January 24, 1995

DEPARTMENT OF DEFENSE MEMORANDUM

SUBJECT: 1994 Summer Study "China In the Near Term"

The information contained within this study does not reflect the official policy or position of the Department of Defense or the U.S. Government.

Please note that the Defense Department was not tasked with estimating foreign policy options dealing with China and a study group consensus on the future of China was not sought.

Dennis Klauer
Deputy Director, Defense Information
MEMORANDUM FOR DISTRIBUTION

SUBJECT: 1995 Summer Study Report Entitled, "China in the Near Term"

I would like to emphasize that the attached report does not reflect the official views of this office, the Department of Defense, or the U.S. Government. The study group was composed of a number of experts on China drawn from academia and other research organizations. Arriving at a consensus on the future of China was not sought; rather, development of alternative, plausible scenarios for the next 5 years or so was the focus. This report most closely reflects the views of the chairman of the working group.

A. W. Marshall
CHINA IN THE NEAR TERM

1994 SUMMER STUDY

Organized by the
Director, Net Assessment

1 - 10 August 1994
Newport, Rhode Island
PREFACE

The following provides a summary of a Summer Study report conducted for the Under Secretary of Defense (Policy). The Summer Study, directed by Andrew W. Marshall and James G. Roche with the working group chaired by Ronald A. Morse, met from 1 through 10 August 1994 at the Naval War College, Newport, Rhode Island. This was the eighth in a series of summer studies undertaken to review fundamental issues and questions of importance to the defense planning process.

The working group's objective was to consider ways in which China might evolve over the near term and to examine the impact of this evolution on the region. The group was asked to devote particular attention to the potential for negative developments, especially those that might directly affect U.S. interests. They were also asked to identify indicators of movement toward these alternative futures.

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CHINA IN THE NEAR TERM

10 August 1994
China is the major uncertainty in Asia's future. Differences in interpretations about China's near-term future and then to weigh those evaluations in terms of plausible outcomes.

The study group was diverse and represented generational and occupational differences. Considerable time was devoted to discussing the details of China's current leadership and social issues. The objective was to allow a full explanation of differences in perceptions.
# STUDY GROUP PARTICIPANTS

**CHAIRMAN**

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Gilbert Rozman  
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Robert Sutter  
Congressional Research Service
Challenge US Interests:

- There was a 50-50 chance that the transition would lead to a Soviet-style break-up of China, and

- In the post- Deng leadership, collective would most likely not change Deng's emphasis on economic reform and limited political liberalization.

Post-Deng leadership would emerge during the transition phase.

Following Deng’s death, a collective leadership phase would prevail.

After careful deliberation, the group made the following observations:

- China, as we all know, is a large and complex nation. Arriving at a study group consensus on the future of China was not simple.

- We asked whether an optimistic policy option is available with China.

After examining outcomes once Deng died, the group concluded the significance of these various scenarios.

- To examine China as it is today with the issues influencing it in the near term, to estimate the regime's political appeal, and to assess the transition to a market economy.

The study objectives for China are:

- To examine scenarios for China following Deng’s death or Deng Xiaoping.

- To analyze the implications of a China that has a
STUDY OBJECTIVES

1) Identify and describe plausible scenarios for China over 5-7 years.

2) Identify indicators or signposts for change.

3) Suggest implications for the West
PLA is likely to do less well; and (2) that Chinese leaders all have a strong nationalistic pride.

Collective leadership because the PLA had more experienced leadership for exercising influence. Under rapid reform and diversification, the two main factors: (1) we assumed that the People's Liberation Army (PLA) preference in leadership transition was for a leadership more
generally concluded that, rather than second-guess who might emerge, it was better to understand the dynamics of leadership behavior more

The study group did not exclude the possibility that one person might survive for ultimate power, but we believed that this effort

rule. At a minimum, only some combination of group leadership can hold the system together.

rule. After Deng have influence in the bureaucratic, military, or economic areas, but they lack the broad support necessary to

Chinese to implement his policies and ensure that leaders would not use their own power base to challenge him. Leaders combine

These conditions arise because the emergence of one strong leader in the year or two following Deng's death. Layoffs to Deng are

large and costly public sector.

historical tendency to decentralized government; the lack of a "civil society"—independent institutions for political action;

China, simply because of its size and location, presents a significant challenge to nations with a stake in Asia. It is now

WHY CHINA DESERVES SERIOUS CONSIDERATION

ASSUMPTIONS
ASSUMPTIONS

1) The next seven years are critical.

