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Unleashing the Dragon

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# Report Documentation Page

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## **Introduction**

The National Security Strategy defines the objectives and goals for obtaining and ensuring the nation's security. The National Military Strategy is derived from the National Security Strategy and is formulated to establish objectives and methods to ensure the requirements set forth in the National Security Strategy are met. One would think that both the national and military strategies would complement one another in order to maximize the probability of success. Unfortunately, this is not always the case.

The National Security Strategy stresses engagement and enlargement as two methods to promote prosperity and global stability. As a result, the US has embarked on a goal of engaging China vice containing China. Accordingly, the economic sector has been the preeminent avenue of engagement. In fact, some scholars have described the rush of US commercial businesses to participate in Asia's economic boom as an example of "economic nationalism". This type of engagement has had an effect on the militaries of both China and the US. It has helped the Chinese military and hindered the US military.

The current US defense policy will, at best, meet with limited effectiveness in preventing future conflict with China. Although the US remains the sole world superpower, the current tendency to engage China as an economic windfall is undermining the US National Military Strategy and decreases US military capability. US economic engagement presents a lucrative area for the Chinese to exploit unless the US changes its defense policy or alters the relationship between the National Security Strategy and the National Military Strategy.

This paper will describe how the practice of economic engagement erodes the substantial military edge that the US has over China. It will also describe how the concentration on economic incentives as a method of meeting National Security Strategy objectives challenges the effectiveness of the National Military Strategy.

## Feeding The Dragon - The Economic Growth Factor of China

Current economic engagement with China involves substantial US trade and investment. Additionally, as a member of the World Trade Organization (WTO) the US participates in review of other country's requests for membership. One of the countries being considered for admittance is China. The prospect of admitting China to the WTO coupled with the vast amount of US trade and investment already committed to China has set into motion the erosion of the US military strategy.

China, with its abandonment of a purely socialist driven economy, has become a thriving economic giant. Its imports have risen to "three times the average world rate" and "China now runs substantial trade surpluses with the US, the European Union (EU) and even Japan" (Mastel 189). This increase in exports has often been mercantilistic in nature and at the expense of China's own production. China often "dumped" products on the world market (ie, sold items at a price less than it took to produce) in order to gain an export excess. Additionally, China set protectionist tariffs to the level that it "now maintains more formal trade barriers than any other major trading country-including Japan" (Mastel 191). These unfair trade actions have been addressed in bilateral trade agreements with the US. China has agreed to stop these practices, but has yet to do so.

Unfair trade practices are the predominate reason that China is not allowed to join the (WTO). The WTO's rules and regulations are founded on the principle of an open market economy. While China is struggling to transition to a modified open market economy it cannot endorse or fully comply with the rules of the WTO since they are juxtaposed to the aim of socialist economics. China, therefore believes it should be allowed entry in the WTO under developing country status. This status would waive some of the current restrictions to China's entry and allow it to benefit from even more trade and economic exposure.

Some believe that continued denial of China from the WTO will result in "fueling suspicions that objections to WTO entry are only part of a larger effort to restrain China's growing influence and extend pressure on a recalcitrant government" (Zhu 44). These opinions

continue to feed the idea that if China is politely engaged and given as many exemptions as other countries it will develop ties with the international community that will forestall and or make less likely any future aggressive activity

This opinion raises some issues both economically and militarily. China's stated economic goal is to transition into a *socialist market economy* vice a *capitalist open market economy* which the Western world deals with. China's continued use of Central government control to proclaim economic goals and policies forebodes significant challenges to the US if China were to enter the WTO. Any exception to standing WTO requirements made on behalf of China would have long standing implications and require substantial adjustments for global trade as the Western world became more intertwined with a socialist market economy

Militarily speaking although China is technically substandard in terms of the hi-tech world powers, it still possesses enormous latent power. Most of this power is reflected in its "purchasing power parity" wherein "China already has the world's third largest economy" (Cronin 143). Couple this fact with a foreign investment rate that "from 1983 to 1993 increased at an average rate of 41 percent per year" and it becomes obvious that economic engagement has had a substantial effect on developing China's power (Mastel 195). Additionally, and possibly more important in terms of long term strategic initiatives, "overseas direct investment in China comes overwhelmingly from Asia, with 80% per cent of it accounted for by overseas Chinese" (Waldron 45). Overseas Chinese control a substantial portion of many Asian nation's wealth and thereby may exert considerable influence on a nation's policies. For example, in Indonesia the ethnic Chinese portion of the population (which amounts to 5 per cent of the total) "controls 75 per cent of the wealth of the country" (Cronin 143).

With indications of increasing nationalism within the Chinese communities worldwide, it is plausible that the overseas Chinese could exert influence on their host country's policies. As economic engagement becomes stronger, the power held by the wealthy Chinese becomes proportionally greater. Foreign policies found unpopular to the Chinese government can be confronted at the local host government level by well positioned Chinese within the country.

