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FOR THE U. S., RISKS AND REWARDS AS CHINA MODERNIZES

INTRODUCTION

The People's Republic of China (PRC) has been following what it calls an "open" policy toward the outside world in support of its modernization program since about 1978. Foreign trade, credits, and especially technology are welcomed to the limits of the PRC's ability to finance and absorb them.

This open policy toward the West and Japan has begun to pay off. In conjunction with important domestic economic reforms, it is likely within the next few decades to produce a Chinese economy considerably more modern than today's.

Military modernization is an important aspect of the PRC's development program. Though military advances have been stressed for three decades, they have been constrained severely by financial limitations and, more recently, by the higher priority assigned to industrial, agricultural, and scientific/technological modernization. Nonetheless, the transfer of "dual-use" technology from the West and Japan already has enhanced China's long-term growth as a military power. PRC leaders presumably plan to use this improved capability to deter and defend against a Soviet attack on China itself, and very likely, to project power across the China Sea and into much of noncommunist Asia.

For the U.S., the prospect of a stronger, more assertive China raises the question of whether Washington's current economic and defense cooperation with Beijing is wise policy and what its effects on Chinese capabilities and behavior could be. U.S. sales to China of weapons and dual-use technology, for example, could upset the regional balance of power and adversely affect U.S. interests. The proposed sale to the PRC of naval gas turbine engines would increase Beijing's capability for power projection into Southeast Asia. And the sale of an advanced fighter engine or modern avionics to the mainland would compromise Taiwan's security.

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Such possibilities mean that, at the minimum, the U.S. should exercise greater caution in the transfer of weapons and military technology to the PRC. A longer range political perspective should guide American decisions in this sensitive area. Expedient short-term decisions or moves designed to enhance bureaucratic prestige should be avoided at all costs.

In sum, Washington should be enthusiastic about China's economic modernization, but cautious concerning the PRC's effort to speed up military modernization through transfers of defense equipment and technology.

CHINA'S MODERNIZATION PROGRAM

Since the early 1950s, PRC leaders have aspired to transform China into a modern industrial power by the end of the century. Progress has been slowed and complicated by resource shortages, technological backwardness, and mainly the self-imposed inefficiencies of a communist command economy. This problem has been widely perceived inside China as well as outside, but remedies have been elusive because they would conflict with the determination of the Communist Party and the state bureaucracy to preserve, if not expand, their power and control over Chinese life.

To overcome these economic handicaps, the PRC under the pragmatic leadership of Deng Xiaoping first attempted "readjustment" or tinkering with the command economy. The latest major readjustment occurred in 1979-1981 and essentially involved recentralization of the economy under Beijing's control, a reversal of an earlier trend in 1978 toward partial decentralization. It was evidently hoped that revenues from offshore oil in the South China Sea, where foreign firms under contract with Beijing began to explore in the late 1970s, would make the readjustment work well enough to avoid genuine reform.

In one area, however, genuine reform was introduced as early as the end of 1978, and it has had impressive results. Deng and Zhao Ziyang, premier since mid-1980, devised the decollectivization (or decommunization) of Chinese agriculture. Under what was known as the "responsibility system," farm families contracted with the commune leadership to produce and deliver, to the communal sector, fixed quantities of specified crops. Any extra output was theirs. The effect of this material incentive on agricultural production predictably resulted in the soaring of output. China now feeds its one billion people fairly well.

By 1984, when it had become doubtful that offshore oil would be found in large amounts, Deng and his more pragmatic colleagues decided to extend reform from agriculture to industry. In May of 1984, Premier Zhao Ziyang proposed, and in October the Communist Party's Central Committee endorsed, a program that could make the Chinese economy more efficient by making it freer, though still

"socialist" in form. The Central Committee denounced the existing economic system for its reliance on "excessive and rigid control" over enterprise and other aspects of economic life. It demanded that the "irrational price system," under which prices were set by the central government and bore no relation to production costs or demand, "had to be reformed." The wage structure was to be differentiated enough to raise the level of reward for highly skilled labor, including "mental" work. Consumer subsidies in the form of low prices in such areas as food and housing were to be reduced. The authority and responsibility of enterprise managers were to be vastly enlarged. Taxes had to be paid to the state, but enterprises could retain profits (or absorb losses) and use them as they pleased.