2) Deng dies and no strong leader emerges.

3) Political system and society are under-institutionalized, difficult to manage tensions.

4) Center-periphery tensions grow.

5) Quest for great power international status.

6) Military goal: modernized force projection.

7) China has a sense of being victimized by foreign powers.
Possible Alliances Against China

Japan recognizes the potential threat of China. Japan's policies and its strategies for regional alliances excluding China are more pronounced as China's rise continues.

The recent developments in the region, such as China's military buildup and economic gains, have increased Japan's role in politics and its importance in Chinese national interests.

Independent China: an arms race in Southeast Asia; a breakdown in regional multilateral economic and security mechanisms; a Japanese embargo on arms; and China's decision to develop a nuclear weapon capability; Taiwan's decision to declare independence;

The first example—the possible implications of Taiwan's decision to declare independence—should be considered.

Most of the external issues discussed here are touched on elsewhere in the report. Nevertheless, by way of explanation consider the following:

External events that need to be considered:

Would face, which were not discussed to evaluate external factors that could alter Chinese options, we did prepare a list of external events that could alter China's options.
EXTERNAL EVENTS THAT COULD ALTER CHINA’S OPTIONS

1. *U.S. strategic withdrawal from Asia.*
3. War on the Korean Peninsula.
5. Taiwan declares independence.
6. Russia Far East secedes union.
7. Nuclear Korea.
Incertum...include some of the background considerations against which the scenarios presented were developed. Way or another will shape the outcomes of the scenarios examined. These issues are "Factors Making China's Future The next several pages highlight a series of issues that either deserve further research or suggest trends in China that in one
FACTORS MAKING CHINA'S FUTURE UNCERTAIN

-- WEAK GOVERNMENT MACROECONOMIC CONTROLS
-- EXPLODING ENERGY AND RESOURCE DEMAND
-- WEAK STATISTICAL AND INFORMATION CONTROLS
-- A LEADERSHIP IDEOLOGY INCONSISTENT WITH CAPABILITIES
-- NEAR-TERM POLITICAL ISSUES OF SIGNIFICANT CONSEQUENCE
-- HIGH POTENTIAL FOR REGIONAL CONFLICTS
Economic links to overseas Chinese raise the question of "Greater China" and the long-term alliance of tens of millions of overseas Chinese to mainland China.

An Issue for the Future

At the extreme, Beijing and Shanghai are more than twice the national average.

average

-- no interior province, except Heilongjiang, Jilin in the northeast and Xinjiang in the northwest, is above the national average.

-- no coastal province, except Hebei and Hainan, is below the national average.

As the income distribution map here shows:

By the year 2000, substantial economic disparities and uneven income distribution, China faces significant internal problems.

Economic equity and social responsibility. With a 100 million person strong home杁wading workforce (many say 200 million!) underearned. Nevertheless. The impact has been regrettably disproportionate and Gates counter to the socialistic notion of China's growth rate, its ability to attract foreign investment and capital, and its ambitious economic plans should not be

Creating Multiple Economic Chinas

CHINA'S PATHWARK OF WEALTH
CHINA’S PATCHWORK OF WEALTH

Per capita income in China in 1992 was $1,300. As this map of the provinces and regions shows, most of the interior was considerably less.
Domestic coal and oil supplies will not be adequate to meet domestic demand by 2000. Under current conditions, by the year 2000, 40% of China’s oil will come from the Middle East at an annual additional cost of $6 billion. As China’s per capita energy demands grow with economic development, the cost, supply, and environmental consequences of energy demand will be a more and more important consideration. High growth, a rapidly expanding heavy industry, and rising living standards contribute to increased energy demand. China’s energy crisis creates an array of resource vulnerabilities China will face in the future.
nations like Iran.

To meet its energy requirements, China will be forced to develop a blue water navy and bargain with Middle East oil producers.