Complicating the effect of economic engagement are potentially destabilizing factors within China itself. Factors such as corruption, fractionalism between provinces over price gouging, a high inflation rate (25 per cent in 1994), and an uneven distribution of economic gains between the eastern coastal industrialized Chinese and the remaining "have nots" foster possible civil unrest. All of these issues require China to maintain access "to international capital to fuel an annual growth rate exceeding 10%" to sustain economic and political stability (Lord 774). These very issues have forced China to reexamine its military and maintain its readiness for any eventuality.

Past US attempts to produce a mutually beneficial trade relationship with China have failed. The US conducts half of the export business with China that Japan does and about 75 per cent of what the EU does. More significantly, the US runs a trade deficit with China that is almost four times that of Japan's deficit and a little over double that of the EU's deficit. This trade deficit equates to about "40 to 60 billion" (Marsel 198) per year just with China alone. Forecasts of future deficits using today's economic engagement as a standard indicate a still increasing deficit level. At some point the economic ties with China will become an entanglement from which the US cannot extract itself. Or worse, future economic ties will be so lopsided that the US, becoming ever more dependent on China's vast market, may not be able to successfully exercise independent action in the Pacific region or in its own interests.

The trade imbalance, as deleterious as it is for the US in losing money out of the country, is not as harmful to the US defense structure as other foreign investment policies that China pursues. In fact, these other policies result in a quicker erosion of the US military's edge in capability. They also present an rapidly increasing problem to the US military's ability to meet its National Military Strategy objectives.

China is the greatest practitioner of the forced technology transfer process. This is the process wherein a company wanting to invest in or export to China must also comply with transferring product and manufacturing technology to China in order to do business. In many recent cases the technology transferred fell into the realm of dual use technology. Transfers

involving fibre optics telecommunications technology, "sophisticated machine tools sold to China by plane maker McDonnell Douglas" and "the sale of satellites by three US firms technology that could have both military and civilian applications" have apparently found their way to Chinese military production and research facilities (Holoway 14)

In all the cases mentioned, the transfer of the technology was formally approved. However, as with the case of the telecommunications technology, controversy within the DOD suggests that some doubt existed as to the wisdom of approving the transfer. Similarly, transfers such as the aerospace machinery were approved contingent upon a commercial written agreement that the equipment would not be used for military purposes. Although the agreement is well intentioned, there is no mechanism to prevent violation of the agreement or to ascertain compliance once the equipment is in China.

These cases point out that a significant portion of China's military modernization is a result of US companies expanding into the Chinese market. The fact that the military modernization might be the result of a loosely controlled effort to engage China by economic means should not be missed.

Some feel that the outcries over the transfer of dual use technology are over rated. As a result some hold the opinion that "a few controversial hi-tech transfers from over eager Western firms that end up in the hands of the Chinese military hold the potential to politicize trade and destroy the opportunities for peaceful commerce so many have worked so long to create" (Crovitz 5). What is missing in this statement is the recognition that the majority of Chinese commercial businesses that deal with foreign investors or companies on the international scene are primarily backed and managed by the People's Liberation Army (PLA) which is often referred to as PLA, Inc. Therefore, just about any foreign investment that includes any type of technology transfer puts that technology into the hands of the Chinese military.

The effect of technology transfers, foreign investments, and trade imbalances all play into the expansion of China's economy which in turn helps to build its military. Publicly China states it raised its defense budget 75 percent since 1988 to a current level of \$28.3 billion. This amount

correlates to about a "\$100 billion defense budget in the West" (Kristoff 50). Since much of Chinese military modernization is not publicly avowed, this value is probably underestimated. Indeed, some analysts contend that it is a factor of 2 or 3 times greater than reported and fed by the infusion of foreign capital.

In summary, even without being in the WTO China has not only fueled its economy at the expense of the US commercial market, but has also managed to establish a rapidly developing modernization program for its military again at the cost of the US.

### **Watching the Dragon - The Growing Military Factor of China**

The Chinese military is rapidly modernizing its equipment and forces as illustrated by the development of an "estimated 200,000-500,000 rapid reaction forces" which are highly trained, modern and mobile (Lin 28). With nearly 3 million people in arms and "possibly the world's fastest growing military budget" (Kristoff 50) it is evident that this modernization is second only to "its number one priority" which is economic development (Lord 774). The extent to which China is conducting this modernization demonstrates an additional disconnect between US military strategy and national strategy.

China has gone global in an effort to accelerate its military modernization. For example, as recently as February 1996 China spent \$2.2 billion to purchase Su-27 warplanes from Russia. Additionally, China has contracted Israel to develop the F-10 advanced fighter for future purchase and also has Israel and Iran purportedly contracted to provide in-flight refueling technology.

