to Taiwan will be allowed.

Chapter 3
Regional Defense Spending, Modernization,
and Dialogue

dialogue with the PLA could provide important opportunities to influence China's policies on issues where the PLA plays a key role and usual diplomatic channels may be ineffective.

Agency Comments

In commenting on a draft of this report, the Departments of Defense and State concurred with its overall content and conclusions. Their respective comments are presented in their entirety in appendixes I and II.

Comments From the Department of Defense



ASSISTANT SECRETARY OF DEFENSE

2400 DEFENSE PENTAGON
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11 MAY 1995

Mr. Henry L. Hinton, Jr.
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Hinton,

This is the Department of Defense (DOD) response to the General Accounting Office (GAO) draft report, "NATIONAL SECURITY: Impact of China's Military Modernization in the Pacific Region," dated 9 March 1995 (GAO code 711064, OSD Case 9884).

The DoD has reviewed the draft report and concurs. Technical comments were provided separately to the GAO staff. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in cursive script, reading "J. S. Nye, Jr." in dark ink.

Joseph S. Nye, Jr.



Comments From the Department of State



United States Department of State

Chief Financial Officer

Washington, D.C. 20520-7427

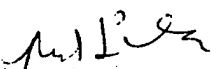
April 28, 1995

Dear Mr. Hinton:

Thank you for the opportunity to provide Department of State comments on your draft report, "NATIONAL SECURITY: Impact of China's Military Modernization in the Pacific Region," GAO Job Code 711064. The Department of State concurs with the coordinated report.

Any followup discussion should be directed to this study's Department of State primary points of contact: Julie Grant, PM/DRSA, at (202) 736-4054, or Mike Meserve, EAP/CM, at (202) 647-6959.

Sincerely,


Richard L. Greene

Enclosure:
As stated.

CC:
GAO/NSIAD - Ms. Glod
State/PM/DRSA - Ms. Grant
/EAP/CM - Mr. Meserve

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Assistant Comptroller General,
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