Spitaly Islands are also areas of contention. The Tarim Basin is in a volatile area with Kazakhstan and the coastal areas and the Russian Far East and Korea are important. China's oil reserves are all in areas that put it in potential conflict with other powers. In the northeast, issues with the

MAJOR CHINESE OIL/GAS FIELDS
ALTERNATIVE ESTIMATES OF CHINA'S GROSS DOMESTIC PRODUCT (1991)

Lack of Data and Statistical Controls

The misreporting of economic statistics by local governments and enterprises in China has become a major problem in assessing China's economic policies. The problem is highlighted in the chart on China's GDP showing widely varying estimates by international organizations and economists. The lack of information control hampers industrial planning.

Common to all socialist countries, China has a growing fiscal deficit (9.5 billion yen in 1992--3.8% of GNP). This is caused by heavy subsidies to cover losses incurred by state enterprises, inappropriate government pricing policies, expenditures for state officials, and the redemption of national and foreign bonds.
ALTERNATIVE ESTIMATES OF CHINA'S
GROSS DOMESTIC PRODUCT (1991)
BILLION CURRENT DOLLARS

BILLIONS
OF U.S.
DOllARS

3500
3000
2500
2000
1500
1000
500
0

FIELD/TAYLOR
INT'L MONETARY FUND
WORLD BANK
PENN WORLD TABLES
Another Statistical Uncertainty
COMPARATIVE WESTERN ANALYSES OF
CHINESE DEFENSE BUDGET
current leadership takes the "state" as the unit of political analysis—not the region or a global presence. Economic growth of the Cultural Revolution, and the break-up of the Soviet Union are negative lessons of how weakness evolves out of chaos. All China. The debate is over the methods to achieve that goal. They want to avoid a divided China—the World Era, the excesses of the Cultural Revolution appear bound by a shared sense that the most important goal is economic, political, and military power for

Ideology

the degree to which a leaderless "collective" leadership serves a common interest.

Factors shaping the post-Deng transition will be:

family/associates bonds. Factors shaping the post-Deng transition will be:

in China, so all players will want to avoid chaos, avoid being seen as weak; and all will want to protect their personal

internal balance of political forces and Deng's death will create a political vacuum. For both conservatives and reformers to move

Economic reforms are incomplete, and the balance of center-provincial control is still unresolved.

But Deng has been less successful with the details: the process of political succession is uncertain, fiscal, banking, and other

attain China's goals of economic reform, modest political change, and international respect.

Deng's economic power has been absolute and strong. It has been a personalized style of leadership remarkably successful in

Post-Deng Chiang's China
POST-DENG CHINESE LEADERSHIP MINDSET

SEARCH FOR A STABLE POLITICAL ORDER

\[ \downarrow \]

WHY CHINA FEARS CHAOS

- Warlordism

- USSR

- Cultural Revolution

\[ \text{Gorbachev destroyed Socialism} \]

\[ \text{Reject new (Soviet) thinking} \]

MODERNIZATION OF ECONOMY FIRST

\[ \downarrow \]

"STATE" STILL UNIT OF ANALYSIS

\[ \text{Wealthy nation} \]

\[ \text{Strong military} \]

\[ \text{Chinese Sovereignty highest priority} \]

China as only authentic great power in Asia

Goal: China Treated as Great Power
The Lessons of the USSR, Hungary, and the post-Soviet states suggest that maintaining tight Communist party control over society while relaxing management of the economy creates regime instability.

Communist Systems in Transition

and that China is too complex to manage in either more centralized ways.

Leaders aware of China's policy interests. They realize that the Chinese people are less tolerant of political or military upheavals likely to be encouraged with a stake in economic reform. They will have few differences on foreign policy issues and they will also have periods of uncertainty. Leaders after Deng will most likely be violent and drawn out. The emergence of Ma
d the Communist Party in China are likely to be violent and drawn out. The emergence of Mao

The Succession

The issue of Taiwan-China relations is always central to America's relations with China.

China's long-term interest. The issue of Taiwan-China relations is always central to America's relations with China.

North Korea is already a problem. The reversal of Hanoi's position in 1997 and how that is managed politically will send a signal about

The issues on the opposite page will require decisions by the leadership during the near term. The succession struggles in

Time

Key Issues in the Near Term
### Key Issues in the Near Term

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Moscow sees China as a regional rival with a large population. Where interests meet, in Central Asia, China and Russia are in competition.