In the maritime arena all indicators are that China is developing a blue water navy complete with Kilo class submarines and a bevy of amphibious ships. China has also made it well known that it desires to obtain an aircraft carrier whether it has to buy one or build one. China is also purchasing "anti-submarine warfare technology, and radar technology for combat aircraft" and is receiving technical assistance from former USSR technicians and scientists who "are believed to be experts in the fields of cruise missiles, anti-submarine warfare, and nuclear explosions" (Hickey and Harmel 243).

What is the purpose of the immense modernization program for China's military? Some would believe "that China's increasing military might is simply a function of its growing economic power. Rich nations spend more on everything, including weapons" (Rachner 132). But the historical facts of China's territorial conflicts bespeak another, more probable possibility.

The current military modernization involves more than just obtaining high technology weapons (ie, laser guided weapons and etc) that could be attributed to increasing the effectiveness and efficiency of its military. China has embarked in a program that indicates the intention to develop a power projection capability. Previously, its military was developed to protect its borders. Now it is being developed to protect the projection of power outside its borders.

This desired ability correlates with the current rhetoric China uses to explain to the world its interests and sovereign right to regain its former territories. In February of 1992 China issued its Maritime Law which "asserted sovereignty over wide areas particularly the Spratly Islands and Taiwan" (Lin 28). Of particular interest is the Spratly Island area where roughly "25 percent of the world's shipping passes" and 90 percent of Japan's (and increasingly China's) oil transits (Cronin 155). As oil supplies become more crucial for China, the perceived necessity to have a military force capable of maintaining open sea lanes becomes greater. Additionally, if the hoped for oil and gas reserves are found in the South China Sea region China will need the modernized military forces with power projection capability to enforce its 1992 Maritime Law. Likewise, if China wants the option to militarily retake Taiwan it will require a modernized military with the ability to control both the straits and the overlying air space, and also to project an amphibious force to the shore of Taiwan.

The US military is faced with a potential adversary who day by day is becoming stronger and closing the once wide gap between the capabilities of the two militaries. If the recently conducted war game simulations are correct and China did win over the US in 2005 and 2010, then one must ask how and at what point did China's military shift the gap in its favor.

The answer probably lies partially in the fact that today's economic engagement is precipitating the transfer of technology and the sales of weapons and weapon systems from

nations around the world. Subsequently, the modernization of China's military is likely to exhibit an exponential increase in capability vice a linear increase as some would hope. The exponential increase in capability will quickly close any gap that presently exists and demonstrably reduce the time available for developing alternatives.

This rate of capability increase poses one of the more perplexing challenges to both the National Security Strategy and the National Military Strategy. As stated earlier, the current economic ties with China promote the engagement sought for by the National Security Strategy, but that same economic engagement puts the National Military Strategy at risk. The question is what can be done to either throttle the rate of China's increase in capability so that the US can maintain a capability edge or, how to nullify and/or neutralize China's capability increase. It is a given fact that China's military modernization will occur. The problem exists over how quickly it will occur and more pointedly, how China will use it once it does occur.

### **Fighting the Dragon - The US National Military Strategy Factor**

The National Military Strategy suggests that vital US interests are best protected by use of overseas presence and power projection. That being the case the strategy must now contend with the combination of China's growing nationalism, its associated outreach to reclaim former territories, and its rising ability to project power. To exacerbate the situation all of this is inextricably linked to a powerful economic engine that the economic engagement process fuels.

Overseas presence in the Asia region is now limited to approximately 100,000 troops. The troops are forward stationed in South Korea and Japan. The presence of US forces in Japan is continually being reviewed by the Japanese and cannot be counted upon forever. Recently the issue of US forces in Japan ran up against some economically based rancor from Japan. In fact, "rising opposition to the US presence among the Japanese public has also been a factor behind the US-Japan plan to return some property used by the US military." (Sullivan C3). Although the issue is resolved for the moment with the status quo preserved US forces stationed in Japan

might well become a tough political issue when Japan's future economic interests lay primarily with China

To deter aggression the National Military Strategy primarily calls for nuclear deterrence and regional alliances. The issue of deterrence is not really an issue with China at the present. However, in the future when the US and Russia commence START III talks and postulate warhead limitations, the China factor will come into play.

The US continues to build regional alliances, but as China becomes more powerful it may find a larger seat at the table than the US. In some cases it is possible that the US may not even have a seat at the table if China becomes the dominant military and economic power in the region. China is already negotiating with many of the Asian countries on a bilateral basis in order to increase its leverage. When China's capabilities finally match or exceed the US's capabilities these bilateral agreements might negate US influence in the region.

