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WILL CHINA'S RISE REMAIN PEACEFUL?
(Military Threat or Economic Competitor)

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Executive Summary

Title: Will China's Rise Remain Peaceful?

Author: Major Albert L. Benson, Jr., United States Army

Thesis: China has begun a single-minded mission to become the supreme military power in the Asian-Pacific rim while the United States is unwittingly strengthening their economy, ultimately leading to a credible military threat.

Discussion:

China has become the world's 2nd largest economy. As their economy continues to grow at an average of 10% annually, the world has begun to speculate whether China's economic power will ultimately lead to international instability. Since China has not been threatened by hostile action from any other country, it is unclear why they have made double-digit increases in their military expenditures over the past 20 years. One possible explanation may be to protect and acquire vital resources needed to sustain a booming economy. Secondly, China may be increasing its military capability in order to deny the United States intervention over a possible conflict with Taiwan. While the aforementioned explanations are merely possibilities, it is evident that China's military modernization requires economic modernization. Surprisingly, a major contributor to China's economic modernization is a reliance on U.S. markets and foreign direct investments (FDI). In light of this economic interdependence, should the U.S. take action to retard the growth of China's economy thus hampering their military modernization efforts?

Conclusion: China's immediate concern for now is keeping its economy thriving over the next 15 to 20 years. However, in the foreseeable future they will evolve into a military threat as a result of double digit defense budget increases.

WILL CHINA'S RISE REMAIN PEACEFUL?

(Military Threat or Economic Competitor)

Economic success is central to the emergence of the People's Republic of China (PRC) as a regional and global power, and is the basis for an increasingly capable military. Underscoring the military's comprehensive, multi-dimensional view of warfare, the People's Liberation Army (PLA) Academy of Military Science text, the *Science of Military Strategy* (2000), notes that "war is not only a military struggle, but also a comprehensive contest on fronts of politics, economy, diplomacy, and law." China appears to be on a single-minded mission to become the supreme military power in its hemisphere. Consequently, as the U.S. continues to import Chinese goods with increasing abandonment, we are unwittingly doing little more than feeding the budding hegemon; contributing to it rapidly catching up and potentially surpassing the U.S. economically and militarily. It is evident that China has a plan for dealing with us. We cannot continue to stand by while China grows strong eating from the giant trough of the U.S. economy. It is time we put stipulations in place requiring some positive behavioral changes.

THE SIGNIFICANCE OF CHINA'S ECONOMIC BOOM

Across the world China's rapidly growing economy has become the buzz of globalization. Since economic reforms were initiated by Deng Xiaoping in 1979, the Chinese economy has achieved a growth rate averaging nearly 10 percent per year over the past 20 years. This strong economic performance has significantly improved living standards for the Chinese people. By some estimates, about 200 million Chinese have been brought out of poverty since

the economic reforms began. Moreover, by 2004 life expectancy at birth in China had reached 71 years, the infant mortality rate had fallen to 26 per 1,000 live births, and the literacy rate of those aged fifteen or above had reached 90 percent. These are undoubtedly remarkable accomplishments; however, there are global implications that require careful scrutiny.

Reason #1: Increasing Military Expenditures

Global anxiety continues to rise after 15 years of double-digit percentage point defense budget increases and what appears to be an acceleration of China's military modernization programs. Determining just how much money China spends on defense is quite difficult because the official figure it publishes is not even close to what they actually spend. The *CIA World Factbook* and the *World Defense Almanac* just list the official Chinese budget amount, but state that other money is obviously available to the military. Basically, the Chinese economy lacks sufficient transparency to gain an accurate assessment of its true military expenditures. The official military budget which China and Russia announced does not include spending on nuclear weapons, cruise missile development, and fighter development. These are categorized under the Science/Space development budget. Spending on training are categorized under the Education budget, and veteran pensions are categorized under the Welfare budget. As a result China and Russia's actual military expenditure may be more than 3 times as much as the official military budget. The graph below (Figure 1) depicts what the Chinese government has officially reported over the past 13 years as well as how much this figure varies from the Defense Intelligence Agency's estimates.