Issue for the Future

Independence

Major project failures in China could also cause regime instability. There have already been problems at the nuclear power plant in Hong Kong. The Three Gorges Project has vast social and environmental implications. Horizontalising this large reservoir could be a potential for confrontation. That could seek

5.5% of the oil and 2% of the coal extracted in the former Soviet Union. The area is rich in gold and other metals as well.

Privatisation plan of its own, has 15 million barrels of oil and 86 trillion cubic feet of natural gas. In 1993, it accounted for

38% of the 16 million, mostly Turkish-speaking Muslims in the area. Kazakhistan, with 17.2 million people and an extensive

Xinjiang. Muslim separatists on both sides of the Sin-Russin border have created problems. Ethnic Chinese account for only

An aggressive, resource hungry China alongside a resource rich, but fragile Russia leads to border problems. For example, in

Ares to Watch

THE GEOGRAPHY OF CRUDES POINTS
Scenarios for China's Future

The Group considered the "middle through" case in which pieces of all three scenarios might mix in their own way. But for the sake of analytic considerations,
The Group focused on three (A), (B), and (C) sub-scenarios under the disintegration case.

The Linear Phase, perhaps closest to the present situation, is only 30% likely. The Liberal Reform scenario, the one that Western powers hope for, is the least likely according to the study group estimates. Conflict, power in general will escalate away from the center.

Post-Deng Leadership Scenarios

The Group believed that there was a 50/50 chance that China would disintegrate under a post-Deng dispersed leadership and internal

resulting from different paths for China.

Scenarios presented here are more useful in anticipating the international (foreign policy and military) security threats. Also, the analysis and to force policy change, we feel more could be learned from specific scenario disintegration. But for the sake of analytic considerations,
SCENARIOS FOR CHINA'S FUTURE

I Linear Future (most likely to 30% of the group)

II Liberal Reform (most likely to 20% of group)

III Disintegration (most likely to 50% of group)

- Nationalist Strongman (A)
- Democratic China (B)
- Command Socialism (C)
- Regionalism (D)
- Total Collapse (E)
Economic growth and social stability are considered the primary policy objectives. --

Key leaders do not go all out for a predominant leadership because they value regime survival.

-- The PLA and the security apparatus support the collective leadership,

-- The post-Deng collective leadership holds together.

The Linear Future scenario evolves because:

SCENARIO I: LINEAR FUTURE
SCENARIO I: LINEAR FUTURE

Leadership Mindset:

- **Domestic**
  - Stability and Communist Party control paramount
  - Collective leadership: perception of weakness avoided
  - Limited political reforms and continued arrests

- **Foreign Policy**
  - Military force is useful and necessary
  - Won’t seek fights, won’t avoid fights
  - Dissatisfied with China’s international posture
Global military peer of the United States.

Chinese military officials believe the present gap in their capabilities is temporary and the long-term goal is to be a

American high-tech military performance in operation DESERT STORM has been taken as the new model for Chinese modernization.

Military Doctrine

SCENARIO I: LINEAR FUTURE
SCENARIO I: LINEAR FUTURE

- **Military Doctrine:** fight high-tech local wars.
- **Capabilities**
  - Real growth in military budget
  - Development of blue water navy
  - Continued nuclear modernization (Mobile ICBMs, SSBNs, Theater nuclear weapons)
  - Foreign technology transfer
  - Search for arms sales markets
channels of communication signaling apparatus and the communist Party has less control over workers and peasants because of urbanization, migration, and new social upheavals. In addition to transition leadership problems, China has new elites (business, student, professional) that operate outside the

Hybrid Nation: China's Virtualities
demonstrated the same degree of institutional capacity. While the Chinese leadership seeks to emulate the Singapore/Japan/Korea pattern of modernization, China has not achieved nations. No, because China has not managed the issues of inflation, income equity, and social unrest as well as the other

--- Yes, in the sense that as in Japan, South Korea and Taiwan, economics has dominated politics and the center has

Does China Fit the Asian Model of Economic Development

SCENARIO: LINEAR FUTURE
SCENARIO I: LINEAR FUTURE

Social Trends:
- Increased economic inequality and corruption
- Crackdowns on economic protests

Economic Trends:
- Mixed planned/market economy
- No rapid privatization of state enterprises
- Major project difficulties (Three Gorges)
- Foreign Direct Investment continues, but slows
- Some state enterprises closed
Unchecked inflation and economic uncertainty -- Leadership conflict

What would prevent this scenario?

