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Risks of a Rising China: Technology Acquisition and Export Controls

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The U.S. faces serious security challenges from China. On May 23, the Pentagon issued its report on China's military power. The same day, the Under Secretary of Commerce announced a tightening of controls on the export of goods with dual military and civilian use to China. Moreover, China has an active program of espionage in the U.S. to gather industrial and military secrets. China's capacity for espionage in the U.S. is broad. There are more than 130,000 students from China in the U.S. at any time, and 3,000 front companies engage in gathering intelligence and industrial secrets.

China poses a challenge to the United States from economic, diplomatic, and military standpoints. Beijing has adopted a strategy that focuses on the accumulation of strategic resources and the development of a productive capacity that attracts vast amounts of foreign capital, modernizes its industry, leaps its technological base forward, and strengthens its military. China's diplomacy, especially around Asia, but also in Africa, Latin America and Europe, has been a counterweight to American influence. Also, membership in the Permanent Five of the United Nations Security Council gives China's economic and diplomatic efforts extra leverage. There is a long record in China of sending government-directed missions overseas to buy or steal the best civil and military technology available, reverse engineer it, and build an industrial complex that supports the growth of China as a commercial and military power. If Chinese industry fails to reverse engineer all the components of high technology goods, they simply add foreign components to Chinese-produced items.

A methodical, centrally directed approach to acquiring foreign technology guides China to gather industrial and military technology from abroad today. In March 1986, China launched a national high technology research and development program to benefit China's long-term high technology development. This centralized program, known as the "863 Program" or Torch Program, allocates money to experts in China to acquire and develop biotechnology, space technology, information technology, laser technology, automation technology, energy technology and advanced materials.

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Local governments in China are also taking an active role in gathering technology as they build their own economies. Many provinces and municipalities operate high technology zones or "incubator parks" specifically designed to attract foreign businesses. They also give incentives to bring back Chinese nationals who have studied or worked overseas in critical high technology areas. When entrepreneurs return to China with the targeted skills they get free office space, loans, start-up capital, and administrative help in setting up businesses designed to bring in foreign investment and technology.

Foreign companies face continuous pressure to disclose or introduce new technology into China, often as a condition of doing business. When local employees move to other companies or open their own businesses they often take acquired trade secrets with them.

863 Program has largely succeeded. China's economy has grown at double-digit rates for the past 15 years. In the same period, the military budget has increased at an even greater rate than that of economic growth. The growth in the military budget has often reached 17 percent.

The U.S. places export controls on goods that could enhance China's military capabilities. Still, in the Code of Federal Regulations (15 CFR 742.4), "there is a presumption of denial for items that would make a material contribution to the military capabilities of the People's Republic of China." Among the more sensitive of the items subject to review are sensors and lasers, marine propellers and underwater noise reduction software, propulsion systems, and space vehicles.

One Chinese official has charged that if the United States wants to reduce the trade imbalance with China it should lift restrictions on high-tech exports. Export controls, however, are not keeping our bilateral trade out of balance. According to the March 29, 2006 Revisions of Export and Reexport Controls by the Department of Commerce, in 2005 U.S. companies exported $39 billion worth of items to the People's Republic of China, and $3 billion of these exports were subject to licensing. Of these exports reviewed for licenses, the Commerce Department denied the export of $12.5 million worth of goods. Export licensing stopped only 1.5 percent of the value of exports to China.

Moreover, the case for increasing high technology exports to China is not helped when its leaders threaten war against democratic Taiwan. Also, when China's military leaders threaten to use nuclear weapons on the United States or on American aircraft carrier battle groups if the U.S. assists Taiwan, Congress's feeling that American needs retain its own military strength as a potential hedge against China is reinforced.

The U.S. faces serious challenges from China. Our two nations have different approaches to territory and sovereignty, which requires that the United States hedge its bets and maintain a strong military.

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