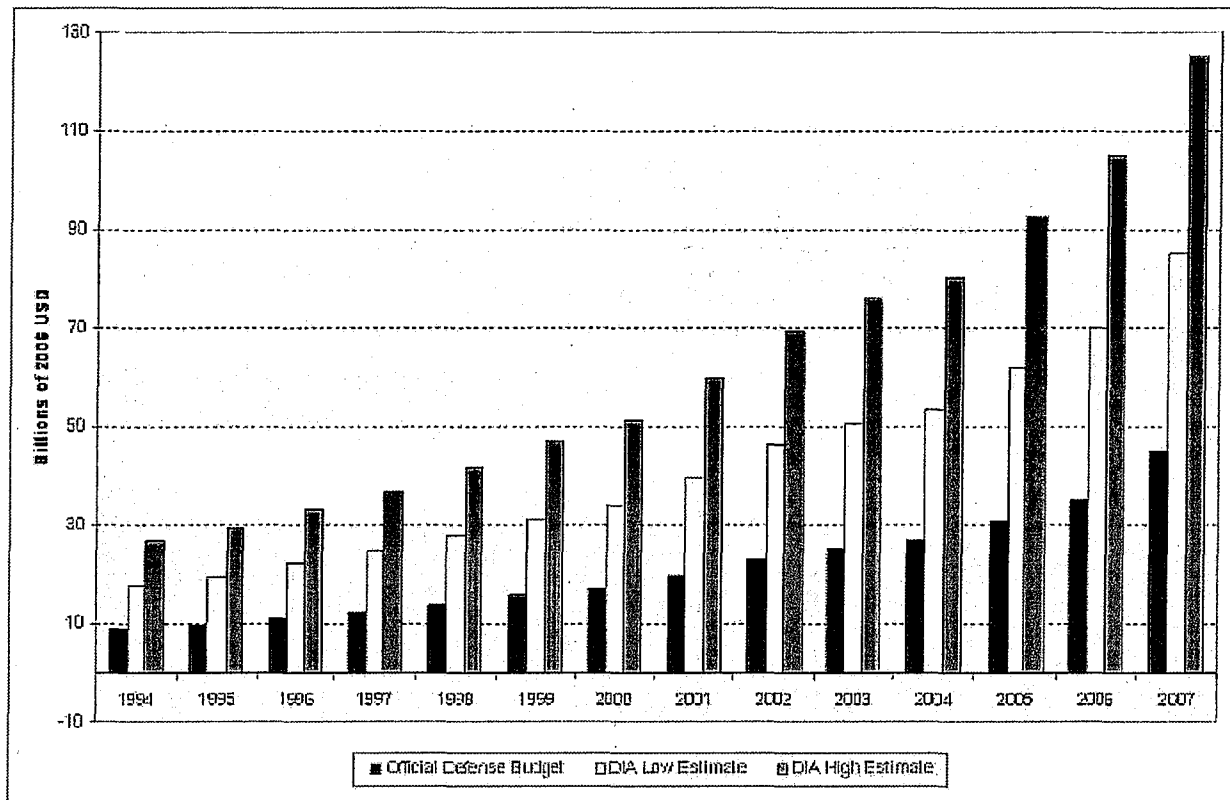


Figure 1 - Defense Intelligence Agency's (DIA) estimate of China's military expenditures, report in 2007 *Annual Report to Congress* (27).

Of particular interest is China's need for an aircraft carrier program which arouses much speculation in the United States. This is definitely contradictory from their assertion that increased military expenditures are for self defense. After all, aircraft carriers are used to project power abroad and extend operational reach. Recent assessments have ranged from "China does not have an aircraft carrier program" to "China is to build *Nimitz* like Supercarriers!" It is likely that China is indeed about to build aircraft carriers, but cut from more conservative clothe than the *Nimitz* class, and that we will see the first indigenous Chinese carrier by 2013.¹ Before we

attempt to determine what type of carrier China is trying to develop, and how many will be built, we must first understand China's rationale for developing this capability.

China will view the value of an aircraft carrier from both a political and military viewpoint, both ways of increasing China's *Comprehensive National Power*. Aircraft carriers (amongst other weapon systems) provide a country with significant prestige value. Port visits, to both friends and potential enemies in order to 'show the flag', usually have a very important impact. The possession of such vessels also highlights the technological capability of a nation, and the nation's ability to undertake such grand projects. An initial assessment appears to be based on the assumption that China plans a direct naval encounter with the US, and that a central tactic in such an engagement will be carrier-on-carrier battles. This is highly unlikely to be a Chinese operational concept, nor are they likely to be drawn into such an engagement. Then what military application might China see for an aircraft carrier? Are there realistic scenarios where China would employ aircraft carriers to achieve a military objective?