To fight and win wars the National Military Strategy primarily promotes war time power projection, and fighting both combined and joint. The National Military Strategy commitment to fight combined will, in fact, be necessary if the adversary is China. The question of who will combine with the US is a major unknown. As the world's economic leaders become more and more entangled with the China's economy, they become less and less enthralled with the idea of publicly backing the US militarily.

Japan, for instance, has the "chance to balance its trade by the 21st century" if it continues to use foreign markets such as China to manufacture products that Japan then reexports to other countries (Sullivan C3). Concurrently, China has improved its relations with Japan. Japan is now China's second largest trading partner and it is "acutely aware of its dependence on natural resources from abroad" (Heilbrunn 29). Therefore, it would take a significant event that would threaten the national interests of Japan or any other foreign government that is economically tied to China before they would come to the aid of the US in a regional matter that was counter to the desires of China. In this regard economic engagement has effected the viability of the US National Military Strategy.

An additional example of the possible lack of solidarity behind the US is provided by a recent poll of Asian business executives conducted by the Far Eastern Economic Review. This poll revealed that a slim majority would favor economic sanctions against China if it attacked Taiwan. However, when it came to questioning whether Japan should play a military role in the region the answer was a resounding "no" with Japanese executives leading the way at about 99 percent against.

It seems (and experience shows) that the US is normally applauded for initiating sanctions against China when it becomes necessary. However, once the sanctions are initiated, those same countries "supporting" the US are also the ones whose commercial companies move in and expand their economic ties at the expense of the US.

## **Conclusion**

To be able to successfully leverage the Chinese in the future, the US must bring the National Security Strategy as it is being executed in the economic sector in line with its National Military Strategy. As budget cuts become greater and more opportunities arise for economic investment in China, the necessity to link the methods of meeting National Security Strategy objectives with National Military Strategy objectives becomes especially important.

To this end the US defense policy should become more active in eliminating dual use technology transfers to China. Closer coordination between DOD, the Commerce Department and the State Department is essential in accomplishing this goal. The US defense policy must recognize and emphasize that control of the economic might of China is essential to maintaining the military capability gap in the US's favor. The current trade imbalance with China is a practical example of where additional control could be used. The imbalance is partially due to unfair trade practices that penalize US commercial industries. A hard stance on China's entry into the WTO and limits on imports from China would either change Chinese attitudes towards trade practices or China would risk a loss of some of its trade. The US ought to engage other countries to stand

as a united economic force on these issues and counter China's practice of playing one country off of another in an effort to get what it wants

Another area that US defense policy must address is China's territorial expansion. As a matter of defense policy, the US should signal China that its territorial expansion will only be accepted by proper settlement via arbitration in the international court and not by the mere referral to historical claims. Implicit in this policy would be an understanding that military settlement of territorial disputes other than for self defense will not be tolerated. In this regard, the South China Sea issue should be used as a test case. This would assist in assessing China's true motive behind its modernization program before the next phase of DOD downsizing occurs.

Pressure should be brought to bear on countries who willingly sell weapons or weapons technology to China that significantly upgrades their offensive capability. Although, China has the right to modernize its military to any extent it chooses; anything that accelerates the modernization to the point it puts the US military at a disadvantage needs to be prevented. If necessary, countries friendly to the US (ie, Israel) should be warned to stop providing hi-tech offensive weapons to China or else face a commensurate loss in military/foreign aid. The US has historically applied economic coercion to those countries whose actions or policies have been detrimental to its own. This would be another case for its use. Along the same lines US companies that do not prevent transfers of dual use technology or ensure its safeguard should be legally barred from conducting any additional foreign trade.

China should not be allocated Most Favored Nation (MFN) status as long as it participates in the spread of either nuclear weapons or conventional weapons of significant capability (ie, M-11 missiles). Giving MFN status to China who is at the same time adding to the weapons proliferation problem does double harm to US military capability. It spreads weapons around the world to potentially hostile countries and at the same time allows China to reap the economic benefits of that status and thereby continue to fuel its military modernization and strategy.

The defense policy of the US should be aligned to either prevent China from becoming the next apparent to the US as the current world superpower or it should modify China's behavior to

elicit a more promising tone with regards to China's intentions. The defense policy must integrate and acknowledge the key relationship and binding ties between the economic methods invoked to meet US National Security Strategy objectives and the success of the US National Military Strategy.

Finally, China's economic growth may culminate in the future with it becoming a regional economic hegemon. Consequently it may also become a regional military hegemon. The difficulty lies not in China attaining hegemonic stature, but in ascertaining what it will do when it harbors its tremendous power as a hegemon. The US and the rest of the world (especially Asia) will need time to assess the direction and motive that China is taking. To buy that time, and to allow time for possible strategy changes, the method of economic engagement must be changed from one which accelerates change to one which allows change to occur at a slower, more controllable rate. It should also effectively complement the attainment of both the military and national strategies.

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