China would be unprepared to respond constructively to domestic and foreign conflicts.

-- Social unrest.
-- China's inability to deal with systemic instability leading to political repression, cycles of boom and bust, and

Beyond the near term, this scenario leads to:

Linear Future Scenario: Beyond the Near Term

American cooperation in lessening the problem of a crisis in North Korea. In 1992, China accounted for 40% of North Korea's imports and took 13% of its exports. The group believes that China prefers

linear future
LINEAR FUTURE

Bottom Line:
- Improved power projection capability
- More assertive as power increases
- Continued avoidance of formal regional security agreements

Taiwan
- Oppose independence with force
- Possible war with U.S.

Spratlys
- Clash with Vietnam
- Seizure of islands in S. China Sea

Korea
- Avoid sanctions
- Oppose preemptive military action
- Support U.S. recognition of DPRK

Hong Kong
- Tough on democrats
- Possible crackdown
This scenario leads to a powerful China with an expanding array of military assets,
dual-use technologies, and good if not assiduous, cordial, less nationalistic Chinese leadership. That may not be the case.

Economic Growth and Expanding Resources for Political Modernization, Technology Transfer, and the Development of

Long-Term Implications

--- Provincial leaders, security forces, and key sectors of the PLA support the new leadership.

--- Political reform is judged necessary to keep the Communist Party in power; and

--- Successful political repression in China.

--- The 1989 Tiananmen democracy crackdown would be criticized and conservatives are delinked.

--- A radical reform coalition wins out over conservative reformers.

--- Only 20% of the study group felt that this near-term, broad-based reform scenario was likely. Reform would be consistent with US

The Reform China Scenario

Scenario II: Liberal Reform
military budget transparency
rising civilian control over security policy
minimum deterrence
nuclear doctrine
constraints on capabilities
greater willingness to accept arms control


capabilities:
document: high-tech local wars

Military:
non-provocative international environment
downplaying of military force
more faith in multilateralism
economics dominates foreign policy

Foreign Policy:
development and innovation
political reform essential for economic
political reform essential for legitimacy

Domestic:
leadership mindset

SCENARIO II: LIBERAL REFORM
SCENARIO II: LIBERAL REFORM (Continued)

China, following the "Japan development model," does all the right things:

-- incomes grow

-- popular support for government increases

-- stability is improved

-- China heads for big (economic) power status
SCENARIO II: LIBERAL REFORM

Social Trends:
- Significant social dislocation and stress, but localized
- New social security framework cushions uncertainties

Economic Trends:
- Sustained high growth
- New economic strategy introduced
- State enterprise reform
- Inflation cools down
LIBERAL REFORM

The "bottom line" is the kind of China that the United States believes it wants.

Beyond 2000:

-- China becomes a non-threatening superpower in the world community.

A Note of Caution:

-- leadership scenario change could still mean a return to an authoritarian regime

-- success could fuel a sense of great power ambition

-- success means that China has greatly increased ability to develop science and technology capabilities and weapons systems

What could Prevent This Scenario?

-- economic collapse

-- popular expectations unmet by political reform

-- the PLA and conservatives oppose political reform
Hong Kong outcomes in democratic accept -

Korea

denunciation support for more active sanctions not oppose

Spratlys

China

India

North Korea

Taiwan

Taliban

ASEAN

Vietnam

Spratlys

Deng

U.S.

no war with dependence decrees India Taiwan negotiate

1996

1997

1998

1999

Improved power projection

Bottom Line: Liberal Reform
(PHASE I) - SCENARIO III: DISINTEGRATION

Disintegration: Fifty percent of the study group felt that some form of break-up was likely.

What leads to this outcome?