One such scenario would be tension with India over energy supplies, one that would require a Chinese naval presence in the Indian Ocean. Another scenario would be initial operations against Taiwan. This may seem contradictory as China does not need aircraft carriers for operations against Taiwan. The only military adversary the PLA potentially will confront with the capabilities it fears most are the U.S. armed forces. Currently, should that confrontation occur, it could be over Taiwan. Preventing Taiwan's independence is declared the PLA's "sacred responsibility".² In his prepared remarks, Secretary Rumsfeld asserted that because no country threatened China, Beijing's investments in its military modernization programs were therefore questionable.³ A third scenario would be a conflict in the South China Sea over the Paracel or Spratly Islands. Fourthly, it is China's intention to be able to conduct operations out

to the 'second island chain', and the possession of aircraft carriers would provide the air support that would be required for such operations. Finally, an aircraft carrier represents a "force-in-being", and therefore something that military planners must also take into consideration, even if those planners consider it unlikely to be employed against them.⁴

Reason #2: Resource Scarcity

Obtaining enough resources will be a major preoccupation for Chinese leaders in the foreseeable future. China today is the world's 2nd largest economy behind the United States. With a population just over 1.3 billion the demand for food, water, and fuel has skyrocketed beyond China's innate ability to provide. China is currently consuming resources at an unsustainable rate and the scarcity of the critical resources of water, food, and oil may ultimately drive it to actions that are destabilizing to world peace. Overuse of water is depleting aquifers and draining rivers dry.⁵ It is, remarkably, producing enough grain to sustain its population now, but as its population grows and its standard of living increases, it will be forced to import mass quantities of food.⁶ Finally, its booming industry and trade are heavily dependent on oil, which does not occur in great abundance in China.⁷

China's appetite for energy has grown rapidly. Chinese oil consumption has risen by more than 50 percent since 2000, and the International Energy Agency estimates that Chinese oil usage has increased by about 400,000 barrels per day in 2006, representing nearly half of this year's growth in world oil demand. This rapid expansion in energy use reflects both overall economic growth and a relatively energy-intensive pattern of development.⁸ The East-West Center estimates that by 2010, 95 percent of the oil for the East Asian countries will be supplied from the Persian Gulf.⁹ Since the vast majority of this oil will be shipped through the South

China Sea, one can begin to understand China's recently renewed territorial claims on the region and its increasing desire for a blue water navy (*thus an aircraft carrier program as aforementioned*) to enforce those strategic claims.¹⁰ At present, China can neither protect its foreign energy supplies nor the routes on which they travel, including the Straits of Malacca through which some 80 percent of China's crude oil imports transit – a vulnerability President Hu Jintao refers to as the "Malacca Dilemma."¹¹

Another resource issue for China to contend with is its water shortages and water quality issues. This has significant implications for:

1. China's ability to produce its own ethanol fuel
2. The sustainability of China's agriculture industry
3. Manufacturers who require clean water, such as paper producers and semiconductor fabrication plants ("fabs").

In the United States, many people take potable water for granted. In China many people consider poor water quality to be the cost of economic growth. Alas, the relationship is not that simple. China's poor water quality can add significant risk to certain Chinese industries and foreign companies that are reliant upon them. Both China and Canada possess around 7% of the Earth's total fresh water supply, yet China is home to 40 times more people than Canada. China's water reserves are only 25% of the global average and the United Nations reports that China has one of the 15 lowest per capita water supplies in the world. China's industrial water use is also inefficient. To generate \$1250 (10,000 yuan) in GDP, for example, China uses three times more water than the world average, and seven times more than the United States, according to the Worldwatch Institute. Further, only 60 to 65 percent of the water used by Chinese industries was recycled or reused in 2004, as compared to 80 to 85 percent in most developed countries.¹²

The fishing rights, potential energy resources in the region, and 25 percent of the world's shipping traffic that traverse the waters of the South China Sea only furthers its anxiety to control this territory.¹³ It obviously views this territorial expansion as a partial solution to its resource dilemma. These resource scarcity statistics may not sound alarms by themselves, but when one considers they are happening in the country with the world's largest population and fastest growing economy, one can start to understand the serious internal pressures the government is facing and potential repercussions for international stability. For these reasons, China's resource rich neighbors like Kazakhstan should take notice.