Just how successful this sweeping reform will be is still uncertain. What is clear already, however, is that the vast Chinese economy has begun to stir. Only catastrophes, such as natural disasters, massive political conflict approaching civil war, or a large-scale attack by the Soviet Union, could derail these reforms. While a resurgence of radical Maoism surely would damage the economy, such an event is unlikely since the radicals at present have neither a leader, stature, program, nor organized mass base.

THE "OPEN" POLICY

One of the most damaging aspects of Maoist radicalism was its insistence from the late 1950s on national "self-reliance." It aimed at avoiding dependence on foreign aid, something for which the Communists had denounced the Nationalist rule of China. Dependence also had characterized the Communist regime's relationship with Moscow for the first ten years of the PRC's existence.

Since Mao's death in 1976, self-reliance has been abandoned for an open policy. Launched in 1978, this seeks to expand China's economic contacts with the outside world, especially in the crucial area of technology transfer. A commercial treaty was signed with Japan in August 1978, and numerous contracts for large projects were signed with Japanese firms. By the fall of that year, the PRC had been offered loans from foreign sources totaling about \$60 billion. The following year, in part because of the second oil shock and Deng's caution, there was a major retrenchment. Many big Japanese contracts were stretched out, renegotiated, or cancelled, angering Tokyo. Despite retrenchment, Beijing's leaders remain committed to a long-term modernization and "open" policy.

ACQUISITION OF ADVANCED TECHNOLOGY

Beijing's main interest in its foreign economic relations is acquisition of technology from the U.S., Japan, Western Europe, and Hong Kong. Beijing seems to understand what just about every

other communist regime rejects: successful technology transfers require significant foreign investment. PRC laws adopted in 1979 created a framework for this process. Despite limited Chinese familiarity with what was involved and cumbersome Chinese bureaucratic procedures, foreign investment in industrial activity has increased. In addition, Deng overruled the objections of his more conservative colleagues and created four Special Economic Zones along the South China coast. Foreign firms were encouraged to invest in the zones, introduce advanced technology, train Chinese workers on a rotating basis, and produce manufactured goods for export. In recent months, a number of port cities, including Shanghai, have been "opened" as well.

The development of energy reserves has headed Beijing's economic priorities in its contacts with the West. Coal is China's main source of energy, and Occidental Petroleum has contracted to develop a coal mine in Shanxi province which may become the largest in the world. Since the late 1970s, foreign oil companies, including such American giants as Exxon, Texaco, and Atlantic Richfield, have been conducting seismic surveys and exploratory drilling for oil beneath the South China Sea.

Beijing is strongly committed to developing nuclear energy. When Ronald Reagan visited the PRC in April 1984, he initialed an agreement for U.S.-PRC cooperation in this field. Though its text has not yet been published, the agreement has been criticized in Congress and elsewhere on the grounds that the PRC had refused to give firm assurances that it would not divert U.S. nuclear materials and technology to military programs and that it would not share them with other countries. It is feared, for instance, that Beijing has helped Pakistan develop nuclear weapons. Because of U.S. domestic opposition, the Reagan Administration has postponed submitting the agreement to the Senate. Beijing was greatly annoyed, but agreed to renegotiate the accord, which now is expected to be submitted to the Senate for ratification.

CHINA'S MILITARY MODERNIZATION

As was painfully apparent during the PRC's 1979 invasion of Vietnam, the ground forces of the People's Liberation Army (PLA), although massive, still use Korean War vintage weapons and tactics. The PLA's primary mission is defensive, to repel invasion by Soviet conventional forces. To improve its defenses against Soviet armor, Beijing is constructing a series of defensive positions in Manchuria, considering the purchase of modern anti-tank weapons and artillery from the U.S., and apparently experimenting with nuclear mines. In the near future Beijing expects to receive and store under the Gobi Desert nuclear waste from Western Europe. The lethal contamination from this waste could make potential invasion routes impassable for Soviet forces moving through Mongolia.

Beijing's large air force also is outdated and lacks a modern, all-weather fighter. The PRC navy, on the other hand, is rapidly being modernized and has been described as the world's largest small ship navy. Deng Xiaoping recently claimed that his fleet had the capability to blockade Taiwan. The main mission of the PLA navy, however, appears to be operations in the South China Sea. There the most likely adversary is Moscow-backed Vietnam. Beijing evidently expects a long-term struggle with Vietnam for domination of the Gulf of Tonkin, the Paracel Islands (which the PRC now controls), the Spratly Islands (which no nation effectively controls), oil in those areas, and ultimately the whole South China Sea, including the shipping lanes passing through it. Other Southeast Asian nations, notably ASEAN members Indonesia, Malaysia, and the Philippines, also lay claim to islands and offshore resources in the South China Sea. They view with alarm both Vietnam's and China's assertiveness in the region, but express greater anxiety over the growing strength of the PRC navy.