-- unresolved factionalism at the political center

-- institutional power bases are mobilized

-- leaders pursue personal power

-- factions are unsuccessful in building a dominant power base

-- policy paralysis is caused by undermining each other's policies

-- center loses control over the instruments of economic, political and social control.
End of military region command shuffles

Indicators

- Spitting military control
- Alienation of provinces
- Trigger for internal break-up

Domestic:
- Domestic rights override foreign policy
- Strong regional identities
- Zero sum views of power/resources
- Mutual distrust - succession gridlock

Leadership Mindset:
- Likely major constitutional changes in government
- Likelihood emergence of aggressive nationalist strongman
- Major implications of disintegration scenarios

Phase I (Scenario III: DISENGAGEMENT)
DISINTEGRATION--SUB-SCENARIOS

The Next Phase

The study group examined five disintegration sub-scenarios, but only three (A, D, and E) will be discussed here in detail. Sub-scenarios B and C are not examined because their outcomes did not differ significantly from the "Linear Future" and "Liberal Reform" scenarios discussed earlier. This does not mean, however, that "Democratic China" and "Command Socialism" are identical to the two earlier scenarios.

Democratic China is non-communist and has the support of both the PLA and the security apparatus. It happens as the result of widespread confusion and PLA recognition that it could not resist popular demands for change. The "bottom line" is constructive foreign engagement.

Command Socialism is the "paper tiger" sub-scenario. It falls between Linear Future and hyper-nationalism—it is rhetorically aggressive, but relatively weak. The PLA blocks conservative communist factions. The "bottom line," social stability, is achieved at the cost of high-level economic growth. China has power projection capabilities, but is cooperative on regional security.
DISTINGUISHED - SUB-SCENARIOS
SUB-SCENARIO III: NATIONALIST STRONGMAN (A)

How "Nationalist Strongman" comes to pass:

-- there is unresolved factionalism at the center.

-- fearing disintegration, the PLA turns to a popular leader.
Anti-American Line (including Japan)

- Irrationalist claims
- Greater China nationalism
- Han Chauvinism

Foreign Policy

- Politics zero sum
- No tolerance for elite dissent
- Acquiescence of PLA and security apparatus
- Non-Communist leader emerges with mass support

Domestic

Leadership Mindset:

NATIONALIST STRONGMAN (A)

SUB-SCENARIO III:
Economic Growth serves military power

Economic Mercantilist

Economic Trends:
- Patriotic campaigns
- Suppress dissent

Social Trends:
- Increase in ground forces
- Warfighting capability
- Attempt to develop nuclear
- Air-mobile rapid reaction forces
- Amphibious forces
- Blue water navy
- Large increase in military expenditures

Capabilities:
- Beyond the gates
- Doctrine: Protected local wars

Military:

SUB-SCENARIO III: NATIONALIST STRONGMAN
NATIONALIST STRONGMAN

The issue of Taiwan's independence and America's involvement in that process make this scenario important. Japan-US differences over security could also come into play around the Taiwan sovereignty issue. Despite recent progress between China and Taiwan on trade cooperation and the settlement of disputes over immigration and fisheries, the question of Taiwan's future sovereignty is still an issue. China views Taiwan as a renegade province.

What Prevents This Scenario?

-- opposition from the PLA

-- economic collapse

-- an assassination/coup
SCENARIOS FOR DISINTEGRATION

The Logic of Chinese Disintegration

If China lost central control, what indicators or benchmarks that would serve as guidelines for how alliances and regionalism would take place? What would the pattern of blocks be? Is there a core region that would dominate? Ethnicity would be a minor factor—over 90% of the 1.2 billion population are Han Chinese. The map on the next page suggests five different ways to consider the possible organizing principles.

The Need for Research: Patterns to Disintegration

The Soviet Union model is no guide to China's disintegration scenarios.

The logic of economic analysis--economic regions suggested by experts or the yellow area picked as an organic economic region by the study group--suggests that income distribution as an indicator of economic interest may have its limits.