What we have seen thus far is a Chinese movement to form key alliances with resource rich countries to aid in fueling their booming economy. The problem however is that China's reliance on foreign energy imports has affected its strategy and foreign policy in significant ways. As a result, China has forged considerable alliances with authoritarian states like Angola, Central Asia, Chad, Egypt, Indonesia, Iran, Nigeria, Oman, Russia, Saudi Arabia, Sudan, and Venezuela. The basis of these partnerships has primarily been agreements to provide infrastructure and other high profile services in exchange for badly needed resources. China's increasing need for oil may drive it even closer to its rogue trading partner of Iran. John Orme sums up the implications of this tremendous thirst for oil:

The great majority of China's oil will be derived from the Persian Gulf. To safeguard this supply... China will deploy a blue water navy to patrol the sea lanes and will seek strategic partnership with two of the countries with the greatest reserves – Iran and Iraq – policies with “unsettling implications” for Japan, the United States, and the rest of Asia¹⁴

Reason #3: Taiwan Conflict

Beijing appears prepared to defer the unification of Taiwan as long as it believes trends are advancing toward that goal and that the costs of conflict outweigh the benefits. In the near term, Beijing's focus is likely one of preventing Taiwan from moving toward independence while continuing to hold out terms for peaceful resolution under a one country, two systems framework that would provide Taiwan a degree of autonomy in exchange for its unification with the mainland.¹⁵ Furthermore, China is deterred on multiple levels from taking military action against Taiwan. First, China does not yet possess the military capability to successfully accomplish its political objectives on the island, particularly when confronted with the prospect of an U.S. intervention. Moreover, an insurgency directed against the PRC presence could tie up PLA forces for years. A military conflict in the Taiwan Strait would also affect the interests of Japan and other nations in the region in ensuring a peaceful resolution of the cross-Strait dispute. Beijing's calculus would also have to factor in the potential political and economic repercussions of military conflict with Taiwan.

China's leaders also recognize that a war could severely retard economic development. Taiwan is China's single largest source of foreign direct investment, and an extended campaign would wreck Taiwan's economic infrastructure, leading to high reconstruction costs. International sanctions caused by China's military action against Taiwan could further damage Beijing's economic development. A conflict would also severely damage the image that Beijing has sought to project in the post-Tiananmen years and would taint Beijing's hosting of the 2008 Olympics, for which China's leaders would almost certainly face boycotts and possibly a loss of the games. A conflict could also trigger domestic unrest on the mainland, a contingency that Beijing appears to have factored into its planning. Finally, China's leaders recognize that a

conflict over Taiwan involving the United States would give rise to a long-term hostile relationship between the two nations – a result that would not be in China's interests.

THE DRIVING FORCES BEHIND CHINA'S ECONOMY

China has become the fastest growing economy in the world today, averaging an annual growth rate of 9.7%. Real GDP grew by 11.1% and by 11.5% during the first half of 2007 (over the same period in 2006). In 2006, exports rose by 27% to \$769.2 billion, while imports were up by 20% to \$639.1 billion. This produced a trade surplus of about \$144.3 billion. For the United States, China is now its 2nd largest trading partner (2006), its 4th largest export market, and its 2nd largest source of imports. Two of the most important sectors of China's economy are agriculture and industry, which together employ more than 70% of the labor force and account for more than 60% of China's GDP (see Figure 2 below). While China is expected to continue to enjoy rapid economic growth in the years ahead and could become the world's largest economy within a decade, it faces a number of challenges, including widespread corruption, over-dependence on exports and investment for growth, resource scarcity, and widening income disparities.

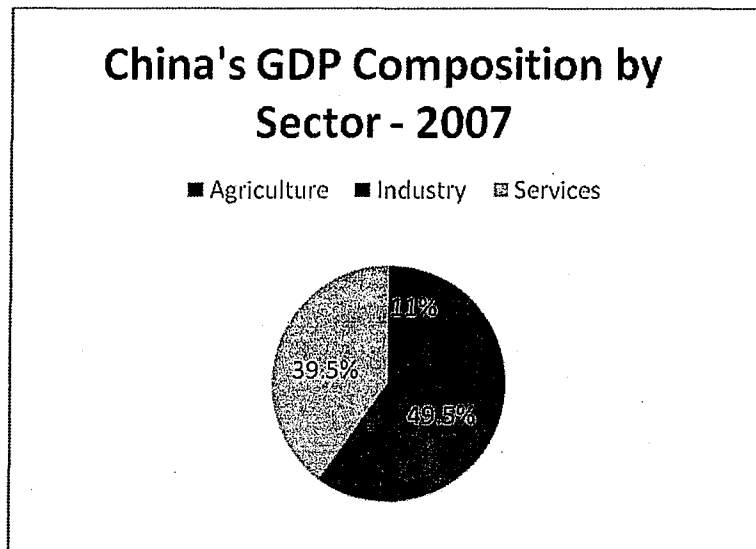


Figure 2 – China's GDP composition by sector, *China Economy 2008, CIA World Factbook*