Early in 1956, Beijing decided that it needed nuclear weapons to deter Washington, then its arch adversary, and as a source of leverage on Moscow, then its ally. The following year, Moscow promised to help Beijing produce nuclear warheads and to develop a medium-range nuclear missile. But Moscow's second thoughts about this arrangement in mid-1959 helped to trigger the Sino-Soviet split. By then Beijing had learned enough to build its own atomic arsenal. In October 1964, it detonated its first nuclear explosion.

When China emerged as a nuclear power, Moscow already was angered by Mao's raising the issue of tsarist and Stalinist regime seizures of areas claimed by China. The Kremlin began to see China as a potential long-term danger to Soviet interests and territory, especially in the event of a U.S.-Soviet war. Sensing Soviet anxieties, Mao in 1964 ordered many of China's military research and development facilities, production centers, and bases to disperse to "mountain caves." Today there are major underground installations in South China (including the nuclear submarine program), Southwest China, and Tibet.

Strategic forces, valuable as a deterrent to Soviet attack and inexpensive compared to full-scale modernization of PRC conventional forces, receive top priority in Beijing. The PRC is believed to have deployed over 100 nuclear missiles of medium and intermediate range. They are not very sophisticated, but are well concealed and protected. As such, a number of them very likely would survive a Soviet surprise attack and be able to inflict punishing retaliation. The PRC is improving the numbers and the capabilities of its strategic forces. In May 1980, for example, it tested an ICBM over the Southwest Pacific. In April 1984, China placed in geosynchronous orbit a 925-pound communication satellite. No PRC ballistic missiles are known to be targeted on noncommunist Asian countries, although the ability to do so exists.

THE CURRENT CHINESE THREAT

With its current forces, the PRC can threaten only its Asian neighbors, not the U.S. or other relatively remote areas. China's huge physical and demographic size, potential power, reputation for recurrent political dynamism, and massive and inevitable presence in the region give it considerable psychological leverage over its neighbors. This includes the Soviet Union, but generally excludes Japan because of its industrial strength and insular location. The PRC is generally expected by Asians to be a permanent, important, somewhat unpredictable, and perhaps dangerous part of their future.

Among the reasons for widespread Asian nervousness are China's territorial and maritime claims. Beijing has had boundary disputes with almost all of its neighbors. Most have been settled except those with North Korea and, more important, with the Soviet Union and India. Those disputes are more the result than the cause of the PRC's tense political relations with the three countries.

Beijing's maritime claims are of greater practical importance than its territorial claims. By sheer assertiveness, it has made good its claim to be the sovereign and dominant power not only over the western half of the Yellow Sea, but over the entire continental shelf of the East China Sea (except near Taiwan) and the South China Sea down to the Gulf of Tonkin.

Southeast Asia also is nervous over the presence of some 15 million overseas Chinese in the region. Some are local citizens, and others are not. Many, however, play vital roles in the economies of countries such as Indonesia, Malaysia, and Singapore. The Chinese communities are feared by some Southeast Asians as Beijing's potential Trojan horses. In the past, some overseas Chinese had been involved in subversion and insurgency because of pro-communist sympathies or in response to discrimination by the host governments, though there is little of this today. The overseas Chinese are more like hostages in the hands of local authorities and groups.

For a few years after 1949, Beijing supported communist insurgencies in Southeast Asia. It gave massive aid to Hanoi in its long struggle to conquer South Vietnam. Beijing still maintains contact with the generally ineffective communist parties elsewhere in Southeast Asia. Repeatedly, it has rejected requests from regional leaders that it disavow its "fraternal" ties to these parties. This refusal has little practical significance at present, except in the case of Burma, where Beijing still supports communist insurgency in the border region next to China. Its main purpose probably is to appease conservative domestic critics of Deng Xiaoping and to avoid leaving support of the Southeast Asian Communist Parties to Moscow and Hanoi.

A more effective and potentially more threatening way by which Beijing has sought to enhance its regional influence has been to intervene in quarrels between neighboring states. China has supported North Korea against South Korea, North Vietnam against South Vietnam, Pol Pot's guerrillas in Kampuchea against Vietnam, and Pakistan against India.