Existing military regions and the position of mobile missiles, probably under central military control, cut across lines of economic interests.
SUB-SCENARIO: REGIONALISM (D)

"Regionalism" is the first of the final two disintegration sub-scenarios. It is not warlordism and it is not civil war. It is a loose federalist type of situation--a negotiated redistribution of political and economic authority between regional and central powers.
Weak power projection capability
- Poor force coordination
- Central budgets decline
capabilities:
Regional breakaway
doctrine: Border defense, control
Military:
Conflict avoidance
Regional ties to foreign areas
Foreign policy:
Regional autonomy preferred to civil war
- Local identities/allegiances
domestic
Leadership mindset:

(SUB-SCENARIO: REGIONALISM (D))
SUB-SCENARIO: REGIONALISM (D)

Social chaos, while feared by the Chinese leadership, goes with the loss of central control. The implications would be the emergence of a new political and security elite, possibly relying on local organizations and gangs to maintain order. This could mean significant economic instability and the fleeing of foreign investment.
Regional economic trade ties strengthen
Regional currencies appear - high inflation
Dependence fiscal crisis in central government
Economic Trends:

Gangs and secret societies expand influence
Sense of social chaos
Social Trends:

SUB-SCENARIO: REGIONALISM (D)
REGIONALISM

While central power projection capability might be concentrated in a Beijing-Shanghai power axis, local border disputes and regional conflicts are likely to spread as local authorities take policy into their own hands. This creates a "Russia-type" set of local empires, each pursuing independent economic and security policies.

The only trends reversing this scenario are civil war or the rise of a strong central leadership.
SUB-SCENARIO: TOTAL COLLAPSE (E)

"Total collapse" is the final disintegration sub-scenario. The source of continued disintegration is unresolved factionalism at the center and divisions within the PLA.
Local weapons purchasing - Control of nuclear weapons uncertain - Capability: Local rivals, repel foreign invaders - Doctrine: Local territorial control, protection from Military - Paralysis - Foreign Policy: Attempts to capture military loyalty - Personal attacks, fear of reprisals - Domestic - Leadership Mindset: Sub-Scenario: Total Collapse (E)
SUB-SCENARIO III: TOTAL COLLAPSE (E)

China's Institutional Weaknesses Find Expression

-- the political system is weak

-- the economic system lacks central control mechanisms

-- society lacks organized mechanisms for problem solving
Peasant Rlts in Inland Provinces

Drop in Foreign Investment

Project

Corruption and mismanagement of Three Gorges

Economic Instability

Economic Trends:

Refugees and migrant worker riots

Sense of chaos and unpredictability surfaces

Social Trends:

SUB-SCENARIO III: TOTAL COLLAPSE (E)
TOTAL COLLAPSE

Policy paralysis prevails. China is a security threat to US and Japanese investments.

Disintegration leads to a longer-term concern with Chinese national identity and an eventual recentralization of political power.

The only thing preventing this scenario is the rise of a strong central leadership.
OBSERVATIONS

Averting Conflict

Prospects are that the United States will deal with several "different" Chinas during the near term and all may present unforeseen and largely unanticipated security threats. Asian situations are also likely to be different from the collapse of communism in Europe. There are several ways (some in place already) that the US can influence China:

(1) Continue to sustain an Asian military presence.

-- retain the US-Japan security treaty

(2) Engage China in cooperative economic and security confidence building measures, but not meddle in Chinese domestic affairs.

(3) Resolve US policy ambiguities on Taiwanese independence and arms sales, and

(4) Prepare for situations in China by having better information, anticipating multiple scenarios, and monitoring China's goals for world-class military status.
nationalism and collapse ranging from liberal democracy to hyper-range of outcomes, the most probable paths the disintegration scenario can lead to a

- In regional and global peace and stability. Less threatening China has a growing stake and militarily more powerful China that is the liberal scenario presents an economically to the U.S.

less willing to compromise on issues of interest and militarily stronger, more assertive China the linear scenario presents an economically challenge: Each of the three scenarios presents a different China never dealt with before. Under all scenarios, we will be dealing with a

Observations
Dear Summer Study Participant,

I am pleased you are joining us for the 1994 Summer Study of the Under Secretary of Defense for Policy.

We have sponsored seven summer studies in August of 1985, 1986, 1988, 1990, 1991, 1992 and 1993. The first six summer studies considered fundamental questions of nuclear strategy; the offense-defense balance; power projection requirements of the Soviet Union and the US; the military balance in Europe; the economic environment as suggested by the Commission on Long Term Strategy; problems of deterrence; future prospects for Japan and Germany; Soviet military reform; alternative world scenarios for the next few decades; DoD core competencies, innovation and long-term defense planning; and the nature of future power relations.