As of 2005, 70% of China's GDP had transitioned to the private sector of the economy.¹⁶ The smaller public sector was dominated by about 200 large state enterprises concentrated mostly in utilities, heavy industries, and energy resources, 11 of which are part of the defense industrial firms. These industrial firms are primarily the result of Jiang Zemin's 1998 directive to spin off the PLA's commercial enterprises into private companies to reform military procurement from a system in which the PLA directly controls its sources of supply to a contracting system more akin to those of Western countries. These defense industries consist of 11 state-owned enterprises that, in one form or another, have historically always been involved in the production of military goods. They generally cover the industrial areas of nuclear affairs, aerospace, aviation, shipbuilding, ordnance, and electronics. The companies are:

- China National Nuclear Group Corporation
- China Nuclear Engineering and Construction Group Corporation
- China Aerospace Science and Technology Group Corporation
- China Aerospace Science and Industry Group Corporation
- China Aviation Industry Group Corporation I
- China Aviation Industry Group Corporation II

- China State Shipbuilding Group Corporation
- China Shipbuilding Industry Corporation
- China North Industries Group Corporation
- China South Industries Group Corporation
- China Electronics Technology Group Corporation

Currently, the above SOEs are not controlled by the Chinese military. Rather they are civilian entities under the authority of the State Council and its subordinate organ, the State Commission on Science, Technology and Industry for National Defense (COSTIND). These firms are contracted by the People's Liberation Army (PLA) to produce military items. China's defense industrial firms are completely different entities from the PLA-owned companies and factories; however, these defense industries or SOEs are unsurprisingly managed by former PLA officers.¹⁷

The military budget passed annually by the National People's Congress alone is insufficient to underwrite the modernization of China's armed forces, and indeed it accounts for only a portion of the revenues available to the PLA, which uses its extensive system of factories not only to meet its own logistics needs but also to produce weapons for sale abroad and consumer goods for domestic sales, profits from which supplement the official budget.¹⁸ So where does the other 'unofficial' defense money come from and how much does it really amount to?

In addition to the official defense budget, Arthur S. Ding cites two other sources of defense money; funds funneled through state and local governments, and profits earned by businesses owned and operated by the PLA. Arthur S. Ding is a Research Fellow at the China Politics Division of the Institute of International Relations, National Chengchi University in Taipei, Taiwan. An example of funds being funneled from other areas of the government was the \$2.8 billion purchase of 50 Su27 fighter jets from Russia with non-defense funds by the State

Council. Other non-defense areas of the government, such as the Ministry of Finance, provide most of the funds to the military for training, operating, and arming the militia and the PAP. The amount of money received from the third area, PLA owned businesses, may be the largest of the three, but it is the most difficult to assess.

The PLA has two major sources of income, not reported in the official budget. The first, the sale of weapons to foreign purchasers, is estimated to have been nearly \$2 billion annually in the late 1980s. With the end of the Iran-Iraq War, to both sides of which China supplied arms, and with pressure from the United States and other nations to restrict these arms sales, China has reduced the volume, but they probably continue to generate up to \$1 billion annually. Profit from the second source of off-the-books income for the PLA, the sale of civilian products produced in military controlled factories, may until very recently have contributed as much as an additional \$4 billion per year to PLA revenues.

One possible example may be Huawei Technologies, with over 70,000 employees and strong backing from the state, brags that its goal is to dominate telecommunications equipment markets all over the world. Huawei is run by a retired army officer, Ren Zhengfei. Research organization, RAND Corporation, said that Huawei has "deep ties" with the Chinese military. It is not only a customer of Huawei's, RAND said in an analysis prepared for the U.S. government, but also was a "political patron and research and development partner." Its current focus is the United States. Three months ago, Huawei teamed up with Bain Capital Partners in a \$2.2 billion takeover bid for U.S. networking pioneer 3Com Corp., a Marlborough, Mass., company that makes systems to protect against computer hackers. Huawei would initially take a 16.5 percent stake in the company and later be allowed to purchase up to 21.5 percent. But the specter of foreign access to U.S. telecommunications and networking infrastructure has raised hackles in