The Republic of China on Taiwan is a special case in Beijing's policy toward its neighbors, since both Beijing and Taipei agree that Taiwan is Chinese territory. While Beijing claims that it can blockade Taiwan, it lacks the ability to attack from the air or to invade. The key deterrent to a PRC attack on Taiwan, however, is probably the international crisis that it would trigger. It would damage Beijing's international standing and carefully nourished ties with the U.S. and could bring the U.S. into the battle in defense of Taiwan.

Overall, Beijing's current capabilities suggest that it can be a problem to its Asian neighbors. The six ASEAN states (Thailand, Singapore, Malaysia, Brunei, Indonesia, and the Philippines) make no secret of their nervousness over U.S. arms sales to Beijing. At present, however, China's interests are better served by cultivating its Asian neighbors than by antagonizing them. Beijing seems to understand this today; how long it will do so is uncertain.

THE POTENTIAL CHINESE THREAT

It is sometimes asked what happens if China's modernization fails. More to the point are the questions: What if it succeeds? What capabilities then will be available to China's leaders? What will be their intentions and policies? What effects would these have on Asia and on U.S. interests? The answers will determine the course of U.S. policy toward a modernized China.

Current evidence suggests that some time before the middle of the 21st century, barring disaster, China will be reasonably modernized industrially and militarily. This will permit it to play a considerably greater role in the international community than it does at present--in terms of diplomatic influence, sales of industrial as well as primary products, and regional military power. China's leverage on noncommunist Asian states will be greatly enhanced, even if these countries' military capabilities were to improve substantially. The PRC probably could exploit its military power through influence-via-intimidation, as Moscow is now beginning to do in Asia.

Asian and U.S. interests would be seriously threatened if Beijing and Moscow were to reconcile their differences and cooperate strategically, as they did briefly in the 1950s. Their current political, territorial, and military disputes are so profound, however, that such an accommodation is unlikely.

Even without significant cooperation from Moscow, a stronger PRC might become an active threat to the Republic of China (ROC). At various times current Chinese leaders, including Deng Xiaoping, have indicated that Beijing would attack Taiwan in the event of a "prolonged refusal" by the "Taiwan authorities" to negotiate with the mainland. The PRC has also warned against "Soviet interference" in the ROC. This warning is intended to dissuade Taipei from appealing for Soviet help. An effort by the ROC to declare Taiwan independent of the mainland also could precipitate an attack. But no matter how strong its capabilities, Beijing still would have to consider the likelihood of a major international crisis and the possibility of U.S. reaction. Whether the PRC will pursue its military option against Taiwan is, therefore, subject to continued debate.

If the credibility of U.S. commitment to the security of Northeast Asia were to be questioned, Beijing might support, presumably in competition with Moscow, another North Korean attack on South Korea. This is not very probable, however, because it could trigger something that Beijing does not want: the massive rearmament of Japan. For the same reason, direct pressure by China on Japan is unlikely.

It is more plausible that Beijing, probably in competition with Moscow or Hanoi, would increase significantly its support for the Communist Parties of Southeast Asia. This, too, is not very likely because Hanoi, Moscow, and Beijing all appear to have more to gain from maintaining good relations with the ASEAN states than from antagonizing them. What could change this situation would be a Castro-style takeover of the Philippines by the Communist Party and its military arm, the New People's Army. In this case, the U.S. probably would lose its important military bases in the Philippines. Under these circumstances, the PRC might see advantages in pressuring the other ASEAN states into an accommodation through the threat of intensified communist insurgency supported from abroad.

As for Beijing's intercontinental nuclear strike capability, a central question is whether a stronger China would pose a direct military threat to U.S. territory. If Sino-Soviet relations were to remain tense with Moscow as the only significant external threat to China, Beijing very likely still would want to avoid alarming the U.S. by mounting a credible military threat. Of course, if China develops intercontinental ballistic missiles, they can be targeted in any direction. As such, the U.S. would have to view China's capabilities with great concern.

THE U.S. AND CHINA'S MODERNIZATION

Since the early 1970s, U.S. commodity trade with China has risen from zero to about \$6 billion per year. Although this is a small fraction of total U.S. foreign trade, the prospects for further growth appear reasonably good. The U.S. already is China's third largest trading partner after Japan and Hong Kong.