In 1993, we examined three issues. One group focused on inter-state relations in Asia during the next few decades. A second group addressed potential peer competitors in the revolution in military affairs. The third group examined future Russian scenarios.

This year, we will have two study groups. It will be the chairmen of these groups who will give the outbriefs on August 10th. The first group, chaired by Jim Martin of SAIC, will address the problem of planning in uncertain environments. How do we plan without a formidable superpower opponent but with the need to ensure US vital interests over the long term? If we are entering a period of revolution in military affairs, how should we capitalize on this understanding without having a specific opponent in mind? What strategies do businesses take when they are in close competition with others; when they are in dominant positions? Is the Planning, Programming and Budgeting System process and structure still appropriate? What alternatives are there to planning for "contingencies"?

The second group, chaired by Ron Morse of the University of Maryland, will develop alternative future scenarios based on possible changes within China over the next 7 years or so. Given China's very high economic growth, what political, social and military transformations are possible? Should we see China as a single entity with a singular leadership or as a more complex mix of elements?
Toward the end of the first week, the two study group chairmen, with perhaps one or two helpers, will start to prepare briefings which will later be checked by their groups. In the meantime a short study will be formed which will run Saturday morning, all day Monday, and Tuesday morning of the second week. This keeps the people in the two study groups occupied when they are not listening to and reviewing their chairman's presentations. No briefing of the short study will be required, although a record of discussions and a short report of findings will be prepared by the short study co-chairmen. Membership in the short study will be a mix of those serving on the two study groups, with perhaps the addition of a few others.

Two special studies, with restricted membership, will also take place. One special study will update the Russian scenarios developed last year, and the second will focus on the process of building scenarios of future security environments.

We are confident that you will find the summer study interesting and rewarding. I look forward to meeting with you.

Sincerely,

A. W. Marshall
WORKING GROUPS

I. Planning in Uncertain Environments

Members
Jim Martin, Chairman
Steve Rosen
Harry Rowen (1-3)
Chip Pickett
Jasper Welch (1-6)
George Kraus
Aaron Friedberg (1-6)
Pat Crecine
Chuck Miller
Mike Martus
Steve Cullen
Tom Linn
Keith Bickel
Tom Mahnken
Paul Davis (2-3)

Visitors
Ted Gold (1-3)
Mike Duval (2-4)
Dave Oliver (2-4)
Max Thurman (2-4)
Jim Evatt (3-5)
Eduardo Mestre (5)
Paul Kaminski (5)

Presenters
Andy Krepinevich (1-2)

II. China in the Near Term

Ron Morse, Chairman
Arthur Waldron
Mike Brown
Iain Johnston
Yu-Ping Liu
John Garver (1-6)
David Zweig (1-6)
Mike Field
Lonnie Keene
Tom Christensen
Mike Vickers
Art Corbett
Mike Pillsbury
Tom Clark

Robert Sutter (1)
Gilbert Rozman (1-2)
Takashi Hoshino (1-4)
Erland Heginbotham (4-5)

SPECIAL GUESTS
Lionel Tiger, 1-10
Jake Bussolini, 4-5

STAFF
Andy Marshall, Co-Chairman
Jim Roche, Co-Chairman
Tom Welch
Dmitry Ponomareff
Pat Curry
Glenna Hughes
Ruth Baker
SHORT STUDY GROUPS

I. Russia Scenarios Update

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Peter Reddaway
Tom Mahnken

II. Asymmetric Strategies

Chuck Miller, Chairman

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Jasper Welch (Sat)
Arthur Waldron
John Garver
Mike Vickers
Bob Field
Tom Clark

Sub-Group B
Chris Bowie, Chmn
George Kraus
Iain Johnston
David Zweig (Sat)
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Sub-Group C
Carl Builder, Chmn
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Yu-Ping Liu
Tom Christensen
Art Corbett
Steve Cullen

III. Alternative World Scenarios

Peter Schwartz, Chairman

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Pat Crecine
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Aaron Friedberg (Sat)
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