Congress. Lawmakers previously objected to Cnooc, China's biggest off shore oil producer, which unsuccessfully attempted to purchase Unocal for \$18.5 billion in 2005. Foreign ownership concerns also derailed Chinese appliance maker, Haier Group's attempt to purchase Maytag for \$1.3 billion. Fueling lawmakers' unease about the Huawei deal is that no one knows exactly who owns it. Technically, Huawei is a private venture, not state owned. But the company won't reveal information about its shareholders except to say its "100 percent employee-owned," with its chief executive owning one percent.¹⁹

Trade and foreign investment continue to play a major role in China's booming economy. FDI, which includes things like mergers, acquisitions and companies building factories abroad, functions as a sort of seal of approval on the political and economic practices of developing economies, and deepens the integration of global markets. It also increases economic growth--by one estimate, a one-percentage-point rise in the ratio between the stock of FDI and GDP in developing countries raises output by 0.4%.²⁰ Given all that, it is not surprising that the level of FDI in the world is a closely watched statistic. The mostly wealthy countries that belong to the Organization for Economic Co-operation and Development (OECD) are the world's biggest source of FDI. In 2004, the amount of money invested outside the OECD reached its highest levels in over a decade, as rich-world investors sought cheap labor and untapped consumer markets in the developing world.

China, where this combination is particularly enticing, has played a key part in this trend. Its FDI inflows have been regularly setting annual records, and 2004 was no exception: China recorded \$54.9 billion flowing into the country, while only \$1.8 billion flowed out. China's foreign direct investment in 2007 totaled \$82.66 billion, up 13.8 percent from the previous year, as stated by the Chinese Commerce Ministry. This rise came despite the government's efforts to

cool spending on assets in a bid to tame the pace of economic growth. Of the total, foreign investment excluding that in the financial services sector totaled \$74.77 billion in 2007, up 13.6 percent from the previous year, the ministry said in a statement posted on its website.²¹ But other regions have also benefited from the boom. South America and Argentina in particular, seems to be bouncing back from a slump. And direct investment in India is growing rapidly, albeit from a very low level.²²

With projected inflows of some US\$87bn per year in 2007-11 China is expected to rank third globally, behind the US and UK. China's projected share of global FDI inflows of some 6% in 2007-11 would be equal to its share in 2002-06. China continues to be ranked by most international firms as their preferred investment destination, including in the survey conducted for World Investment Prospects. Despite some signs of the incipient FDI protectionism that is also affecting many other parts of the world, the dominant trend in China is likely to remain one of FDI liberalization. China is committed to meeting its World Trade Organization (WTO) obligations. The gradual opening up of domestic commerce, financial services and tourism is under way. Geographical restrictions on where foreign companies are allowed to set up operations will also be relaxed in the coming years. China's price competitiveness will be maintained over the forecast period. On baseline assumptions, there seems little risk of a massive relocation of FDI from China to cheaper locations.²³

The emergence of China as a major economic superpower has raised concern among many U.S. policymakers. Some express concern over the large and growing U.S. trader deficits with China, which have risen from \$56.9 billion in 1998 to \$256.3 billion in 2007, and are viewed by many Members as an indicator that U.S.-Chinese commercial relations are unbalanced and unfair (see Table 1 below).

Table 1: China's Trade with the United States (\$ billion)

Note: US exports reported on FOB basis; imports on a general customs value, CIF basis
Sources: US International Trade Commission, US Department of Commerce, and US Census Bureau

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
US Exports	14.3	13.1	16.3	19.2	22.1	28.4	34.7	41.8	55.2	65.2
% change	10.9	-8.0	24.4	18.3	15.1	28.5	22.2	20.6	32.1	18.1
US Imports	71.2	81.8	100.0	102.3	125.2	152.4	196.7	243.5	287.8	321.5
% change	13.8	14.9	22.3	2.2	22.4	21.7	29.1	23.8	18.2	11.7
Total	85.5	94.9	116.3	121.5	147.3	180.8	231.4	285.3	343.0	386.7
% change	13.4	11.0	22.6	21.4	21.2	22.8	28.0	23.3	20.2	12.7
US Balance	-56.9	-68.7	-83.7	-83.0	-103.1	-124.0	-162.0	-201.6	-232.5	-256.3

Much of these imports consist of much needed energy supplies, raw materials, and components required to assemble finished goods. Basically, China is ONLY importing what is needed to fuel its rapidly growing economy. Others claim that China uses unfair trade practices (such as an undervalued currency and subsidies to domestic producers) to flood U.S. markets with low cost goods, and that such practices threaten American jobs, wages, and living standards.