The transfer of U.S. high technology and weapons to China has proceeded more slowly than commodity trade. Its potential for enhancing China's threat to U.S. interests has raised objections and created delays within the U.S. government. In addition, Japanese and West European competitors have introduced obstacles in the Coordinating Committee for Multilateral Export Controls (COCOM), where such transactions must ordinarily be approved.

Yet it is precisely high technology, especially dual-use technology capable of military as well as civilian application, that Beijing most wants from the U.S. Of less interest to Beijing, apparently, is a quick fix of its military deficiencies through major purchase of U.S. arms. In the second half of 1983, Washington liberalized its restrictions on the export of dual-use technology to China. The PRC, which had been treated as a communist bloc nation, was reclassified as a "friendly nonallied" power. Since then, some dual-use transactions have been approved, although less rapidly than desired by the exporters and by Beijing.

Among the products sold to the PRC have been computers, helicopters, commercial aircraft, and scientific instruments. Recently, Beijing has begun to discuss the purchase of defensive weapons for antitank and antisubmarine warfare missions.

Interest in broader defense cooperation came mainly from Washington in response to the Soviet invasion of Afghanistan. Secretary of Defense Harold Brown's visit to China in January 1980 initiated government-to-government discussions on Sino-American strategic cooperation. Further high-level visits on both sides (Secretary of Defense Caspar Weinberger in September 1983, Defense Minister Zhang Aiping in June 1984, Secretary of the Navy John Lehman in August 1984, and Chairman of the Joint Chiefs of Staff John W. Vessey, Jr., in January 1985) have moved cooperation from the talking stage to initial action. Specific steps have been taken to exchange intelligence information (reportedly including the establishment of U.S. facilities in western China for monitoring Soviet missile and nuclear tests), training for some Chinese military personnel, modernization of some Chinese nonlethal military equipment, the limited sale of defensive weapons, and port calls by visiting U.S. destroyers.

The possibility of U.S.-PRC defense cooperation has triggered stern warnings from Moscow. In addition, China's Asian neighbors oppose U.S. arms sales to the PRC, and presumably other forms of defense cooperation as well, because of their uncertainty over China's long-term future behavior. West Europeans also tend to be opposed, but in many cases because they themselves want to sell arms to Beijing.

Thus far, U.S. support for China's economic and military modernization has been increasing. There is little doubt that Beijing regards the U.S. as an indispensable source of such support, especially in high technology areas.

CONCLUSION: U.S. POLICY TOWARD A STRONGER CHINA

Beijing is likely to become, perhaps by the middle of the next century, a major industrial and military power. Such a development will greatly increase PRC leverage on its Asian neighbors and in international affairs in general.

For reasons of prudence, China's leadership probably will not want to become involved in a major war in Asia. But the PRC is likely to be considerably more active in asserting China's regional interests, especially its territorial and maritime claims, its patronage of friendly or client states, and its hostility toward adversaries.

In response, the other Asian countries undoubtedly will improve their capabilities for withstanding Beijing's pressure, although most Asian governments (with the main exceptions of Hanoi and Jakarta) are reluctant to antagonize the PRC. This reluctance is likely to grow as China becomes stronger. China is unlikely to attain, or even seriously to seek, the kind of hegemony in Asia that the Soviet Union exercises over Eastern Europe. But no doubt the PRC will consider itself "more equal" than the other Asian countries with the possible exception of Japan. Since a stronger China probably will not welcome the influence of extraregional powers, U.S. interests in the region will be adversely affected to some degree. This will be seen most clearly when Asian states hesitate to accommodate U.S. wishes, should these run counter to expressed desires of Beijing.

Such considerations should prompt caution in Washington as it crafts a long-term U.S. policy toward a modernizing China. The current friendly relations between the U.S. and China would make sense from the U.S. point of view if China were a normal Asian power or developing country, or a reliable partner against the Soviet Union. China is none of these. It is the only Third World country with the intention and capability of becoming a major industrial and military competitor of the U.S. in Asia. Further it is a communist country that, albeit determined not to become subordinate to the Soviet Union, appears fairly eager to establish some sort of working relationship with Moscow.

The U.S. should monitor China's rate and direction of industrial and military development much more carefully. Washington must consider in their entirety the implications of China's future capabilities, intentions, and policies. The U.S. holds high cards in this game, since Washington plays an essential role in Beijing's plans and hopes for modernization. How the U.S. plays these cards must be determined by U.S., not Chinese, interests.

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