In the lead-up to Saturday's South Carolina primary, Democratic presidential candidates warned in dire terms of the dangers posed by China's growing economic power.

Sen. Barack Obama chided his rival John Edwards, telling him "John, you voted for permanent trade relations with China," the accord in 2000 which President Bill Clinton pushed Congress hard to ratify.

China, Obama said, "has been the biggest beneficiary" of the 2000 trade accord and is "the biggest problem that we have with respect to trade, particularly because they're still manipulating the currency."

Edwards fired back "no one has to explain to me what these trade deals have done to South Carolina or North Carolina. My father, who's sitting right out there in the audience, worked in the mills for 36 years and we have seen what these trade deals have done to people who have worked hard all their lives." Edwards has complained that the terms of the accord which were intended to protect U.S. firms have not been enforced by the Bush administration.²⁴

These and other congressional concerns over China's economic practices have led to the introduction of numerous bills in the 110th Congress, some of which would impose restrictions on imported Chinese products. It is ridiculous that China's economy is fueled by 21% of U.S. exports while less than 7.5% of U.S. goods are imported to China. U.S. lawmakers blame Beijing's low valuation of the yuan as a significant factor causing Chinese products to be much cheaper in the U.S. while U.S. goods are much more expensive in China. Forty-two members of Congress recently demanded formal action against China under Section 301 of the 1988 Trade Act. The Bush administration rejected that, so a powerful group of lawmakers is proposing a bill that would make China vulnerable to antidumping penalties for alleged currency misalignment. Major presidential candidates have advocated heavy tariffs on imports from China if it fails to appreciate its currency.²⁵ When it comes to trade, China has learned well from its successful Asian neighbors like Japan, South Korea, and Malaysia. China has learned that in the name of free trade it can enjoy access to U.S. markets without fully reciprocating. Like Japan, South Korea, and Malaysia, China is enjoying a huge trade surplus with America.

SHOULD THE U.S. TAKE ACTION TO STALL CHINA'S ECONOMIC GROWTH?

The Director of National Intelligence, Michael McConnell told the Senate on February 27, 2007 that the Chinese are "building their military, in my view, to reach some state of parity with the United States," adding that "they're a threat today, they would become an increasing threat over time."²⁶ This is not a unique revelation to other Washington policy-makers as well. McConnell's predecessor John Negroponte testified to the Senate Intelligence Committee in February 2006 that "China is a rapidly rising power with steadily expanding global reach that may become a peer competitor to the United States at some point."²⁷ Despite the Chinese Communist Party leadership's espousal of China's "peaceful rise," the unprecedented peacetime expansion of China's military capabilities present a clear intent that China intends to challenge the United States in the Western Pacific and establish itself as the region's predominant military power. Why then should the United States wait until the sleeping giant has risen? If it is not already too late, the U.S. should definitely act now to hinder China's so called "peaceful rise."

Moreover, Beijing has been open about its dislike of U.S. hegemony in international affairs and has stated that its overarching foreign policy objective is to undermine this hegemony through pursuit of a multi-polar world order.²⁸ Professor Samuel P. Huntington classifies the post-Cold war political system as a "uni-multipolar system with one superpower and several major powers." He explains that the superpower, America, is the hegemon, having the greatest economic, military, and political power.²⁹ However, America's power is somewhat tempered by the existence of several major powers; one of which is China.³⁰

Here are a few potential outcomes of China's economic boom: proliferation of sensitive weapons technology to rogue states, resource scarcity leading to an imperialistic China, strategic alliances with rogue states with the intent to undermine U.S. hegemony and war over the unification of Taiwan. At a visit to Iran in April 2004, China's president, Hu Jintao, drew attention to the huge potential in economic co-operation between the two states, and this has continued apace today. On 18 March 2005, Fereydoun Verdi-Nejad, the Iranian ambassador to China, noted that there were more than 100 Chinese projects under construction in Iran and that the value of economic transactions between the two countries hit U.S. \$7 billion in 2004. The question is whether this burgeoning relationship between Beijing and Tehran in any way constitutes a major new alliance directed against U.S. interests.³¹

WHAT STEPS CAN BE TAKEN TO STALL CHINA'S ECONOMY?

The Chinese economy and therefore its military are heavily dependent on the U.S. economy for its continued growth and expansion. More specifically, diplomatic and economic actions against China could deliver a decisive blow without any military action at all. An embargo alone could result in at least a 21% reduction in China's GDP. The excerpt below further demonstrates how dependent Asian markets are on the U.S. consumer.

Global market turmoil continued into a second week as Asian markets tumbled Monday in the wake of Wall Street's sell-off Friday amid persistent worries about a possible U.S. -- and worldwide -- economic slowdown. China's benchmark index plummeted 7.2 percent to its lowest point in six months on concerns that a recession in the U.S. would mean less demand for Chinese-made products. Investors around the world have been jittery for weeks about a U.S. slump, which would likely weaken demand for exports and drag on global growth.³²

Penalizing U.S. companies through taxation may make overseas ventures less desirable thereby offsetting cheap labor costs and operating expenses. Western companies look at China, the most populous country in the world with the fastest growing economy and fantasize about 1.3 billion new customers for their products. Even worse, these companies have knowingly partnered with or bought into PLA-owned businesses. China has somehow enticed western companies to buy-in to their state-owned enterprises (SOEs) – and western companies have taken the bait! In fact, western companies have been so anxious to invest that China has even been able to place stipulations on investment. For example, if a company wants to build their product in China, they are pressed to transfer the technology that goes into making that product to the Chinese state-owned enterprise.³³ There is nothing to stop that state-owned enterprise from using this technology to compete with the company from which they derived it or from producing something else such as weapons.

China's outward investment drive has become the subject of growing media and political attention, as increasingly internationally minded Chinese companies have begun scouring the globe for takeover targets. Back in 2005 when Lenovo, China's leading maker of personal computers (PCs), bought IBM's PC division for US\$1.25bn, some pundits hailed the deal as the beginning of a wave of big acquisitions abroad by Chinese companies. Certainly, China's overseas mergers and acquisitions (M&As) have soared recently. In 2006 Chinese companies did 103 crossborder deals worth US\$20.7bn, according to Dealogic. That is a dramatic rise from 2004 levels, when Chinese firms made 53 overseas purchases valued at US\$3.8bn. However, there are indications that Chinese M&As within the U.S. will decline significantly as more western countries view China with some trepidation as a powerful new economic competitor.³⁴

Indeed, the watershed event for China's outbound M&A strategy was the unsuccessful US\$18.5bn bid by China National Offshore Oil Corp (CNOOC) to buy US-based Unocal in 2005. That deal went down in flames as US Congressmen warned the Bush administration that approving it would amount to handing over America's energy security to the Chinese government (CNOOC is a state-owned enterprise). Some observers say China's resolve to avoid any similar public loss of face in the future has made it tougher since then to win central government approval for offshore purchases. A transaction is unlikely to get Beijing's green light unless it looks likely to sail through free of political hassle in the M&A target's home country.

The US seems a particularly unwelcome place for Chinese M&As. Even before the CNOOC-Unocal debacle, Lenovo had to get clearance for its IBM deal from the Committee on Foreign Investment in the US, an inter-agency government body charged with reviewing sensitive foreign investments. As the Hong Kong banker puts it, Lenovo did not escape Congressional scrutiny even though the purchase involved "a dud commoditised business with most of its manufacturing already done in China".³⁵ U.S. manufacturers say Beijing's low valuation of the yuan, its currency, makes Chinese goods cheaper in the United States and American products more expensive in China. Lawmakers are considering bills that would punish China for what they contend are predatory trade practices.

CONCLUSION

Today China is an economic competitor; however, in the foreseeable future they will evolve into a military threat as a result of their economic strength. While they advocate a peaceful rise, China's actions have implications of a national strategy to establish itself as the hegemonic power in the Asian-Pacific rim. Deng Xiaoping's modernization reforms initiated in

1979 specifically indicated the priority of economic modernization proceeding military modernization. Thus, China's immediate concern for now is keeping its economy thriving.

It is somewhat troubling that China's economic rise has a significant measure of U.S. influence which has helped China to become the 2nd largest economy in the world today. The United States happens to be China's top export destination (\$232.7 U.S. bil) and 5th largest source of FDI.³⁶ The resultant consequence of this extraordinary growth has unfortunately led to a proportional growth in defense related expenditures. China has improved its military capability enough now to at least thwart future efforts of U.S. intervention in the Asian-Pacific region. It is virtually inevitable that China will attain superpower status, but without the cooperation and continued trade from the U.S. it will take much longer. This paper has, hopefully, aided in broadened the reader's perspective on the future of U.S.-China relations.

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